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SURVEY OF THE ALLIANCE FOR PROGRESS

COLOMBIA—A CASE HISTORY OF U.S. AID

A STUDY

PREPARED AT THE REQUEST OF THE
SUBCOMMITTEE ON AMERICAN REPUBLICS AFFAIRS

BY THE STAFF OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

TOGETHER WITH

A REPORT
OF THE

COMPTROLLER GENERAL

LC cd 73-600569



FEBRUARY 1, 1969

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1969

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COMMITTEE ON FOREIGN RELATIONS

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FOREWORD

This is the last of a series of studies prepared for the Subcommittee on American Republics Affairs of the Committee on Foreign Relations as part of a broad survey of the Alliance for Progress. The survey was begun in the spring of 1967 under the leadership of Senator Wayne Morse, then chairman of the subcommittee. The complexities involved in this last study prevented its publication during the 90th Congress.

This study reviews the U.S. foreign assistance program in a single country, Colombia, in the hope that such a review in some depth might shed more light on the problems of aid than could be derived from a more superficial study of aid in all of Latin America. Colombia was selected as the subject country because the aid program there is large enough to be significant but small enough to present a feasible target for detailed study and also because it involves, in one way or another, most of the problems which the United States encounters in carrying out aid programs elsewhere in the hemisphere.

The study is largely the work of Ellen O. Schwarz of the staff of the Committee on Foreign Relations who devoted full time to the project for more than 18 months. Robert H. Dockery of the committee staff contributed the section on agriculture. Pat M. Holt, also of the staff, was responsible for overall direction of the study and wrote portions of the final draft.

There is also published herewith a report, "Administration and Management of Nonproject Assistance of Colombia," prepared by the General Accounting Office at the request of the Foreign Relations Committee. This is an unclassified version, developed by the committee staff in cooperation with representatives of the General Accounting Office and the Agency for International Development, of a classified report submitted by the Comptroller General.

I wish to record here the committee's gratitude to the Comptroller General for undertaking the GAO study at our request.

The Schwarz study and the GAO report are published at this time solely as the basis for discussion and further inquiry. The points of view expressed do not necessarily reflect the opinions of the Committee on Foreign Relations or any member thereof. Neither do they necessarily reflect the views of the State Department or AID.

J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations.



SURVEY OF THE ALLIANCE FOR PROGRESS

COLOMBIA—A CASE HISTORY OF U.S. AID

PART I

(Study by the staff of the Committee on Foreign Relations)

I. INTRODUCTION

Since the end of World War II, U.S. loans and grants to Colombia have totalled approximately \$1.1 billion, of which more than 90 per cent has been economic assistance. During the period of the Alliance for Progress to which this study is confined—that is, 1962 and subsequent fiscal years—economic assistance amounted to \$732 million.

With a population which has grown during this period from 15.9 million to 19.8 million, Colombia ranks fourth among the countries of Latin America in population and—excluding the operations of the Export-Import Bank—third in total U.S. assistance.

This study concerns itself with assistance furnished by the Agency for International Development, amounting to \$491.3 million during the period under review, and with assistance in the form of surplus agricultural commodities, amounting to \$102.6 million. Particular attention is given to program loans (\$363 million of AID's total) and to U.S. assistance policy in the key areas of education, agriculture, and private enterprise development. Project loans and technical assistance activities have been largely excluded from the scope of the study because: (1) They have been reported on separately by the General Accounting Office (see "Review of Projects in Colombia Showing Need for Improvements in Planning and Supervision" September 1967); (2) they are extraordinarily difficult to evaluate without detailed and time consuming field work; and (3) they comprise a relatively minor proportion of total U.S. assistance.

At the outset, some terms should be defined. A "program loan" is a loan made to support a country's balance of payments through making dollars available to finance the import of U.S. goods over a period of time. Although the loan is in a lump sum, it is usually released in installments (called tranches). As the techniques of administering program loans have become more refined over the years, the categories of U.S. goods eligible for financing have been defined with greater specificity, and the loan agreement itself as well as the release of the successive tranches have been tied to increasingly specific standards of economic performance by the borrowing country.

Typically, the dollars made available through a program loan are sold by the central bank of the borrowing country to importers for

foreign currency—in the case of Colombia, pesos. The foreign currency thus generated, or “counterpart,” is used for purposes agreed to by the United States and the borrowing country. These purposes may be to pay the local costs of specific economic or social development projects, or they may simply be “budgetary support”; that is, to make up part or all of the borrowing government’s budget deficit.

Foreign currency is also generated by some sales of surplus agricultural commodities under the Agriculture Trade Development and Assistance Act of 1954, as amended, popularly known as Public Law 480. This Public Law 480 foreign currency is available, among other purposes, for payment of U.S. Government expenses in the purchasing country and for a variety of economic development activities.

A “project loan” is a loan made to finance a specific project or activity; that is, a road, a sewage system, a dam, housing construction, or a program of agricultural credit. Project loans are of two types, depending on whether they are limited to the dollar costs of the project or whether they are directed to the local currency costs. In the first case, the loan finances the import of the specific machinery or equipment that is needed in connection with the project. In the second case, the dollar loan is used to generate the necessary local currency. In housing or agricultural credit programs, for example, few dollar costs are involved; what is needed is local currency to pay construction workers or to buy locally produced materials. In order to generate this currency, a dollar loan is made to the appropriate foreign entity (usually, but not necessarily, a government agency). The dollars then become available to finance general imports in the same way that program loan dollars are used, and the resulting local currency is allocated to the borrowing entity for housing or agricultural credit or whatever the particular project might be. This type of project loan does not differ in any essential respect from a program loan which has its counterpart currency tied to specific project uses. Indeed, the counterpart generated by a program loan can be, and sometimes is, used for such purposes.

A “sector loan”—a relatively new technique—is a loan aimed at the development of a specific sector of the borrowing country’s economy; for example, agriculture or education. Thus, conceptually, it is a cross between a program loan and a project loan, but in practice it is administered like a program loan, the only differences being that the release of its successive tranches are conditioned on the borrowing country’s performance in the specific sector and that the range of imports eligible for sector-loan financing may be limited to goods relevant to that particular sector and thus somewhat narrower than the range of goods eligible for program loan financing. Like program loans, sector loans generate foreign currency.

“Technical assistance” consists entirely of grant aid. Most of the money spent for technical assistance is for the salaries and expenses of American technicians, but a minor proportion is sometimes used for demonstration equipment.

Program, sector, and project loans are all repayable in dollars. U.S. owned or controlled foreign currency may be furnished on either a grant or a loan basis; in the latter case, the loans are repayable also in foreign currency.

An assistance technique used frequently by the International Monetary Fund is the standby agreement. Fund members enter into such arrangements with the IMF to assure that drawings may be made up to specified limits and within an agreed period if the member observes the conditions of the standby—for example, specific policies which the member has indicated it intends to pursue in the fields of exchange, monetary, and fiscal matters. Members that experience an export shortfall may draw from the Fund under the special provisions of compensatory financing. A member may make drawings amounting in total to 50 percent of quota to compensate for shortfalls in export proceeds below the medium-term trend, with the qualification that outstanding drawings under this provision may not increase by more than 25 percent of quota within any 12-month period.

II. SUMMARY AND CONCLUSIONS

A. POLITICAL VERSUS ECONOMIC GOALS

The U.S. foreign assistance program in Colombia has achieved a basic political objective, but it has fallen far short of the economic and social goals of the Charter of Punta del Este.

From the first program loan in April 1962, a primary objective has been political stability and maintenance of Colombia's democratic political institutions through support of the succession of National Front governments. This has been accomplished.

On the other hand, between 1961 and 1967, per capita gross national product increased only from \$276 to \$295 a year, an annual average rate of 1.2 percent, compared to the Punta del Este goal of 2.5 percent. The peso has depreciated from 8.50 to the dollar in 1961 to 16.45 to the dollar in August 1968. The deficit in Colombia's balance of trade decreased from \$142.6 million in 1961 to \$64.5 million in 1967, but this improvement was more apparent than real, resulting from severe import controls imposed in early 1967 after a deficit of \$290.2 million in 1966. An agrarian reform program, one of the earliest under the Alliance for Progress, was enacted in 1961, but through 1967 it had provided land titles to only 54,000 out of approximately 400,000 to 500,000 landless families, whose numbers, furthermore, are increasing by 10 percent a year. Although the agrarian reform has received some U.S. assistance, the major emphasis of U.S. aid policy to agriculture has been directed to increasing production for export. These efforts have achieved some success, but until recently they concentrated on providing credits and other assistance for large commercial farmers at the expense of rural social progress. The education policies of both the Colombian Government and the United States have vacillated from an emphasis on primary education to an emphasis on universities, with the result that little progress has been made in either. The literacy rate has remained relatively constant, but the absolute numbers of functional illiterates have increased from approximately 5 million to more than 6 million. Taxes have been increased, but not until 1967 were serious efforts made to improve collection. Colombia has barely begun to tackle the problems of more equitable income distribution, and the country's social structure remains essentially unchanged, with close to two-thirds of the population not participating in the economic and political decisionmaking process.

Thus, any evaluation of the aid program in Colombia must be subjective and will depend on the weight the evaluator assigns to the maintenance of political stability in a democratic framework. One of the factors which must be taken into account is the imponderable of what would have happened to Colombian politics if there had been no aid program or if different, or more rigorous, conditions had been attached to aid. At the time the various program loans were signed and their successive tranches released, officials of both the Colombian and United States Governments, as well as many independent observers, thought there was no acceptable alternative. In retrospect, this proposition seems less certain. Disbursement of program loans was chronically slow and was suspended more than once for periods of several months without bringing dire results.

Negotiations of the loan agreements and the joint review sessions which were held with Colombian officials prior to the release of each loan tranche concentrated heavily on the fiscal and monetary policies of the Colombian Government—international exchange rates, bank reserve requirements, prior deposit requirements for imports, budgetary deficits or surpluses, Government investment policies, import licensing policies, etc. Rarely did Colombian Government performance meet all of the previously agreed upon standards, though frequently it met many of them and occasionally exceeded some of them. These standards were aimed at economic stabilization—at controlling inflation and balancing the country's international accounts. They took into account considerations of economic development, but mainly from the point of view of maintaining an adequate level and appropriate distribution of imports to support industrial activity. Even less did the standards take account of the need for social reform. The basic problem, of course, was the difficulty of inducing economic growth while simultaneously applying the brakes to an inflationary economy. But in the process, the rhetoric of the Alliance for Progress was lost in the arcane world of international finance.

Further, it appears that although the aid program achieved some short-term successes with respect to economic stabilization and in influencing the Colombian Government's fiscal and monetary policies, the support which U.S. assistance provided at least contributed to making it possible for successive Colombian Governments, especially that of President Valencia, to postpone making more basic reforms in such fields as public administration, taxation, local government, education, and agriculture.

One of the difficulties which the United States encountered in trying to help Colombia resulted from a combination of two factors. First, the United States discovered that its influence was severely limited with respect to moving Colombia toward economic and social reform, especially in terms of the application of U.S. methods to institutional change. The lack of Colombian absorptive capacity in this area proved to be greater than had been anticipated. This was a measure of the cultural gap. Second, despite these difficulties, and at the same time, the United States wanted to establish a visible economic presence in Latin America in the early years of the Alliance in order to prove the sincerity of its intentions. This led initially to an emphasis on impact project loans. But the lack of well-prepared projects led in turn to reliance on program loans to deal with macroeconomic problems.

The aid program in Colombia has bought time for Colombian political institutions to work out the changes which almost everybody in a position of responsibility in either country agrees must come. But Colombians have used this time at their leisure. The question which this study raises but cannot answer is: Would they have moved more expeditiously if they had had less time, or would the pressures have been so great that the whole structure of the country would have collapsed into anarchy or dictatorship?

The record, studied with the benefit of hindsight, indicates the former. But the record cannot fully capture the pressures of the moment in which U.S. decisions were made with respect to extremely complicated and subtle situations. Not the least of these pressures was the tendency to err, if at all, on the side of not taking a bigger gamble than is necessary.

B. SOME SPECIAL PROBLEMS OF PROGRAM LOANS

One of the presumed advantages of program loans is that they provide a flexible means both of furnishing general support to a country's economy and of influencing a country's overall economic policies. The technique of releasing program loans in tranches means that, within limits, they can be turned on and off according to a country's economic performance or other circumstances.

Upon examination, these advantages appear to be more theoretical than real. The basic effect of a program loan is to increase a country's capacity to import—that is, to live beyond its means at the expense of accumulating a foreign debt, the repayment of which will detract from its capacity to import in future years. If a program loan is not accompanied by economic growth and especially by improvements in a country's foreign exchange position, it is likely to create more problems in the long run than it solves—or postpones—in the short run. The higher the interest rate on the loan and the shorter its maturity, the more noticeable these effects will be. Throughout the period of the Alliance for Progress, Congress has steadily raised interest rates, so that loans which were made at 0.75 percent in 1961 are now made at 2 percent during the first 10 years of their maturities and at 3 percent thereafter. Grace periods of 10 years on the repayment of principal mean that the full burden of debt repayment will not be felt on the Colombian balance of payments until the decade of the 1970's. But it will then become severe unless Colombian exports show a marked and unforeseen growth. (All of this also applies, of course, to project loans, but a project loan at least results in the creation of a tangible asset which has intrinsic value.)

It becomes important, therefore, to use the additional resources provided by a program loan to bring about economic stability and at least the prerequisites for economic growth. This is why program loans are tied so closely to a country's overall economic policies and performance.

In Colombia, as noted earlier, economic performance during the period under review rarely met all the standards of the loan agreements. Decisions as to whether to release, or not to release, successive tranches sometimes turned on subjective judgments as to whether release would lead to improved performance in the future or whether failure to release would simply make mediocre performance worse.

These decisions were made on the basis of overall evaluations. AID has not developed a means for assigning different weights to different loan conditions whereby part of a tranche might be released and part not released, proportionate to performance.

The more conditions AID ties to a loan—that is, the more specific policies it tries to influence or implement through the use of a loan—the less leverage it has with respect to any one of the conditions. (This is especially the case when, as sometimes happened in Colombia, overriding political considerations intervened.)

Two of the most troublesome issues with respect to Colombia have been exchange rate policy and what AID calls “additionality”—that is, the use of program loans to increase U.S. exports. These will be developed more fully below, but a few points are worth highlighting here.

A good deal of the history of foreign aid in Colombia can be written in terms of the peso-dollar exchange rate. AID and the IMF repeatedly urged devaluation; the Colombian Government strongly resisted. This phenomenon has occurred in enough other countries to warrant examination of why governments resist devaluation in the face of the unanimous advice of monetary technicians. In part, it is for reasons of national pride, an attitude which has been observable with respect to devaluation even in such a sophisticated, highly developed country as France. It applies a fortiori in less-developed countries.

In part, resistance to devaluation comes from the fear of ensuing inflation, a fear which is not entirely ungrounded in experience. Devaluation is the classic remedy for an unfavorable balance of payments because it encourages exports through making them cheaper in terms of foreign currency, and it discourages imports through making them more expensive in terms of local currency. Devaluation can be expected, therefore, to result in higher prices for products which are imported or which have imported components. But unless devaluation is carefully handled from a technical point of view, and especially unless there is a free and competitive economy, it is likely to result in price increases exceeding those which would theoretically be expected. This is what has happened, not only in Colombia, but also in several other Latin American countries. An important factor is the imperfect competition which exists in the Colombian and other Latin American economies.

Finally, in looking for the reasons for resistance to devaluation, one should not ignore the groups which are benefited by overvalued exchange rates. These are the people who normally keep a part of their capital abroad, who buy more imported articles, and who travel abroad—in a word, the oligarchy, the same people who also exercise effective political power in most Latin American countries. Overvalued exchange rates make it cheaper to convert pesos or other foreign currency into dollars or Swiss francs. This not only facilitates capital flight, it provides a positive incentive for it. Overvalued exchange rates also make it cheaper to buy imported goods and to take an annual vacation in the United States or Europe.

It should be noted that the same class that benefits from overvalued exchange rates is also heavily represented among the entrepreneurs whose investments are in import-substitution industries which are well protected against foreign competition by tariffs and import li-

censing provisions. These circumstances give this class no incentive to support policies aimed at encouraging exports or discouraging imports.

Additionality raises quite a different set of issues. The problem arises because of the United States' own balance-of-payment deficit. In an effort to reduce the impact of the foreign aid program on this deficit, the United States first adopted a policy of domestic procurement—that is, of limiting the use of AID dollars, with increasingly rare exceptions, to the procurement of goods in the United States. Then, the United States became concerned that countries receiving program loans should not use the loans to buy goods in the United States which they would have bought in the United States anyway, while shifting their own resources to procurement in Europe, Japan, or elsewhere. To meet this problem, AID has steadily refined the list of U.S. goods eligible for AID-financed procurement, the object being to limit these goods to items which would provide the United States with additional exports over and above what it could normally expect on the basis of its historic share of a foreign market.

To the degree that the United States insists upon additionality, it reduces the flexibility of program loans both with respect to promoting economic growth abroad and with respect to influencing the borrowing country's economic policies. Lists of goods eligible for AID financing are drawn up with a view to increasing U.S. exports. These goods, of course, represent a net input into the foreign economy and are therefore useful, but they are not necessarily the goods which would be most useful from the point of view of economic development. Frequently, too, they are more expensive than similar goods purchased elsewhere. There is an almost complete lack of data on whether this is due entirely to generally higher costs in the United States, or whether it is due at least in part to the administered prices (America's own imperfect competition), encouraged by knowledge on the part of American exporters that the goods cannot be bought anywhere else.

Finally, additionality puts another burden on the leverage which is supposed to be exerted by a program loan, and it injects another irritant into AID relationships with the borrowing country. If AID achieves additionality, then it has less bargaining power left to achieve exchange rate reform, balanced budgets, and all its other objectives.

Thus, as it has evolved over the years, the program loan has become a device for subsidizing specified U.S. exports. But the United States still tries to use this device to influence foreign economic policies. To the degree that a program loan is used to achieve one purpose, its value as an instrument for achieving the other is decreased.

III. CHOICE OF A SHOWCASE

A. BACKGROUND

In August 1961, when the Alliance for Progress was formalized in the Charter of Punta del Este, Colombia combined in a high degree the opportunities and challenges—both economic and political—which the Alliance was designed to meet.

It had recently (1957) emerged from a military dictatorship. It had a popularly elected President (Alberto Lleras Camargo) who was eloquently and energetically pursuing the Alliance's goals of social

reform and economic growth. It had a vigorous private sector, a relatively (in Latin American terms) enlightened elite, and an industrial base exceeded only in Argentina, Brazil, and Mexico. It also had many of the typical social and economic problems—among others, rapid population growth, a primitive school system, overreliance on a single commodity (in this case, coffee) for foreign exchange earnings, and maldistribution of land, wealth, and income.

Colombia also had several unique characteristics, the most important of which had to do with politics. In the decade between 1948 and 1958, the country fought what amounted to an undeclared civil war, the origins of which extended into earlier history and the dying embers of which still glowed menacingly in 1961. *La violencia*, to give this civil strife its Colombian name, was triggered April 9, 1948, by the assassination in Bogotá of Jorge Eliécer Gaitán, a popular leader of the Liberal Party. The city erupted in 3 days of burning, looting, and killing in an orgy of violence known as the *bogotazo*.

The most conservative estimates are that 150,000 people were killed in *la violencia* over the next 10 years. There might have been twice that number. While the cities, curiously, remained relatively tranquil, Liberals and Conservatives fought each other throughout the mountains and valleys of the countryside. These two traditional parties have roots going back to the era of independence, but by the mid-20th century their practical differences (other than the hatred each felt for the other) were scarcely discernible.

The spasm of *la violencia* naturally had profound political effects. In 1953, Gen. Gustavo Rojas Pinilla came to power in a military coup which spoiled a record of more than 40 years of democratic rule. For a time the violence subsided, but the improvement turned out to be short lived as Rojas, who had justified his coup with promises to restore peace, pursued the pleasures and profits rather than the responsibilities of office. Rojas' excesses brought their own counteraction and, in May 1957, he was himself deposed by a coup—this one, however, aimed at the restoration of civilian, constitutional government.

The question remained of how to calm partisan passions enough to make this possible. The ingenious plan which became known as the National Front was worked out by the leaders of the two parties—Alberto Lleras Camargo for the Liberals and Laureano Gómez for the Conservatives—and ratified by a plebiscite in December 1957. As subsequently modified and refined, the National Front provided that seats in Congress, departmental assemblies, and municipal councils would be divided equally between the parties for 16 years beginning in 1958. Since the Presidency could not be divided, it was to alternate between the two parties. Further, a two-thirds vote was necessary for any congressional action.

The system came into effect in 1958 with the election of Lleras Camargo for a 4-year term as the first National Front President. *La violencia* lost much of its political content, and by 1961 most of it was reduced to simple banditry and gangsterism, accompanied by sadism. At the same time, a new and more ominous note began to appear—Fidel Castro's threat to make a Sierra Maestra of the Andes.

In August 1961, however, the more serious and immediate threat to political stability in Colombia came from internal sources; namely, whether or not the National Front would survive the elections of 1962.

The essence of the National Front was its effort to cool off party rivalries by eliminating party competition. In effect, each party agreed not to try to win an election in return for a guarantee that it could not lose one. With the two parties precluded from competing with each other, the divisions of Colombian politics appeared in the form of schisms within each party.

As the time approached for the congressional elections of March 1962, and the presidential election of May, the overriding political question was whether the pro-National Front factions of each party could achieve a two-thirds majority in the congressional elections and then go on to elect a pro-National Front President, who had to be a Conservative. This was widely felt to be crucial to political stability and to the prospects for economic progress.

B. SUPPORTING ASSISTANCE—\$30 MILLION

Despite *la violencia*, Colombia's economic performance since the late 1940's had been generally good. Industrialization proceeded in the relatively peaceful cities. The price of coffee went sky high during the Korean war—but fell sharply afterward. In 1960, low income tax rates were reduced, high rates were increased, and a number of tax exemptions granted to encourage private investment. Land reform legislation was passed in 1961, and the Government also announced a broad program for the construction of rural elementary classrooms. Finally, in December 1961, the Government unveiled an ambitious 10-year plan for social and economic development, the first such plan to be produced in Latin America in response to the Punta del Este Charter's emphasis on planning.

Starting in 1960, however, rising operating expenses of the central government and a failure of revenues to meet expectations reduced public funds available for a development program. The 1960 tax reform turned out to produce less revenue in real terms from direct taxes than the previous tax structure. Thus began one of the major economic problems of the Alliance for Progress period—a large budget deficit with inflationary financing.

At the same time, the country began to have the balance-of-payments problems that have plagued it ever since. A part of the problem was the backlog of foreign debt accumulated during the wasteful Rojas dictatorship. Foreign exchange earnings had been running at a level of about \$450 million a year, but by 1960 it appeared that holding imports to this level would not support a substantial growth rate because sufficient capital equipment could not be imported. A major expansion of \$100 million in imports was allowed in 1960, partly to feed the new assembly plants in which industrialization was more and more concentrated. In the preelection atmosphere of the last half of 1961, the Lleras Camargo government further relaxed its financial and exchange policies, and the balance-of-payments deficit reached \$125 million, complicated by capital flight and currency speculation.

In mid-December 1961, the Lleras Camargo government asked the United States for \$120 million in financial aid. The initial U.S. response was that any large-scale assistance would be contingent upon monetary and fiscal reforms.

Colombian officials argued that the development program required a higher rate of imports and that in any event both currency devaluation and import reduction were out of the question in the difficult political period prior to the elections. The United States did not then press the issue.

The National Front survived the congressional elections in March and its candidate, Conservative Guillermo León Valencia, handily won the presidential election in May. He took office in August.

Meanwhile, the loan agreement was signed in April 1962, in the amount of \$30 million—drastically scaled down from the original Colombian request for \$120 million. Terms were hard by 1962 standards—15 years at 3½ percent including a 5-year grace period on repayment of principal. Further, the loan was made as supporting assistance out of the foreign aid appropriation for the contingency fund, not the appropriation for development loans, which was supposed to be the source of Alliance for Progress money. This is an indication that its purposes were more political than developmental. The only provision written into the loan agreement designed to deal with the potentially inflationary situation in Colombia was a requirement that the pesos generated by the loan were to be frozen and not open to use by the Colombian Government “for any purpose.” As will be related, this prohibition did not last.

The supporting assistance loan of \$30 million was combined with an \$8 million rollover on a Colombian debt to the Export-Import Bank, so that the total amount of U.S. credits to Colombia came to \$38 million.

On April 5, the Colombian Government substantially increased deposits which had to be paid by importers to obtain import licenses for certain foreign goods. A few days later, it imposed deposit requirements on more than 100 items which could previously be imported freely. It also announced a 30-percent cutback in expenditures on existing development projects for the rest of the year and prohibited the beginning of any new project during the same period.

In a speech on May 12, Finance Minister Jorge Mejía Palacio said that the purpose of these measures was to increase the prospects of massive foreign aid to Colombia by stabilizing the country's economy. “We are the Latin American country,” said Mejía, “that has totally fulfilled the requirements * * * set by the Alliance for Progress as a condition for benefiting from it. These include agrarian reform, monetary stability, fiscal order, a thoroughly prepared development plan, and adequate instruments of control.”

“Dr. Mejía,” the New York Times reported May 20, “was clearly challenging the Alliance to make good on its promises of aid for countries making serious efforts toward reform.”

C. DEVELOPMENT OF U.S. POLICY

U.S. policymakers were greatly attracted to Colombia as a country which could become the showcase of the Alliance. They saw it as one of the countries having the best chances for rapid economic and social development and of becoming, as one of them put it, “an anchor point of stability in the unsettled Caribbean.”

This line of thought coincided with a growing opinion that the United States ought to concentrate its aid in a limited number of the

most promising countries. In an address before the National Conference on International Economic and Social Development in Chicago on July 19, 1962, Chester Bowles, then the President's Special Representative and Adviser on African, Asian, and Latin American Affairs, listed three categories of underdeveloped countries which represented a scale of priorities for U.S. assistance. The first category included "the handful of nations which possess the preconditions for rapid economic and social advance and which are effectively using their own resources."

In August, Bowles elaborated on this point in an address to the Colombo-American Chamber of Commerce and the American Society of Bogotá. He listed seven critical development criteria—a national plan, a wide sharing of economic growth, taxation on the basis of ability to pay, agricultural reform, incentives for private investment, efficient and honest public administration, and "a sense of national morale and purpose."

Bowles found that measured against these seven development criteria, Colombia "stands in the vanguard of the Alliance for Progress." He stated further that "Latin American countries which show a similar willingness and capacity to muster their own resources, to remove their own domestic obstacles to growth, and to provide a better distribution of the wealth which they are producing will receive similar support."

He warned that "we should be cautious about lowering this priority standard because of short-term political pressures," though he recognized that "no doubt on some occasions overriding security strategic considerations will force us to relax at least temporarily our pressures for reform."

As will be developed in more detail in subsequent sections of this study, except for a period in 1965, the United States has repeatedly succumbed to the short-term political pressures against which Bowles warned. It has not been willing to risk the political consequences of refusing aid in the face of a strong plea that a government would fall without such aid. Further, the United States has generally been reluctant to attach strong conditions to aid for the same reasons which made aid necessary; that is, the tenuous position of the current government which undermined its ability to take strong reform measures.

This type of aid conflicts with long-term development goals by facilitating postponement of necessary host country reforms, a fact which has been demonstrated in the case of Colombia by the chronic persistence of the same basic economic problems throughout the Alliance period.

To the degree that Colombia met the Bowles criteria for development assistance in the summer of 1962, it was largely because of Alberto Lleras Camargo who turned over the Presidency in August to Guillermo León Valencia. A successful peaceful transfer of power under the National Front had been one of the objectives of U.S. policy and had been one of the primary justifications of the \$30 million supporting assistance loan in April. That objective was now achieved and all concerned could take satisfaction in the triumph of orderly constitutional procedure. However, even before the transfer of power, there were predictions that the Valencia administration would be a holding period for Colombia—a time not of progress but at best of simple survival of the country's political institutions.

If it might have seemed that this prospect would dim the State Department's optimism about Colombia, it must be remembered that at midsummer 1962 the State Department—with respect to Latin America, anyway—had very little to be optimistic about. Military coups d'état had occurred in Argentina in March and in Peru in July. In Brazil, the erratic Janio Quadros had resigned to be succeeded by the egregious João Goulart. Chile was stalled and still 2 years away from the impressive Christian Democratic victory of Eduardo Frei. Thus, the major countries of Latin America, except for Colombia, Mexico, and Venezuela, had either retrogressed or at best maintained an uncertain status quo. Mexico had long ago carried out most of the social reforms of the Alliance for Progress and further had already achieved, largely on its own, what looked very much like self-sustaining economic growth. Venezuela was following the same path, well-financed with oil revenues. Thus, Colombia was the only major country of Latin America which needed help and where help seemed to have a reasonable chance of being effective. American foreign policy badly needed a success story in Latin America in the midsummer of 1962, and Colombia led the polls as the most likely to succeed.

IV. PROGRAM LOANS, 1962-68

The listing below shows chronologically the principal developments with respect to the program loans to Colombia since 1962. These are placed in political and economic context in the descriptive pages which follow.

- March 18, 1962: Congressional elections. Elections for both Houses of Congress resulted in the return of a majority of Members supporting the National Front coalition. In the House of Representatives, the Liberal-Conservative coalition fell short of the two-thirds majority needed for major legislation.
- April 20, 1962: \$30 million supporting assistance loan signed and released.
- May 6, 1962: Presidential election. Conservative Party National Front candidate, Guillermo León Valencia received over 62 percent of the total vote.
- August 7, 1962: Valencia inaugurated.
- December 18, 1962: \$60 million program loan signed; \$30 million (first tranche) released.
- October 11, 1963: Second tranche of December 1962 program loan (\$30 million) released.
- March 11, 1964: \$15 million program loan signed, but not released.
- March 14, 1964: Congressional elections. This election was confined to the House of Representatives. National Front won 124 of 184 seats giving the President support of just over two-thirds of the House membership. The extreme right ANAPO Party of ex-dictator Gustavo Rojas Pinilla increased its strength from six to 27.
- July 13, 1964: \$45 million program loan signed, but not released.
- October 28, 1964: \$15 million March 1964 program loan released.
- December 28, 1964: First two tranches (\$25 million) of the July 1964 program loan released. An additional \$10 million of the first tranche had been designated for disbursement on a forward procurement basis. Since the implementation procedures for this method had not been clarified by the date of release of the first two tranches, this portion was left to be disbursed at a later time.
- June 15, 1965: Release of \$10 million forward procurement portion of first tranche, July 1964 program loan.
- December 13, 1965: \$10 million (last tranche) of July 1964 program loan debilitated.
- December 20, 1965: \$65 million program loan signed. \$20 million (first tranche) released, \$10 million of which was on an advanced commodity financing basis.

- March 18, 1966: Second tranche (\$15 million) December 1965 program loan released.
- March 20, 1966: Congressional elections. This election was for Senate and House seats. In both cases the National Front failed to win a two-thirds majority: 107 out of 190 in the House, and 67 out of 106 in the Senate. The ANAPO Party continued its strong showing by increasing Senate representation from two to 17 seats, and House representation from 27 to 36 seats.
- May 1, 1966: Presidential election. Liberal Carlos Lleras Restrepo, candidate of the National Front coalition government, won with about 70 percent of the vote cast.
- June 15, 1966: Third tranche (\$15 million) December 1965 program loan released.
- August 7, 1966: Lleras Restrepo inaugurated.
- August 19, 1966: Fourth and last tranche (\$15 million) of December 1965 program loan released.
- May 27, 1967: \$100 million program loan signed. \$40 million (first tranche) released.
- September 14, 1967: Second tranche (\$20 million) May 1967 program loan released.
- December 16, 1967: Third tranche (\$20 million) May 1967 program loan released.
- March 17, 1968: Congressional elections. Only the House of Representatives was up for re-election. The National Front coalition increased its representation by winning 144 out of 204 seats. The more conservative wings of the Conservative Party lost ground.
- May 10, 1968: Fourth and last tranche (\$20 million) May 1967 program loan released.
- July 15, 1968: \$58 million program loan signed; \$35 million (first tranche) released. \$15 million agricultural sector loan signed; \$8 million (first tranche) released.
- December 2, 1968: Second (last) tranche July 1968 program loan released (\$23 million); second (last) tranche July 1968 agricultural loan released (\$7 million).

A. VALENCIA'S FIRST STABILIZATION PROGRAM, 1962-63

1. Release of supporting assistance counterpart

The \$30 million supporting assistance loan which the United States made to Colombia in April 1962 provided that the Colombian pesos generated by the loan would not be used for any purpose. AID in Washington, the Embassy and the AID Mission (USAID) in Bogotá all agreed that it was desirable to sterilize these pesos in order to avoid additional inflationary pressures on the Colombian economy.

By September, however—a month after Valencia took office—the Colombian Government was requesting the release of the peso counterpart to help alleviate a tight budget situation which had forced delay in payment of salaries to teachers and police.

Colombian officials also argued that release of the counterpart—along with a new balance-of-payments loan of \$60 million—was necessary precisely to enable them to carry through the series of measures which the Valencia administration proposed. Besides devaluation, these measures included a tax increase and a reduction in public employment. The negotiations dragged on through October, with the Colombians becoming increasingly insistent.

On November 7, the Colombian Government presented to Congress its stabilization program, including devaluation of the peso (the official rate was to be lowered from 6.70 to the dollar to 9 to the dollar), the imposition of new taxes, an increase in existing taxes, and curbs on foreign travel. Most of these measures had been urged by AID though there were some who thought that the devaluation should have been carried out by executive order. In this view, the timelag between the

Government's announced intention and congressional action provided a golden opportunity for speculators, increased pressure on the peso, and made it less likely that the devaluation would achieve its intended purpose.

However, on the basis of the proposals to Congress and in anticipation of congressional approval, AID agreed on the following steps:

1. Release of the peso counterpart of the April loan of \$30 million.

2. Approval of a new \$60 million program loan on the grounds that its timing would facilitate the adoption by Colombia of the exchange and fiscal reforms prerequisite to implementation of the development program.

3. Possible release of some portion of the peso counterpart from the \$60 million loan for budget support (a suggestion brought up by Colombian officials) as a "politically necessary" measure.

By early December, it had been decided that release of the counterpart from the \$30 million loan would not endanger monetary stability. On December 10 the April loan agreement was amended to provide for the use of counterpart pesos with the prior written approval of AID. Most of the funds went into payment of salaries and benefits to Government employees.

2. A \$60 million program loan, December 1962

Negotiations for a new program loan of \$60 million proceeded concurrently with negotiations for release of the counterpart from the previous balance-of-payments loan. The United States found itself in a dilemma. On the one hand, as noted above, it wanted to make Colombia the showcase of the Alliance and to demonstrate confidence in Colombia's development efforts in order to stimulate greater contributions from international and European lenders. On the other hand, the fiscal and monetary situation in Colombia was deteriorating seriously (for example, the balance-of-payments deficit was almost \$90 million in the first 10 months of 1962), and it appeared that the anticipated Colombian resources were simply not available to carry out the development plan.

One way in which the United States attempted to bridge the horns of this dilemma was by making a program loan to support Colombia's balance of payments, but conditioning the loan upon Colombian fiscal and monetary reforms and insisting upon the use of the peso counterpart for development projects instead of budgetary support.

Such conditions included a depreciation of the official selling rate, increases in requirements for bank reserves and advance import deposits, and new tax legislation designed to insure budget balance with an expanded Government investment level consistent with Colombia's 10-year development program.

As noted above, many of these measures were included in the stabilization program which Finance Minister Carlos Sanz de Santa María presented to Congress November 7, 1962. In making his presentation, however, Sanz indicated to Congress the U.S. approval of the \$60 million loan in anticipation of actual approval. This was variously interpreted as (a) an effort to spur congressional acceptance of his program, and/or (b) an effort to pressure the United States into approving the loan.

A few days later, AID listed the following purposes toward which the proposed \$60 million development loan was directed:

1. To provide adequate foreign exchange to finance commodity imports needed to sustain planned levels of investment in both private and public sectors of the economy.

2. To counteract possible inflationary effects of internal expansion arising from higher import levels.

3. To facilitate the adoption of exchange and fiscal reforms and internal monetary stabilization.

4. To direct the use of local currency counterpart generated by the loan to assist in financing high-priority projects to be approved by AID within the framework of Colombia's development program. (These included the creation of a private investment fund, low-cost housing support, and budgetary support of development projects.)

It may be noted that three of these four points are for practical purposes indistinguishable from a balance-of-payments loan and that the fourth, relating to local currency counterpart, deals with what is essentially a byproduct of balance-of-payments support. The use of counterpart was to be the subject of further misunderstanding between AID and the Colombian Government, as AID pressed to channel it into development projects and the Colombians wanted to use it for general budget support.

The United States approved the loan following passage by the Colombian Congress of the exchange reform law on November 20, 1962, increasing the official selling rate from 6.70 to 9 pesos per dollar.

The loan agreement was signed on December 18, 1962. It conditioned loan disbursements on the adoption of necessary reforms. The first \$30 million tranche would be made available as soon as the exchange reforms had been implemented. The release of the second \$30 million tranche would be contingent upon the satisfactory implementation of the other monetary stabilization measures and fiscal operations listed above, and specifically on progress toward increasing revenues and decreasing operating expenditures. The loan was repayable in dollars in 40 years after the first disbursement. Interest was 0.75 percent a year, and there was a 10-year grace period on repayment of principal.

The first disbursement of \$30 million was effected in late January 1963 in the form of a \$13 million cash deposit to the account of the Bank of the Republic at three New York banks, and \$17 million to be made available for commodity imports under letters of commitment.

The United States also agreed to the release of \$20 million in counterpart for budget purposes but stipulated that that amount could be used only for high priority development items. The United States wanted the remainder of the counterpart generated by the loan earmarked for a low-cost labor housing project (\$10 million) and the proposed Private Investment Fund (\$30 million). It feared that the release of more than \$20 million for budget support would reduce the pressure on Congress for a tax bill and would also probably be at the cost of early financing of good development projects.

3. Colombian performance, 1963

The year 1963 began with retrogression, rather than progress, mainly because the devaluation of 1962 did not have the anticipated

effects. The delay in congressional enactment of the devaluation after it had been proposed by the Government and the consequent loss in private sector confidence led to a large capital flight. Private investment lost its momentum and was further hampered by the tight credit policies dictated by considerations of economic stabilization. Government expenditures for current operations increased, rather than decreased, as the Government succumbed to political pressures and approved wage increases of 25 percent to 40 percent in both the public and private sectors, thereby vitiating anticipated revenue gains from exchange reforms. By the end of March, the cost of living had increased by 20 percent over the predevaluation level. Furthermore, the wage legislation contained an escalator clause tied to the cost of living, and this raised the prospect of another cycle of inflation later in the year.

The Bank of the Republic intervened in the free exchange market to support the devalued peso. This stabilized the exchange situation temporarily, but it had cost the Bank more than \$40 million by the end of February.

To aggravate the financial situation even more, progress in the Colombian Congress in enacting the tax legislation required to finance the development program was very slow, and the Valencia administration did not seem to be pressing the matter. Further, although there was some tightening of domestic credit, the central bank did not limit credit to its target ceiling. Finally, export earnings were at a seasonal low.

By the end of April 1963, the situation had not improved appreciably. On May 15, the rediscount privileges of commercial banks were limited, but the effects of this action were not felt immediately. Deficit spending and short-term borrowing from U.S. commercial banks continued.

Colombian officials became increasingly impatient with what they considered to be an orthodox approach to Colombia's financial problems. Finance Minister Sanz stated that he would only give this approach 6 more months (from June 1963), and warned that if he did not succeed, and did not receive anticipated support from foreign countries, he would turn to severe exchange controls and bilateralism, even though he realized that such an approach could have a negative effect on growth. He thus indicated an attitude widespread in the Colombian Government—a growing conviction that no outside technicians, whether from AID or the International Monetary Fund, could understand the psychology and facts of the situation of a country like Colombia.

By early July, American officials felt that if the Colombian Government had a serious development plan, suitable public or private projects should be ready for utilization of counterpart. If no projects were ready, in this view, then there was no justification for the use of the program loan technique to commit development funds. The State Department instructed the Embassy to put heavy and continuing stress on project preparation. The Department thought that in order to avoid wastage or misallocation of U.S.-supplied resources, the project approach had to be followed, no matter which financing technique was used.

One of the budgetary problems was the weakness in basic data concerning Government revenues and operating expenditures. In the

opinion of members of a private advisory group, the Colombian budgetary accounting system had "an unusual tendency" to obscure rather than clarify the facts of the Colombian fiscal situation, particularly with respect to the estimates of the cash flow which was important in assessing the impact of the budget on the monetary situation. It was a fairly common practice for agencies and ministries which were refused approval for investment projects by the Budget Director to contract the project anyway. Thus in December the Government was usually presented with a substantial amount of bills for projects which were not authorized by the Budget Director although the expenditures were included in the budget of the current or some past year. The advisory group classed budget reorganization and reform with the balance of payments as the most urgent, immediate problems to tackle in Colombia, and recommended the possibility of technical assistance to the Ministry of Finance to revamp its accounting.

Meanwhile, the Valencia administration had become exasperated also with the delays in the Colombian congressional consideration of tax measures and presented to Congress special powers legislation to enable the President to do what Congress would not, or could not, do. The special powers bill passed Congress August 20, 1963. Its key provisions (or actions to be taken under its authority) could be summarized as follows:

1. Those expected to increase Government revenues during 1963 and 1964 through a 20-percent surcharge on income taxes, establishment of a 3- to 10-percent sales tax, and compulsory purchase of long-term Government bonds by the commercial banks up to 5 percent of their deposits.

2. Those allowing basic reforms to increase Government efficiency and revenues, such as reorganization of tax administration.

3. Those leading to basic policy changes, such as new measures to fight speculation and hoarding, and the creation of a Monetary Commission as the policy body on monetary, credit, and exchange policy, thereby reducing the control of commercial banks over monetary policies.

These tax measures brought about a 45-percent increase in revenues. Even after allowing for the effects of domestic price increases, Government revenues rose by about 20 percent in real terms in 1963. Although Government operating expenditures also rose by about 26 percent (to meet additional requirements for debt servicing, combating violence, and the increased assumption by the National Government of expenditures for education, the judiciary, and the police), the current account surplus increased from 200 million pesos in 1962 to 650 million pesos in 1963. This surplus, together with about 212 million pesos in new foreign borrowing in excess of external debt amortization payments, was available during 1963 to finance investment expenditures.

There was, however, considerable pressure within the Colombian Government to sacrifice investment in order not only to have a balanced budget but even to repay Government debt. Sharp reductions in investment expenditures became the primary means of working toward a balanced budget. Government capital outlays declined to 900 million pesos, 30 percent below the 1962 level and more than 45 percent below the 1961 level in real terms. The cut in investment expenditures did,

however, cause the volume of Government operations financed by borrowing from the central bank to be reduced.

The most disappointing phase of Colombian Government financial activities in 1963 was in the realm of monetary policy. While Government borrowing from the Bank of the Republic decreased, the Bank increased its operations with the commercial banks so that there was a total central bank expansion of 850 million pesos (net expansion of about 23½ percent). The action taken in May to limit rediscount privileges was not effective, and central bank credit was above its ceiling during more than half the year.

The third quarter of 1963 showed an abatement in the rate of domestic inflation and a return of relative confidence, leading some observers to conclude that the economy had weathered the effects of the 1962 devaluation. An important factor was the agreement by labor leaders and employers not to implement the automatic escalator clause of the February wage law—this in recognition of the inflationary effects of the earlier wage increases.

On October 11, 1963, the United States agreed to release the second tranche of \$30 million of the \$60 million loan of December 1962. The State Department cautioned the Embassy that this did not justify the release of any additional counterpart funds for budgetary uses.

B. MIDTERM ELECTIONS, 1964

1. Development of U.S. policy

Finance Minister Sanz' exasperation with orthodox economic advice did not inhibit him from requesting additional program loan support from the United States for 1964 up to \$100 million. Private Embassy opinion was agreeable to the program loan approach for the fiscal 1964 credit program to Colombia, provided that budget support was excluded from the loan negotiations and that most of the peso proceeds were directed toward the private sector. Sanz' request, however, was based in part on the need for assistance to alleviate the budgetary crisis.

The basic problems were clear enough: balance of payments and budget deficits which threatened the stability of the economy; the need for agricultural expansion in crops other than coffee; the need for accelerated industrial development; fiscal and administrative reforms, educational reform, and the adoption of a planning operation commensurate with the new responsibilities of the Government for assuring social stability and economic growth.

The short-term question was how to fill the exchange gap until structural changes in industry and agriculture could begin to make their contribution to development. The United States generally viewed the coalition of political forces in power under the National Front as relatively well equipped to pursue Alliance for Progress objectives. But as 1963 wore on, the congressional elections scheduled for March 1964 began to cast a long shadow over the willingness of the Valencia government to take political risks. The situation was similar in many respects to that which had prevailed 2 years earlier prior to the elections of 1962. The U.S. response also had many similarities.

There also developed grounds for doubt about the wisdom of IMF advice to Colombia. The devaluation of 1962—admittedly handled in a clumsy way—had caused at least as many problems as it had solved.

The IMF leaned too heavily on crude control mechanisms (e.g., overall credit expansion ceilings) and gave insufficient attention to those foreign exchange problems not entirely susceptible to solution by improved monetary, fiscal, and exchange policies.

U.S. assistance policy continued to be based on support of the Colombian Development Plan and on the internationally agreed estimate of the required net inflow of foreign capital to achieve the goals of the plan (approximately \$200 million a year with the U.S. share approximately 50 percent of the total). It was feared that if the United States reduced the availability of external assistance committed to Colombia, other members of the Consultative Group of the International Bank for Reconstruction and Development might also reduce commitments producing a snowball effect, with the possibility of associating the United States with a failure rather than with a successful enterprise. Furthermore, it was projected that a reduction of availabilities in fiscal year 1964 would almost certainly jeopardize the impact of those funds already committed.

By the fall of 1963, it was clear that the goals of the IBRD-OAS-approved 10-year development plan had been overly optimistic, and that investment was well short of the plan's target levels. This called into question the basic requirements of the plan in relation to the Colombian budget, the balance-of-payments problem, agricultural strategy, and the effectiveness of the Colombian Planning Office. The query was even raised as to the relative importance to be placed upon the existence of a development plan as opposed to satisfactory current performance in mobilizing resources for development. It was suggested that the development of a long-term plan was not a sufficient condition to insure economic growth and could actually be counterproductive if accompanied by inflationary policies. The decline in public investment in Colombia during 1963 to a level 45 percent below the 1961 level in real terms was attributed to the Colombian Government's effort to pursue its development plan objectives without first pursuing adequate fiscal and monetary policies.

An additional point was made that a combination of U.S. balance-of-payments problems, congressional review of past AID practices, and the need for stronger justification for aid to Colombia at near the same level in the face of greater competition for less funds meant that the United States would have to require more extensive and specific Colombian performance as a condition of aid. The State Department warned the AID Mission in Bogotá that any assignment of U.S. development assistance to budget support in any Latin American country would be increasingly regarded as a misuse of development funds, and would not be approved except in extremely unfavorable circumstances.

Self-help measures as prerequisites to U.S. assistance were never challenged in any State Department strategy. Occasions were foreseen in which it would be wise not to press firmly for an immediate decision on a self-help issue because of the political risk but in which continuance of a substantial level of aid would be justified because of the potential of the country, the open political system, and the "overall self-help context." A serious, sustained balance-of-payments crisis was seen as a major threat to political stability.

The renewed atmosphere of confidence in Bogotá in the late summer and fall of 1963 led to the issuing of long-range strategy projections that after 3 years of a considerably increased level of disbursements of U.S. official assistance, the United States would be able to make a sharp reduction in AID disbursements in 1967. It was believed that given the determination of the Colombian Government to follow self-help measures in the financial policy field and given the provision of increased foreign assistance to allow the private sector to increase its imports of capital equipment, it could be possible to predict a major economic boom beginning in 1966. It was estimated that by 1966 the Colombian economy could achieve a growth rate as high as 8 percent a year in gross national product and maintain that growth rate for the remainder of the decade. Once the high growth rate was reached, the attraction of such a rapidly growing market for private capital and assistance from other governments would allow a fairly rapid reduction in net U.S. assistance. The key prerequisites of this exceptional growth rate were listed as:

1. An intense export promotion drive.
2. Establishment and maintenance of an exchange rate system which encouraged exports and import substitution.
3. A higher level of imports, particularly of capital goods while continuing direct controls to discourage luxury consumption imports.
4. Major programs to expand agricultural production for the domestic market.
5. Continuation of generally responsible policies in financial and other areas.

The key element of this optimistic projection was the timing and level of AID assistance. It was concluded that the "underlying strengths" of the country were so great that the United States should be prepared to make a "maximum effort" in the immediate future to keep the Colombian economy moving forward.

The implication of this conclusion, of course, was the dilemma which has bedeviled most of the U.S. aid program to Colombia. Limitation of financial assistance would be the most powerful short-term tool available to the United States to influence Colombian policies with respect to such matters as exchange rates and export promotion, but the use of this tool could at the same time produce shock waves which would threaten political as well as economic stability.

2. *Negotiation of the first 1964 program loan (\$15 million)*

Expected disbursements from AID lagged badly. By the end of 1963, only about \$50 million had been disbursed of the \$65 million estimated inflow from project and program loans. The main problem was compliance with the requirement that at least 50 percent of the gross tonnage of all goods financed by the loans and transported on ocean vessels should be carried on privately owned U.S.-flag commercial vessels to the extent that such ships were available at fair and reasonable rates. Determination that U.S.-flag commercial vessels were not so available had to be approved by AID. The documentation which had to be presented to AID in keeping with this requirement were the bills of lading and statements indicating the U.S. origin of the goods being shipped. The lack of such documents delayed final disbursement of the December 1962 loan until April 1964.

In view of this delay, Embassy officials recommended the signing of a new AID loan before the end of January 1964, in order to limit a possible reduction in Colombian gross reserves at the end of February. It was suggested that disbursements under the projected 1964 program loan begin by mid-November 1963, in view of the fact that a considerable part of the AID disbursements made in 1963 had in effect been offset by repayments to the Export-Import Bank, primarily against balance-of-payments loans of prior years.

Underlying these policy recommendations was the belief that the U.S. commitment to Colombia was one of the main factors behind the willingness of commercial banks to extend substantial credit. It was thought that such commercial bank lending might be crucial in avoiding a crisis in 1964, and that if a crisis occurred, the commercial banks might then be unwilling to follow the U.S. Government lead in other countries of Latin America, with the result that a major source of funds would be lost to the Alliance for Progress.

One of the crucial factors was the exchange rate issue. The exchange system in effect throughout 1963 consisted of, on the buying side: (1) a fixed rate of 7.10 pesos per dollar applicable to export proceeds of coffee, gold, manufactured goods with a high import component, foreign exchange sales by petroleum companies, and capital brought in by metal extracting companies; (2) a fixed rate of 9.00 pesos per dollar at which the proceeds of official foreign loan disbursements were made to the national Government for local currency expenditures; and (3) a nominally fluctuating rate equal to the average rate in the free market of the previous week for all other export proceeds. On the selling side, the only official exchange rate was the auction rate of 9.00 pesos per dollar which applied to import payments and certain invisible payments. All other transactions passed through the free market where the rate was pegged at 9.99 pesos by central bank support operations.

This system permitted continuing subsidization of a large volume of capital flight and discouraged exports, but Colombian authorities were reluctant to enact reforms in their sensitive political environment.

They firmly denied that the existing system provided an inadequate incentive for noncoffee exports. They minimized the capital flight problem, and flatly opposed any change at that time.

U.S. officials therefore concluded that immediate action on exchange reform was not feasible. The U.S. position reflected a feeling that the 1962 devaluation had been poorly handled and that extensive careful preparation was needed if a new devaluation was to yield the desired economic results.

However, as 1964 began, the Government found itself under pressure from coffee growers to eliminate the difference between the exchange certificate rate of 9.00 pesos per dollar and the 7.10 peso rate paid to coffee growers. The immediate response of the Finance Minister was that such an action would cripple the 1964 budget and would create the danger of another devaluation in 1965. On January 10, 1964, the Government compromised and devalued the exchange rate for coffee and petroleum exports, as well as capital brought in by metal extracting companies, from 7.10 to 7.30.

On the other hand, the Government promised to observe a specific ceiling on the total domestic operations of the Bank of the Republic. It also stated its intention to eliminate progressively all uneconomic pricing policies and subscribed to the principle that wage and salary adjustments should be related to productivity.

On February 14, 1964, the International Monetary Fund agreed to a standby for up to \$10 million, not to exceed \$2.5 million a quarter. The United States told the Colombians that pending a significant improvement in the exchange system, the United States was prepared to provide only \$15 million of the tentatively programed \$60 million loan for 1964. This tranche would permit the payments problem to be financed until after the March elections, while the remainder of the 1964 program support funds would not be negotiated until the United States was satisfied that the revised exchange system was working in a satisfactory manner.

Additional bilateral issues now presented themselves—the relative amounts of capital and consumer goods in the Colombian import budget, whether or not Colombia was giving preference to license requests for imports from non-U.S. sources, and the eligible date for imports financed by the AID loan. From the point of view of long-term Colombian development, it was clear that imports of capital goods would make a greater contribution than would imports of consumer goods—though both were no doubt desirable. The question of preference for imports from non-U.S. sources was postponed, not to be seriously addressed until 1966 when it arose in the form of the complicated question of “additionality”—that is, the use of AID loans to provide additional exports for the United States, over and above what would have been expected on the basis of historic performance.

The issue of the eligible date for import financing was more immediate.

It was proposed, in accordance with an Embassy/USAID recommendation, that the eligible date for import financing under the loan be retroactive to July 1, 1963. This request came into conflict with a specific manual order which stated that loan funds should not be used to pay for commodities delivered, construction undertaken, or debts incurred prior to the time the AID assistance was made available. It was argued, however, that retroactive financing was possibly the only technique to achieve the purposes of the loan; that is, to insure the maintenance in 1964 of the volume of imports needed to support the Colombian planned development program. It had been determined that Colombia had no reasonable source for such long-term financing other than AID, and that if the funds were made available only for future imports on normal credit terms (which averaged 9 months), disbursements would be substantially delayed and would have no effect on Colombia's ability to meet its current debts, and thus on its credit position. In such case the momentum of imports would be jeopardized. It was also pointed out that although the commodities financed by AID funds were obviously important in affecting the level of investment and thus growth, predictability and confidence were also crucial factors to be considered. Thus, retroactive financing was finally authorized on the grounds that a contraction of credit provoked by forward financing would be undesirable from the standpoint of the long-range economic development of Colombia.

It was considered essential that the \$15 million loan be consummated without undue delay, in order not to break the continuity of foreign exchange disbursements for essential purposes in the early part of 1964. The analysis approved by the AID Development Loan Committee indicated that an interruption in the flow of disbursements, or a major reduction in the net foreign exchange reserves would result in a confidence-shaking foreign exchange crisis in Colombia which, in turn, would make the availability of short-term credits from U.S. commercial banks doubtful, as well as accelerate outward movement of Colombian capital.

This reasoning was not entirely persuasive to the State Department, some officials of which cited congressional action in the Foreign Assistance Act of 1963 providing that Alliance funds not be diverted to short-term emergency purposes such as balance-of-payments shore-up operations, and that all necessary financial planning must be carried out before a loan agreement was signed. The need was underscored for an adequate rationale which related Alliance for Progress funds to the long-range economic development of recipient countries in cases of nonproject loans. In response to these criticisms, Embassy/AID officials pointed out that the proposed loan was intended to support the same objectives as those for which the earlier development loan was made, and that it had to be viewed within the same context. It was denied that the contemplated assistance was for emergency purposes but it was argued that an abrupt change in the U.S. lending policy could itself create an emergency balance-of-payments situation.

The U.S. Government authorized the \$15 million loan on January 30, 1964, and the loan agreement was signed March 11.

On March 14, the National Front won the congressional elections, but it was left with a bare two-thirds majority in Congress, the minimum necessary for approving legislation. The followers of ex-dictator Gustavo Rojas Pinilla increased their representation from 6 to 27 seats. Further, approximately 70 to 75 percent of the voters stayed away from the polls. This large abstention, plus the increased strength shown by Rojas' faction of the Conservative Party, was widely interpreted, both in Colombia and abroad, as reflecting general dissatisfaction with the political performance of the National Front and a disenchantment both with President Valencia and the Colombian Congress which frequently found itself immobilized for lack of a quorum.

The terms of the \$15 million loan were repayment in U.S. dollars in 40 years, including a 10-year grace period, and interest of 0.75 percent during the grace period and 2 percent thereafter. The prerequisites to loan disbursement were as follows: (1) Colombian Government evidence of legal obligation; (2) evidence of arrangements made by the Colombian Government for implementation of the 1964 import budget; (3) agreement by the Government and the Bank of the Republic to carry out a "sound monetary policy"; (4) establishment of a system for reporting current account budgetary surpluses on a cash flow basis; and (5) assurance of Colombian efforts to achieve a current account surplus of not less than 1.1 billion pesos during calendar 1964.

The Colombian Government was urged by Embassy officials to prepare all "conditions precedent" documents as soon as possible to assure minimum delay in disbursements. The terminal date for the fulfillment of conditions precedent had been set in the loan agreement at

May 15, 1964, and the 1964 import budget (which was prepared by the planning office with the technical assistance of a Harvard advisory group) was submitted to the AID Mission on April 22, 1964, but the rest of the legal documentation was not submitted until mid-July. The conditions precedent were finally approved by Embassy/AID officials on July 28, 1964, and the Finance Minister was informed of disbursement authorization on August 13, 1964—5 months after the loan was signed.

The matter was not yet resolved, however, as a new complication arose with respect to the problem of allocation of peso proceeds. This eventually led, in October 1964, to an amendment to the loan agreement to incorporate the peso uses expressly among the officially defined purposes of the loan. The first disbursement under the loan was made on November 20, 1964—8 months after signature. The loan was fully disbursed by March 3, 1965.

C. THE \$45 MILLION LOAN, JULY 1964

Although the United States had told the Colombians that it was prepared to negotiate a loan beyond \$15 million only when it was satisfied that the revised exchange system was working satisfactorily, exchange reform was not pressed in the ensuing negotiations for an additional loan. This appears to have been due to a resurgence of economic confidence despite the continued air of political crisis, lagging disbursements of foreign loans, and a poor 1963 harvest which forced food prices up at a time when the Government was trying to hold down wages.

A rise in world coffee prices encouraged the expectation of an additional \$70 million in export earnings. The net reserve position of the Bank of the Republic improved by \$10.2 million. An additional boost to confidence came in April with the approval by the Export-Import Bank of a \$17.5 million loan to Colombia's Hydroelectric Development Institute (Electroaguas) for five power projects. The Government also announced a 10-percent gasoline tax effective January 1964, and a general sales tax effective January 1965 as measures to reduce the budget deficit.

The IMF continued disbursements on the 1964 standby agreement for \$10 million during the first three quarters of the year.

The United States seized upon the opportunity provided by this atmosphere of general economic confidence to make the strongest efforts to date toward economic development in connection with negotiations of the next loan agreement. Heretofore, program loans had either been frankly political with the purpose of tiding the country over an electoral period (as in April 1962 and March 1964) or had been primarily aimed at backing up a stabilization program (as in December 1962). Stabilization purposes continued to be important, but developmental objectives now received a new emphasis.

In negotiation of the second 1964 loan agreement, the United States had two major sets of objectives. The first was with respect to Colombian policies for economic stabilization and development. The second was with respect to the ground rules under which the loan would be disbursed.

With respect to Colombian policies for economic stabilization and development, the United States sought to support a Colombian program containing—

(1) Limitations on the increase of short-term debt. AID originally wanted an increase of no more than \$10 million, subsequently raised this to \$15 million, and then agreed to accept a Colombian letter of intent to reduce short-term borrowing.

(2) Limitation of imports to \$440 million a year (which had been agreed to in March) and establishment of procedures which would reduce imports of raw materials and intermediate goods for luxury-type production in favor of capital goods. This presented no problem, though imports during the first 5 months of 1964 were slightly above the limit.

(3) Prompt development and implementation of a specific program to promote exports. In June the Government announced plans to establish a single organization to coordinate trade policy and stimulate exports. It eliminated prior deposits on exports except for coffee and set up several committees to study export problems and recommend additional specific actions.

(4) Creation by November 1964 of an organization to undertake early completion of a comprehensive agricultural plan, including efforts to identify and work on priority agricultural problems with emphasis on those affecting the balance of payments. This was agreed to.

(5) Colombian cooperation with a forthcoming UNESCO-AID study of primary and secondary education, with the possibility held out of assistance to education from the peso proceeds of the program loan.

(6) A number of specific steps to improve tax administration and collection. The United States agreed on tax advisers from the Internal Revenue Service to aid in the collection of delinquent taxes and in expediting the issuance of tax assessments.

(7) Monetary policies which would avoid inflationary pressures. Without obtaining specific commitments, AID negotiators concluded that in general the actions of the Monetary Board during June were in the right direction, showed the Board's control over the monetary situation, and were adequate for AID's purposes.

(8) A budget with a surplus on current account and an increase in investment. This proved to be the thorniest question of all. Government activities were expanding—principally in the fields of education and counterinsurgency—and more funds were needed for current operating expenditures. Few cuts seemed advisable in the 1964 budget and a target was established of 1.1 billion pesos surplus on current account in 1964—the same level that had been agreed to in connection with the March loan—and a target of 1.3 billion pesos for Government investment during the year. AID also agreed to release counterpart up to \$10 million peso equivalent for investment projects if there should be an unforeseen shortfall in revenues.

With respect to the ground rules under which the loan was to be disbursed, there were three issues—additionality for U.S. exports, marine insurance, and forward procurement.

The issue of additionality was destined to become one of the most vexing and complicated in the entire aid program to Colombia. It

arose because AID, for balance-of-payments reasons, had long been following a general worldwide policy of tying its loans to U.S. procurement, except in a limited number of special cases. The composition and source of Colombian imports, however, indicated that Colombia was using AID loans to pay for goods which would have been imported from the United States anyway and was using foreign exchange generated by its private sector to pay for increased imports from other countries. Thus, instead of generating additional U.S. exports, AID loans seemed to be permitting the diversion of Colombian foreign exchange to third country procurement.

The issue of marine insurance arose because of an apparent conflict between U.S. and Colombian laws. The U.S. law—section 604(d) of the Foreign Assistance Act of 1961, as amended—provided:

(d) In providing assistance in the procurement of commodities in the United States, United States dollars shall be made available for marine insurance on such commodities where such insurance is placed on a competitive basis in accordance with normal trade practice prevailing prior to the outbreak of World War II: *Provided*, That in the event a participating country, by statute, decree, rule, or regulation, discriminates against any marine insurance company authorized to do business in any State of the United States, then commodities purchased with funds provided hereunder and destined for such country shall be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in any State of the United States.

The Colombian law provided that risks involving shipment to the final port of destination within Colombia be insured with companies legally registered in Colombia.

In the spring of 1964, the State Department proposed to meet both the problem of additionality and the problem of marine insurance by taking a modest first step toward putting AID commodity financing in Colombia on a forward basis. Theretofore, AID loans had been retroactive. In effect, they had paid bills already incurred. This had been justified on the grounds that if funds were to be made available for future imports on normal credit terms, disbursements would be substantially delayed and thus would have no effect on Colombia's ability to meet current obligations or on its current credit position—or, what was probably more important, its current political position. Disbursements had, however, been seriously delayed anyway.

Forward procurement would allow AID to select in advance the categories of goods which it would finance and thereby hopefully insure that AID financing would result in additional U.S. exports. Forward procurement could also meet the marine insurance problem by providing that AID-financed imports could be insured by any authorized company in the free world and that if the imports were on a c.i.f. basis, the U.S. exporter could contract for marine insurance in accordance with standard U.S. procedures.

It was therefore decided that \$10 million of the first tranche of \$20 million of the new loan should be limited to forward procurement. It was estimated—on the basis of calculations which are not clear—that this would provide additional U.S. exports of \$15 million.

The loan for \$45 million was signed on July 13, 1964. The AID Mission believed that the Colombian Government was dealing seriously with its financial problems. No specific item of performance was mentioned among the conditions precedent to initial disbursement. Prior to the signing of the agreement, a letter was obtained from the Minister of Finance outlining the policies which his Government intended to

follow. The loan agreement specified that disbursements of AID funds would be in three tranches: the initial tranche of \$20 million (\$10 million of which was under the "prior notice" or "forward procurement" system) following fulfillment of the basic legal conditions precedent, and the next two tranches of \$15 million respectively following program reviews to be held during the months of September or October 1964, and during January 1965. All of the last two tranches as well as half of the first tranche—i.e., \$35 million in all—could be used for retroactive financing on goods delivered or services performed after July 1, 1963, as in the case of the previous program loans. As was the case under the March 1964 loan, monthly reports were to be made by the Bank of the Republic on the progress of the Government's fiscal and monetary program. The loan agreement carried the minimum statutory terms for AID development assistance lending, i.e., 10-year grace period at an annual rate of three-fourths of 1 percent with a repayment period of 40 years at 2 percent interest. Pesos accruing from the loan were to be set aside in a separate account in the Bank of the Republic until such time as their uses had been agreed upon by the United States and Colombian Governments. In the opinion of high Agency officials: "As a piece of development economics and as a proposal for negotiating strategy this is one of the best program loan papers that we have received."

D. ECONOMIC CRISIS, 1964-65

The summer of 1964 might be termed the calm before the storm insofar as the Colombian economic situation was concerned. The Bank of the Republic quarterly report for May-August, showed steady gains in most fields of monetary and fiscal policy. During that period the Bank maintained its credit operations below the ceiling. In fact, the contractionary monetary policy was so successful that it sparked a public debate between Cabinet Ministers as to the possible effects of such rigid controls on the development of the economy. In August, the Monetary Board yielded to pressures (especially from merchants suffering from depressed retail sales) and lowered the marginal reserve requirements 10 percentage points, thus freeing directly over 100 million pesos for commercial bank lending. During the same period no significant developments occurred in the fiscal accounts, although Embassy officials estimated that given existing revenue patterns and the likelihood that investment spending would increase, the year's surplus would probably be around 950 million pesos, somewhat short of the target set during the loan negotiations.

Certain rumblings beneath the surface, however, foretold impending financial upheaval. The loudest rumble was the cost of maintaining the free exchange rate, which came to \$24.2 million during the first 7 months of 1964. A portion of the cost was explained by the flight of capital in April and May when devaluation was feared. A second point of concern was the repayment by the Bank of the Republic of almost \$48 million of public short-term debt to the Federal Reserve, the Export-Import Bank, and U.S. commercial banks. While this process did not significantly alter the Colombian gross reserve position, it was accomplished by accumulation of an even shorter term debt through acceptance drawings and swaps. Some observers felt that had

AID disbursements followed their anticipated course, such acceptance drawing probably would not have been necessary. In addition to the public short-term debt problem, private short-term foreign borrowing had become increasingly common under a procedure of commercial bank endorsement designed to circumvent the tight domestic monetary policy. About \$13 million was borrowed in this way during the first 6 months of 1964.

On August 1, President Valencia and Finance Minister Calle presented their proposed 1965 national budget to Congress. It called for expenditures of 4.4 billion pesos, of which 3.3 billion pesos were for operating expenses (compared to 3 billion in the 1964 budget) and 1.1 billion were for investment (compared to 1.2 billion in 1964). Despite the general euphoria which had recently prevailed, the President stressed the bleak realities of the Colombian fiscal situation, admitting that the budget did not meet the Government's responsibilities for either current operations or investment. He pointed to the fact that by law revenue estimates were based on 1964 collections (and thus on 1963 incomes), while expenditures had to face the price inflation which had occurred and was continuing during 1964. He placed himself implicitly in opposition to recent proposals to delay the implementation of the sales tax and of an income-tax withholding system by indicating that the Government might be forced to use authority under the new Organic Budget Decree to revise revenue estimates and request corresponding new appropriations if so required by "extraordinary economic circumstances." The latter referred to the conflict between revenue inflow, based on 1963 prices, and expenditure outflow, based on 1965 prices. An obvious risk was that investment spending would fall in real terms, even if in current terms the Government was adhering to the level agreed to during the loan negotiations. Also, Colombia's fiscal situation would continue to be serious until new taxes, such as the withholding tax and the sales tax, were implemented.

In accordance with the intentions it had stated during the loan negotiations, the Colombian Government implemented two decrees under the special economic powers law which (1) permitted more effective action against tax delinquents; (2) provided for the implementation of the recently established superintendency of foreign commerce; and (3) contained provisions for the control of private short-term credit by the monetary board. These measures stopped short, however, of including provisions for establishing a unit to administer the withholding system scheduled to go into operation January 1, 1965.

By mid-October, the time of the first scheduled program review under the loan agreement, little additional progress had been made toward further stabilization of the economy. One positive achievement was the control of the price inflation which had plagued the first half of the year, and which was stemmed with the help of favorable crops after the middle of the year. This development was largely offset by the abolition of the coffee retention which previously had financed excess coffee stocks on a noninflationary basis. The retention tax involved the requirement that exporters deliver to the National Coffee Fund, without compensation, a specified percentage of any coffee they exported, either in kind or by payment of an equivalent amount in cash. It was first imposed in 1958 to allow the Coffee Federation to absorb

excess supplies without incurring further losses. However, as a concession to growers, the retention was drastically reduced at the time of the main crop at the end of each year. After the 1962 devaluation, the retention tax was virtually eliminated in February 1963, as a result of pressures from coffee exporters, while the surplus added to stocks remained substantial. Thus, throughout 1963 and 1964, the Federation of Coffee Growers had increasing recourse to the central bank to finance these coffee stocks. The peso became increasingly overvalued and import pressures increased.

Political deterioration continued in September, and the resulting loss of confidence led to increasing pressure on the free-market rate of exchange.

On October 24, with capital flight increasing, the Bank of the Republic terminated its support of the free market, because it was proving too costly. Four days later the U.S. Ambassador and AID Mission Director requested immediate release on an urgent basis of the \$15-million loan which had been signed in March. They underlined that in view of the economic measures taken by the Colombian Government in past days to restrict capital outflows and to achieve a more realistic exchange rate, the availability of the \$15 million credit might be an important factor in bolstering the Government's financial position and in contributing to political stability. Approval from Washington was given immediately, and disbursements began on November 20, 1964. No such rapid action was taken on the still-unreleased first tranche of the July loan, however, because of the unresolved issues of marine insurance discrimination and clarification of the forward procurement portion of the loan.

Colombians were bitter over U.S. insistence on these points.

1. *Effects of terminating support of free exchange rate*

In the fall of 1964, Colombia had three foreign exchange rates:

(a) The coffee rate, which applied to dollars earned by coffee exports and to dollars brought into Colombia for petroleum investments. This was 7.30 pesos per dollar.

(b) The certificate rate, which applied to certified imports, students, and governmental transactions. This was 9.00 pesos per dollar.

(c) The free rate, which applied to noncertified imports and to so-called minor exports—that is, everything except coffee, petroleum, and bananas. Until October 24, the free rate was 9.98 pesos per dollar.

The Government's decision to stop supporting the free rate and to permit it to rise had some of the effects of a devaluation. Minor exports were encouraged, but the dollars thus earned became correspondingly more expensive in peso terms. The effect on the economy as a whole was inflationary, and the Government was forced to resort to deficit spending in order to maintain current expenditures. Further, the increasing spread between the free rate, on the one hand, and the coffee and certificate rates, on the other hand, intensified the distortions which are inherent in a multiple-exchange rate system.

As the free rate rose during the first weeks of November, the Monetary Board took action by permitting the commercial banks to retain for resale up to 40 percent of exchange earned by minor exports and lowered the coffee *reintegro* (that is, the fixed amount of dollars per bag which the exporter had to surrender to the Government). The first

measure increased the supply of exchange and the second reduced the demand for it. The result was to stabilize the free rate between 12.50 and 12.70 during the remainder of November and into December.

This stability was shortlived, however. In early December, the free rate rose above 13 pesos per dollar, while sales in the certificate market exceeded \$17.5 million in 1 day. The gross reserves of the Bank of the Republic fell to about \$70 million, the lowest level in 15 years. To complicate matters, the monetary situation during this period was loose. The Monetary Board had intended to create the opposite effect by raising domestic reserve requirements 3 percentage points in early November, but there was little initial compliance with these new levels by the banking system under the pressure of normal increased Christmas needs. Unusually large Government borrowing from the Bank of the Republic in December also contributed to increasing monetary liquidity. The IMF withheld the final tranche of the 1964 standby. In order to halt a further diminishing of confidence in the exchange system, the Bank of the Republic in December borrowed on short term \$30 million from the U.S. Federal Reserve System. Anticipating similar problems in 1965, the Bank at the same time initiated negotiations with U.S. commercial banks to convert its acceptance lines into 5-year loans.

Before adjourning in mid-December, the Congress approved the Government's 1965 budget proposal. In real terms, this budget was no larger than that of 1964, but it was based on an even greater level of inflationary deficit financing because of the termination in 1964 of the 20-percent surcharge on income taxes. In an atmosphere of Government leadership weakness, and general political opposition to new financial burdens, public protests and strike threats erupted against the sales tax scheduled to go into effect on January 1, 1965. A bill for repeal was introduced in the Congress, but failed for lack of time before adjournment.

Although the Government was publicly insisting that devaluation was unthinkable, it seemed to be virtually inevitable.

2. U.S. response to the economic crisis

The first review of Colombian economic performance under the terms of the July 1964 loan of \$45 million, none of which had yet been disbursed, was held in September and October. It was found that while some additional progress was needed, the Colombians had not only met the specified conditions precedent for release of the first tranche, but that their overall efforts had satisfied the conditions precedent to the second tranche.

On this basis and on the basis of indications that the exchange rate might be reformed in the near future, AID administrators in Washington recommended increased flexibility regarding the marine insurance and forward procurement problems so that release of the entire \$45 million could be negotiated on a basis which would permit immediate relief to the Colombian foreign exchange position.

In December 1964, the Colombian Government agreed to place in operation as soon as possible the system of forward procurement, applied to \$10 million of the first tranche. This system would include provisions to assure that imports financed by AID loans were covered by marine insurance placed with any authorized company in the free world. It was suggested that if the imports were financed on a c.i.f.

basis, the U.S. exporter could contract for the marine insurance in accordance with standard U.S. procedures. Colombia agreed that this procedure would be put into effect under any future loans negotiated between the two governments.

The United States reserved decision on the release of the third tranche of \$10 million until after the January 1965 program review. It was understood that this third tranche would not be subject to the forward procurement system, but would be available for retroactive financing. (This amounted to telling the Colombians that they could run up bills in anticipation of getting the money to pay them.)

AID requested letters of commitment providing for reimbursement financing to be opened on three U.S. banks on December 28, 1964.

3. Further economic deterioration

The new year opened in an atmosphere of general economic uncertainty. Speculative activities increased and forced the free rate even higher (up to 15.30 on February 17). President Valencia continued to insist that devaluation was politically unacceptable and openly took a pledge against it. The scheduled January program review under the July 1964 loan agreement was postponed.

The fiscal situation seemed to ease somewhat toward the end of January when the President avoided a general strike through Government-union negotiations. He established a commission to review the sales tax against which the strike was to be a protest. The commission recommended a 13-point program which included imposition and/or revision of various taxes, budgetary limitations, and issuance of development bonds, among other measures. The program was to be submitted to a special session of Congress to convene in March.

The first quarter also saw a drop in the New York price for coffee and a dock strike in the United States which reduced coffee exports. As a consequence, reserves from export earnings increased less than seasonally despite the favorable response of minor exports to the movement of the free exchange rate. Although the Bank of the Republic repaid its December 1964 loan from the Federal Reserve in March 1965, it was forced to draw heavily on the new credits obtained in January from U.S. commercial banks.

Toward the end of March the country was shocked by a series of kidnappings and increased rural violence which culminated in the murder of former Development Minister Harold Eder. At the least the assault caused people of means to consider abandoning industrial or agricultural expansion plans; at the most it caused them to consider cashing in their holdings and leaving Colombia, on the simple theory of safety first. Renewed pressure developed on the free rate of exchange. The special session of Congress was postponed until the end of April, and there was doubt that significant action would be taken before mid-June, if at all.

Finance Minister Calle resigned on March 28 and the program review was again postponed, but Washington was doubtful that release of the \$10 million tranche could have been justified in any event.

The new Finance Minister, Hernando Durán Dussán, maintained that Colombia was interested in the tranche and a joint working group was established at the end of April to review statistical data. However, little progress along this line was made.

In June 1965, the forward procurement portion (\$10 million) of the first tranche of the July 1964 loan was finally released when agreement was reached with Colombia on the list of commodities eligible for forward procurement financing. At the same time USAID authorized the immediate disbursement of 80 million pesos of counterpart from the loan to be used for private sector credit through the Private Investment Fund. At the time this decision was reached, there was some discussion as to the possibility of releasing the \$10 million on an advance commodity import financing basis; that is, upon decision to release the funds, the checks would be deposited immediately in U.S. banks designated by the Colombian Government, which would then agree to utilize \$10 million of its own free dollars under AID procurement procedures within 270 days. This procedure was discarded, however, because there remained some possibilities of further problems of additionality, and also because no basic decisions could be reached at that time by the Colombian Government on major economic reforms. As a result, the dollars were not actually made available for disbursement until the confusion over the new forward procurement procedure was ironed out in November of 1965.

Meanwhile, the special session of Congress which had convened in April droned through 3 months of inactivity with respect to the fiscal proposals which had been formulated by the Presidential Commission in February. One reason was that the Government did not press the matter vigorously. Finance Minister Durán preferred to concentrate his attention on working out the details of a tax on the sale of certificate foreign exchange. He felt this measure would both generate the revenue necessary for budgetary balance and resolve the difficulties of the country's foreign exchange system.

Another reason lay in a statement attributed to President Valencia in the Colombian press that the Government might be forced to legislate in the economic field under a state-of-siege decree in order to increase Government revenues. These remarks set off rumors that the President was, indeed, planning an eventual devaluation move, and the Senate Economic Committee voted to suspend hearings on the Commission's proposals until the Government defined its position more clearly. However, subsequent actions by the President made it clear that he was still adamantly against any form of devaluation.

Part of Valencia's strategy to assuage public doubts was to send a high-level delegation to Washington to negotiate new loans and seek refinancing of the short-term debt. All the Colombian newspapers agreed that the Government had definitely rejected devaluation via any route, and that the major purpose of the mission in contracting these new loans was to avoid the necessity for this "traumatic step." Valencia designated Finance Minister Durán Dussán to lead the delegation. The plan was halted, however, on June 21, when Durán resigned because of the inaction and unfavorable response of the Congress to his economic policy. While he admitted that his policy had been based on an exchange tax which was "not well received," he stated that the economic situation would worsen unless "adequate" remedies were taken.

The U.S. position remained firm. The U.S. analysis led to the conclusion that the best thing both economically and politically for Colombia would be a comprehensive, positive program which would

make for dynamism in the economy in this preelection year. This program would include tax measures to achieve budget balance, measures to eliminate a Coffee Federation financial problem which had long-term as well as short-term considerations in view of the increased coffee production, and an adjustment which would make the certificate rate credible again so that commercial credit would not be impaired.

In the State Department view, support of an incomplete program would undermine the total AID program in the U.S. Congress and the aid effort under the Alliance for Progress in the rest of Latin America. This was quite apart from the fact that the Department did not believe it in Colombia's best interests to make itself more dependent upon foreign aid in order to achieve only barely passable economic circumstances.

In Bogotá, the Government's ambivalence was accompanied by a steady deterioration of the peso, which fell to almost 19.00 to the dollar in June under the stimulus of press reports of Durán's plan for a tax on the sale of certificate foreign exchange—a measure which would have amounted to devaluation. On June 30, the Government set a fixed rate of 13.50 for the purchase of exchange earned by minor exporters, leaving private capital transactions and most current invisibles at the freely fluctuating rate. On July 8, the Government further decreed that minor exporters had to surrender their exchange within 90 days instead of the previous 180 days, and increased penalties for noncompliance. Notwithstanding, the free market hovered around 20.00. Valencia maintained that he would continue the state of siege indefinitely and that the Government would legislate by decree.

E. VALENCIA'S SECOND STABILIZATION PLAN, 1965-66

The gloomy outlook changed dramatically with the appointment in mid-July 1965 of Dr. Joaquín Vallejo Arbeláez as Minister of Finance.

Vallejo announced a stabilization program built around exchange reform, higher taxes, and a reduction in Government expenditures. Valencia accepted Vallejo's plan immediately and requested Congress at the beginning of its regular session on July 20 to give the Government special economic powers to enact the program. After months of apparent governmental inaction, the public responded favorably to such decisiveness, and the free exchange market strengthened from around 20.00 to 18.00.

Valencia asserted before the Congress that the heart of the exchange crisis was the inadequacy of Colombia's exchange earning capacity, and that continued economic development thus depended on foreign assistance. His program was designed to put Colombia's domestic house in order and thereby justify such assistance.

On July 29, Vallejo submitted to Congress the request for special powers to implement his program of economic stabilization. The more important provisions of the bill would authorize the Government to restructure its operations, reorganize the foreign exchange system, impose new taxes, renegotiate Colombia's foreign debt, and take action in the capital market. On August 14, Vallejo stated the nature of the proposed exchange reforms, involving principally the division of the

official (certificate) market by the establishment of a new, intermediate rate to apply to payments for certain imports and 80 percent of freight payments. The Monetary Board would be authorized to set the rate in that market, to change it periodically taking into account foreign exchange availabilities and to allocate available exchange between the two markets. The Board of Foreign Commerce would be authorized to shift products from the preferential to the intermediate market (initial rates 9.00 and 13.50 respectively).

On September 1, the House Third Committee rejected Valencia's request for extraordinary powers, and the President promptly put the Vallejo plan into effect through state-of-siege decrees. Besides creation of the new intermediate foreign exchange rate outlined above, these decrees raised the exchange rate for coffee from 7.67 to 8.50 pesos, levied income tax surcharges of 20 percent on 1964 retroactively, and 10 percent on 1965 income with a portion to be paid in the form of subscriptions to a new issue of 600 million pesos in national development bonds, and began the gradual elimination of prior import deposits at the intermediate rate by reducing them 5 percent a month for 20 months beginning in October.

The immediate concern of Colombian officials was over the cash needs for the first exchange auction under the new system September 9. The United States was sympathetic, but suggested that non-Government sources of short-term financing could be found and stalled on releasing the last \$10 million tranche of the July 1964 loan. Washington was increasingly of a disposition to deobligate this tranche, but wanted to delay final action in view of the new stabilization efforts in Colombia and especially in view of various intimations during the summer that the tranche might still be made available. The Department of State expected to take account of the deobligation in determining the amount of new assistance, which it hoped could be negotiated by October 1.

By September 8, the United States had already established its negotiating position for assistance to Colombia over a 12-month period from October 1, 1965, to September 30, 1966. The recommendation was for the approval of a program loan level of up to \$65 million to be supplemented by a number of new commitments by the United States and other official financial agencies during the program year. The United States entered the negotiations with substantially the same assessment of Colombia's long-term potential which had prompted large-scale U.S. assistance programs in 1963 and 1964, despite the country's disappointing performance in those years. This performance was attributed to faulty execution, but the United States felt that the Colombian Government's currently proposed program was intended to begin a return to development. The United States placed its faith in Finance Minister Vallejo and the Liberal candidate for the Presidency in the elections of May 1966 as able, development-minded leaders. AID administrators cautioned, however, that "failure to secure external assistance would severely limit the chances of success of the program." U.S. financial assistance along with that of the IMF and the World Bank was seen as crucial to restoring public confidence in the Government, its new Cabinet, and the reform measures. On the other hand, it was anticipated that with the proposed levels of assistance, the Government could carry out its reform program and successfully cope with its most acute economic

difficulties. Finally, the United States felt itself committed to provide "substantial" support for an adequate economic program.

The AID loan was to be part of a joint assistance package including (1) an IMF standby of \$36.5 million for the calendar year 1966, plus a rollover of an additional \$48.5 million in repayments due in 1966, (2) an AID program loan for \$65 million to cover a program year from October 1965 to September 1966; (3) a U.S. Treasury stabilization agreement for \$12.5 million; (4) Eximbank guarantees up to \$15 million; (5) additional amounts in agricultural commodities under Public Law 480; and (6) additional AID project loans.

In a statement of its policy, Colombia emphasized a "major venture" of liberalizing import restrictions and eliminating delays in foreign payments which had complicated the management of the exchange system and clouded overall economic performance. This was to be accomplished by the September reform of the exchange system creating three separate markets, two of them official and the third free. In addition, Colombia said it would strengthen its revenue base, observe maximum economy in its operating expenditures, and avoid inflationary pressures. It forecast a current account budget surplus of at least 1.6 billion pesos in 1966. Quarterly limits were set on the net amount of domestic financing by the Bank of the Republic and on the combined indebtedness owed the Bank by the National Federation of Coffee Growers and the National Coffee Fund. Finally, the Government said it would observe "all due prudence" in setting wage and salary scales in public employment, and progressively to abandon uneconomic pricing policies.

Other elements of its economic policy included export promotion, tax reform, and the development of education and agriculture. As a key provision of exchange rate policy, the intermediate rate was to be maintained at a level to encourage minor exports.

The Government also now went beyond the temporary measures it had initiated in September of an income tax surcharge and the issue of Government bonds to resolve an emergency situation. As permanent measures for balancing the budget, the Government indicated its plans to revise the legislation and administration of the income tax, including the application of new taxes (e.g., on the cattle industry), an increase in the number of taxpayers, and an increase in the rate of existing taxes. Tax administration would be revised to reduce evasion and delay in collections and to establish systems for the payment of the income tax in the same year in which the income was generated.

It was estimated that a growth rate of 5.5 percent would require a level of reimbursable imports of \$40 million a month—that is, imports representing a charge on Colombian foreign exchange as distinguished from those paid for abroad by foreign companies operating in Colombia. Relying just on its own resources, Colombia would be able to approve reimbursable import licenses of only about \$20 to \$25 million per month, hence the need for substantial disbursements from external financing to reach the target level of imports for adequate economic development.

AID incorporated all of these policy elements as prerequisites to the signing of the 1966 \$65 million program loan. The backbone of the Colombian program obviously was the exchange reform already

in effect together with the import liberalization policy which would provide a means of testing the validity of the new 13.50 intermediate rate. The Colombian plans for agriculture and education represented a significant advance over those made in connection with the 1964 program loan. The planned shift of major responsibility for primary education from the Central Government to local governments was a major step in view of the rapidly growing cost of primary education and the severe strain it placed on the national budget. With regard to agriculture, the 1966 formula for the first time targeted such specific areas as pricing, marketing, storage, and distribution for priority attention, as well as early institution of changes in the agrarian reform legislation.

The disbursement of the loan was to take place in four tranches. The first \$20 million would be released as soon as an acceptable legal opinion was rendered that the loan agreement was legally effective. Following the close of each tranche period, there would be a joint review of the steps taken to implement the program and of statistical data directed to certain specific indicators (e.g., current account surplus). The final three tranches of \$15 million each would be released as soon as possible after December 31, 1965, March 31, 1966, and June 30, 1966, assuming satisfactory findings by AID as a result of these reviews.

AID and the Colombian Government were still encountering severe difficulties in trying to move from retroactive to advance financing of imports under program loans. It will be recalled that \$10 million of the first tranche of the July 1964 loan for \$45 million had been placed on a forward procurement basis. This had not been successful because the new system was not understood by the Colombian Foreign Trade Superintendency and by Colombian importers and because the Foreign Trade Superintendency was unable to process import license requests quickly. As a consequence, not a single dollar was disbursed from this tranche until the end of 1965—16 months after the loan was signed.

The same forward procurement system, with simpler technical procedures which hopefully would facilitate administration, was to be applied to the December 1965 loan. AID recognized, however, that there would be a need to provide for immediate disbursements at the time of the implementation of the first measures under the stabilization program in order to give confidence in the new exchange system and thus encourage the reconstitution of normal commercial credit lines and the return of capital from abroad. It was agreed, therefore, that \$10 million of the first tranche of \$20 million under the 1965 loan would be disbursed under the advance commodity financing system—that is, it would be made available immediately and would in effect be replaced within 270 days by \$10 million of Colombia's own resources which would be used in accordance with the forward procurement program.

This system limited AID financing to a positive list of eligible imports in an effort to prevent the shifting of Colombia's other resources to non-U.S. procurement. AID realized, however, that the bulk of identifiable shifting arose from Colombia's efforts to utilize the bilateral balances resulting from sales of coffee in countries (mainly in Eastern Europe and Spain) with which Colombia had entered into bilateral compensation agreements. Thus, in addition to the positive

list under forward procurement, AID officials suggested that in the long run the most effective way to deal with this problem was by seeking to remove the necessity for such agreements by promoting agricultural diversification—a very long run undertaking indeed.

The marine insurance problem was solved by agreement that all orders be placed on a c.i.f. basis. In practice the result was that almost all of the marine insurance was placed in the United States.

The United States authorized the loan agreement on November 9. By the third week in November the Colombian Government had secured the advice and consent of the Congressional committee. Vallejo delayed signing, however, in order to deal with a Government-wide strike for wage increases, and at the same time build up political support for the new taxes he believed necessary to cover the increases.

The loan was signed December 20, 1965—repayable in dollars in 40 years, with a 10-year grace period for repayment of principal, and with interest at 1 percent during the grace period and 2.5 percent thereafter. Checks for \$10 million—the advance commodity financing half of the first tranche—were deposited a week later to the account of the Bank of the Republic in two U.S. banks. The balance of the first tranche was made available for forward procurement at about the same time.

On December 13, AID deobligated the last \$10 million from the July 1964 loan.

1. The first program review

The loan negotiations had contemplated that the first program review would be held immediately after December 31, 1965. However, the loan was not signed until December 20. The review, though ostensibly limited to the October-December 1965 quarter, actually covered Colombian performance over the 5-month period through February 1966 and was carried out under the shadow of congressional elections in March and the presidential election in May.

In short-range terms of economic stabilization, the review was generally hopeful. The wage-price reaction to the 1965 devaluation was far less marked than that which followed the devaluation of 1962. Immediately following the 1965 action, the Government moved to hold down price increases. It issued regulations opening company commissaries to the general public, sent out trains with price-controlled articles of prime necessity for sale, jailed some speculators, and refused some price increases by large companies. Liberalization of imports also contributed to holding prices back, as did the Government's post-devaluation wage policy. In the fall of 1965, most Central Government employees received wage increases averaging 25 percent on the grounds that they had not received pay increases for 2 or 3 years and that their cost of living had risen considerably during that period. By not relating these increases to the devaluation and by minimizing publicity about them, the Government had some success in limiting the spillover effect into the private sector where wage settlements in late 1965 and early 1966 were generally in the range of 15 to 20 percent.

As a consequence, Colombian officials estimated that price increases during 1966 would average no more than 11 percent and perhaps substantially less.

The final quarter of 1965 also brought a considerable improvement in Colombia's balance of payments and foreign exchange position, with

an attendant liberalization of import licensing, virtual elimination of commercial arrears, and assurance of financing for a much higher import level in 1966—in major part, of course, through the new infusion of foreign assistance.

In January 1966, the Government devalued the coffee exchange rate from 8.50 to 8.94 to compensate the Coffee Federation for a reduction in the retention and an increase in the domestic price. Most of the revenue thus lost was to be made up by an immediate shift of some \$35 million of additional import payments annually from the preferential to the intermediate import rate. This measure was taken because the coffee exchange rate differential was at that time the largest it had ever been, and the coffee sector had not benefited in any way from the exchange reform of September 1965. At the same time the Finance Minister warned the public that the intermediate rate was flexible, and gave Embassy/AID assurances that the Government was periodically reviewing this rate to determine whether it provided sufficient incentive to encourage the growth of minor exports.

On the import side of the ledger, the Government succeeded in reaching the goal of placing 75 percent of all registrations in the intermediate market during the last quarter of 1965. The Government also moved rapidly ahead in its import liberalization program, meeting ahead of schedule its program targets in this field. More than 25 percent of all imports were freed from licensing restrictions by January 1, 1966.

The Bank of the Republic remained well below credit ceilings during the last quarter of 1965 because of an unexpected buildup in net reserves. At the same time, it was possible to foresee a budgetary crisis. The stabilization program of September 1965 had achieved a temporary fiscal balance through a series of one-time measures, such as temporary income tax surcharges and forced sale of Government bonds. It was estimated that these measures, together with the increased customs receipts resulting from devaluation and import liberalization, would generate enough revenue to permit an increase in the Government's investment budget to more than 25 percent above 1965 levels without recourse to inflationary deficit financing. But in early 1966, the Government was faced with new pressures for higher expenditures.

Subsidies which cost 5 million pesos a month in cash plus 3 million pesos in Government bonds had to be provided to urban transit companies in order to avoid fare increases during the electoral period. Primary school teachers staged a nationwide strike during February and March 1966, in an effort to obtain salary increases comparable to those granted secondary school teachers in October 1965. The teachers also demanded an increase in the national budget for education over and above that provided for in the initial 1966 budget, which increased the Education Ministry's share of the total from 14.4 to 14.9 percent. In the absence of congressional approval of increased taxes, the Government could not commit more than 25 million pesos to meet the teachers' demands, and the strike continued through March.

The Government had submitted to Congress a tax program which included such reforms as income tax withholding—something which had been announced in 1964 as intended to be instituted in January 1965 but which was still pending in 1966. The program also included

the decentralization of financing for primary education and gave departments (states) the right to levy real estate taxes for this purpose. The Government felt that implementation of this property tax plan was crucial to the long-term solution of the problem of financing primary education, but with the approach of the March elections Congress deferred action and the Government was unwilling to use its state-of-siege powers to act by decree. It was felt that the imposition of new taxes would give ex-dictator Rojas Pinilla a political advantage in his attempted comeback. After the elections, it was felt that such sweeping measures should be left for the incoming administration.

Another gap in Colombian accomplishments during the first program loan review period was in the field of long-term development planning. A low priority was given to planning during most of the Valencia administration which concentrated its efforts largely on the preparation of projects to be submitted to foreign lending agencies under the aegis of the IBRD Consultative Group. Inadequacies in the planning effort were apparent, not only in the Department of Planning, but also in the planning offices of the Ministries, which were badly organized and inadequately financed and staffed. Coordination between the Department of Planning and the planning offices in the Ministries also was lacking. A plan to use state-of-siege powers to reorganize and increase the planning office staff was abandoned because of the opposition of several Cabinet members to the use of such powers for the administrative reform of a Government department.

On balance, AID found that Colombian performance in foreign exchange, foreign trade and monetary fields was generally good to excellent. Progress toward fiscal objectives was moderate. Developments in the prices of food were least satisfactory (due to a drought) and prices in general seemed to offer the most troublesome prospects in coming months.

USAID/Embassy thus recommended that Washington approve the second tranche of \$15 million under the forward procurement system. In view of the improved Colombian financial situation, no further releases under the system of advance commodity financing were indicated. The recommendation was approved and the letters of commitment issued in late March 1966. It was apparent, however, that the outgoing Valencia administration was reluctant to undertake any further comprehensive reforms because of the possible political consequences in the forthcoming elections. In the circumstances, one could only conclude that these same political consequences were a factor in U.S. action releasing the second tranche.

2. The second program review

The second program review was held May 11-16, 1966, in an atmosphere of optimism. The National Front had won the congressional elections in March, though with less than the two-thirds majority necessary to give it control. It emerged with majorities of 67 to 39 in the Senate and 107 to 83 in the House. The size of the vote increased from about one-third of the electorate in 1964 to about 40 percent, but the most significant gains were once more made by the followers of Rojas Pinilla who elected 17 members of the Senate and 36 members of the House. On May 1, Liberal Carlos Lleras Restrepo, a distant cousin of former President Alberto Lleras Camargo, was elected President by a vote of 1.4 million to 600,000 over his little-known opponent who had

Rojas' backing. Lleras Restrepo, a distinguished lawyer-economist, was widely hailed as the man who could get Colombia moving again, and his inauguration in August was eagerly awaited as an event which would inject new dynamism into Colombian life. The Valencia government was justifiably pleased with itself for having survived a difficult 4 years. The difficulties of the transition would come later, as would the effects of the inevitable interregnum between election and inauguration.

Meanwhile, the general euphoria was heightened by an upsurge of economic activity as the Valencia-Vallejo stabilization program began to produce results. Retail sales and industrial output increased. So did imports, as the Government pressed its liberalization policy. By April, about 50 percent of total imports had been freed from prior licensing, and about 80 percent had been shifted from the preferential to the intermediate rate of exchange.

A part of the increase in imports was due to the rebuilding of inventories and the elimination of industrial bottlenecks. But a part was based on doubt of the country's capacity to maintain trade liberalization at the prevailing preferential and intermediate exchange rates. The Government hoped to protect these rates by a tight money policy which would presumably make it increasingly difficult for importers to obtain financing. Technical problems of administering bank reserve requirements and rediscounting procedures, however, as well as a statistical lag in reporting bank credit, tended to vitiate monetary controls and meant that the Bank of the Republic's credit was in fact greater than it appeared.

Some doubts also arose that the 13.50 rate still offered a sufficient incentive to minor exports, but these doubts were not pressed in the face of Colombian opposition to devaluation.

With respect to fiscal policy, the Government met the targets stipulated in its letter of intent for current account surplus and reductions in operating expenditures, but its tax proposals were still stalled in Congress. High current tax collections from the income tax surcharges levied in the fall of 1965 removed some of the pressure for immediate action on new revenues. Meanwhile, problems of transition from the Valencia to the Lleras Restrepo administrations slowed down preparation of the supplementary budget which was needed to insure maintenance of investment levels in the latter part of 1966 and 1967 and also preparation of plans for installation of the much-postponed income tax withholding system, now contemplated for January, 1967.

Upward pressures were felt on prices, but the Government still thought the 1966 increase in the cost of living would be in the range of 10 percent.

The area of lowest Government activity was again that of planning. Attempts to achieve significant structural changes in the Planning Office were not successful, and further efforts awaited the investiture of the new Government.

Agricultural planning followed the same general pattern. A fund for agricultural finance was created in the Bank of the Republic to provide funds to institutions with programs of supervised or directed agricultural credit, and the Ministry of Agriculture made some progress in additional financing and staffing of its own planning organization. But management was a problem, and there was almost no coordination with the specialized agricultural agencies such as the

Land Reform Institute and the Agrarian Bank. Revision of the agrarian reform legislation was clearly to be left to the incoming Government.

On balance, the U.S. representatives concluded that despite the various shortcomings in Colombian performance, the new, liberalized economic program which was the basis for the loan had begun to show results and that the "positive forces" which it had set in motion had continued to gain momentum. The forthcoming inauguration of Carlos Lleras Restrepo gave additional grounds for optimism. The AID Mission thus recommended, and Washington concurred, that the third tranche (\$15 million) of the loan be released under the forward procurement system. By mid-June the letters of credit had been issued to the account of the Bank of the Republic in three U.S. banking institutions.

During the review period the World Bank also indicated its faith in the progressive nature of the incoming administration and the leadership of Carlos Lleras. Shortly after the presidential elections, it announced the approval of two major development loans to Colombia—\$25 million for five *financieras* (private development finance companies), and \$16.7 million to be administered by the Agrarian Bank (*Caja de Crédito Agrario, Industrial y Minero*) for the purpose of livestock development.

3. *The third program review*

The third program review under the December 1965 loan was held from July 25 to August 2, 1966—the week before Lleras Restrepo took office. It had been agreed that officials of the incoming administration would participate, but many of them were absent from Bogotá and the liaison was limited to the presence at several meetings of the incoming Finance Minister and head of the Planning Office.

The situation had not changed much from the time of the second review in May. The Government had continued its import liberalization policy, going even beyond its stated intention, so that by July 23, 88 percent of all imports were at the intermediate rate and 66 percent on the free list (i.e., free from all quantitative licensing restrictions, but subject to the 13.50 intermediate exchange rate). In the first 6 months of 1966, net international reserves had improved by \$62.9 million, compared to the target of \$15 million. Net Bank of the Republic credit to the National Government declined 269 million pesos during the April-June quarter, leaving the Bank with a margin of 330 million pesos under its ceiling on June 30. At the same time, the Monetary Board had revised rediscount procedures to make credit restrictions more effective and to correct some of the technical difficulties which had been noted in this respect during the May review. Prices remained reasonably stable, the threat of a general strike was avoided, and in June Valencia—though still refusing to promulgate his major tax proposals by decree—did use his state-of-siege powers to enact a series of taxes barely sufficient to avoid a budget deficit. These included a stamp tax on foreign travel, increased income taxes for foreign residents, an automobile tax, taxes on cattle operations, increased sales tax rates, and a public works assessment tax.

But while the sky overhead remained clear, the clouds on the horizon were darkening. There was evidence that the 13.50 rate was overvalued. It had not stimulated minor exports which, on the contrary, had fallen

below projections (though this was at least partly attributable to a decline in international prices for such commodities as sugar, cotton, and tobacco). The improvement in the Bank of the Republic's reserve position was seen as stemming from transitory developments. Receipts from coffee exports during the first half of 1966 had exceeded expectations, and the Bank received an additional windfall in July from the fact that the sale of exchange for import payments was less than expected. One reason for this was the improvement in suppliers' credit terms. A more significant cause was the time lapse between registrations and actual payments. Whereas \$94 million was spent for import payments during the April-June quarter, disbursements of \$120 million were projected for the July-September quarter as a consequence of the very heavy import registrations of March and April.

The Bank of the Republic's margin of 330 million pesos under the ceiling on net credit to the Government was the result of the one-time effects of the 15-percent surcharge tax collection and of delays in implementing the Government's investment program. Further, a larger-than-estimated coffee crop, combined with falling international prices and domestic monetary tightness, forced the Coffee Federation to borrow 42 million pesos more than its subceiling from the Bank of the Republic.

The taxes decreed by Valencia in June, while something of an accomplishment in themselves, served only to prevent a decline in the real levels of Government investment. No projections of revenue needs and sources was prepared in connection with the 1966-67 supplemental budget, and neither had the Lleras Restrepo team formulated its own fiscal program.

Finally, price stability had been achieved by a larger volume of imports and by strict price controls on essential goods. It was doubtful if either the level of imports or the price controls could be sustained, and indeed a number of requests for price increases were left for the next Government to resolve.

Thus, although the Government had managed to meet all the quantitative targets under its commitments, forces were at work to undermine the temporary equilibrium created by the stabilization program. Colombian officials were reluctant to recognize these forces. They strongly resisted suggestions that the 13.50 intermediate exchange rate was overvalued. They pointed out that import pressure had diminished somewhat, that demand for exchange had not risen, that the free rate had strengthened, and that capital imports had been resumed through the free market. From this, they concluded that the earlier run on imports had been against a feared reversal of trade liberalization and not against the rate structure and that public confidence in the exchange situation had been fully restored. They did admit that if the international coffee price were to drop below the then current level of 48 cents, it would be difficult to maintain the 9 peso preferential rate.

On August 11—4 days after Lleras took office—USAID recommended release of the fourth and last tranche of \$15 million of the December 1965 loan. Washington concurred, and the letters of commitment were issued on three U.S. banks during the latter part of August. (It should be noted that although the entire \$65 million of the 1965 loan was committed by the end of August 1966, only about \$45 million was actually used by December 31. The Colombian Gov-

ernment did not make complete use of the loan until the end of 1967.)

The dominant factor in Colombia in the summer of 1966 was the understandable and strong inclination on the part of the Valencia administration to leave to its successor problems which did not require immediate attention. As one of Valencia's Ministers put it: "The pilot is coming in for landing and does not want to encounter storms."

The pilot landed safely. The storms were encountered by his successor shortly after takeoff.

F. BEGINNING OF THE LLERAS RESTREPO ADMINISTRATION

The two positive legacies which Valencia left to Carlos Lleras were progress in subduing rural violence and the at least temporarily refurbished economic situation achieved under the Vallejo stabilization plan. According to *The Economist*, the political stage was set for President Lleras Restrepo. All he had to fight was apathy, obscurantism, vested interests, and the near-impossibility of getting a two-thirds majority in Congress for any measure that really mattered. He also, it might be added, had to face the consequences of the fact that a good deal of the success of the Vallejo plan had been attributable to foreign loans, which had now been fully committed, and to postponing decisions.

Lleras attacked these problems energetically. He presented a comprehensive constitutional reform program to Congress which would abolish the two-thirds requirement and make it possible for Congress to act by a simple majority. The program also included provisions designed to force Congress to make faster decisions, especially on socio-economic bills, and to strengthen executive powers in financial, social, and economic areas.

This was, in effect, an unusual effort by a President to persuade a legislative body to assume more, rather than less, responsibility; more, rather than less, power in the Government. The Colombian Constitution gave the President extraordinary powers to legislate by decree during a state of siege, which the President himself could declare—presumably on occasions of a breakdown in public order. Public order had been steadily improving in Colombia for 10 years, but for most of this time—indeed, for most of 20 years—the country had been under a state of siege, simply because all the Presidents concerned had found that they could not accomplish anything without the use of state-of-siege powers. Unless decrees issued under a state of siege were approved by Congress, they expired when the state of siege was lifted. Thus, there was a further incentive to Presidents not to lift states of siege. As Lleras was to point out time and again over the coming months, this was an abnormal situation and derogatory of representative self-government.

It did not, however, prove easy to persuade Congress that the situation should be otherwise. By using the two-thirds rule to stall action and forcing the President to legislate by decree, Congress forced the President to assume the full political responsibility for unpopular actions. Thus, members of Congress had the best of all worlds—they knew that in an emergency, the President would do what had to be done, and they also knew that they would then be free to criticize him for it.

Lleras Restrepo did not quite dare to abandon his state-of-siege powers, but—as a tactic to force action on congressional reform—he did frequently refuse to use them, or delay using them until the eleventh hour.

On the economic front, Lleras cast aside the cautious attitude of the Valencia administration with respect to further import liberalization. Effective August 21, 1966, he transferred all imports still under the preferential rate to the 13.50 intermediate rate and at the same time transferred additional items to the free list, so that the free list comprised 80 percent of all imports. The effect of Lleras' action on the average import rate represented a devaluation of about 10 percent. At the same time, however, he increased the buying rate for foreign exchange receipts from coffee exports from 8.94 pesos per dollar to 9.35. These actions were taken as a result of a drop in the world price of Colombian coffee from 49.7 cents in February to 47 cents in August, with prospects of a further decline during the balance of 1966. This decline, together with an unchanged minimum price to growers, caused considerable financial difficulties for the National Coffee Federation and resulted in excessive borrowing by the Federation from the Bank of the Republic.

Import registrations spurted again as a consequence of increased liberalization. Exports did not keep pace. The price of coffee declined further to 44.88 cents on September 29. (Each decline of a penny in the price of coffee is equivalent on an annual basis to a decline of \$8 million in Colombia's foreign exchange earnings.) Minor exports were estimated at \$100 million for 1966—no more than the 1965 level and far below the 30-percent increase which had been forecast by the Government. Net international reserves, after an improvement in the second quarter, declined in the third quarter. Further, the Bank of the Republic's assets were increasingly composed of inconvertible balances arising from bilateral agreements (mainly with countries of Eastern Europe) for the sale of coffee. By September 30, these balances amounted to one-third of Colombia's gross reserves (\$43 million out of \$126 million). Finally, Congress refused to approve an increase in the gasoline tax to provide additional revenue for Government programs (specifically, roadbuilding and a campaign against unemployment), and in an effort to force Congress to act, Lleras hesitated to use his state-of-siege powers.

1. Monetary Crisis

The liquidity crisis, which had been forecast in July, now arrived. Even before Lleras took office, he had expressed his concern with avoiding a gap in AID support following the full commitment of funds under that loan, which was anticipated for mid-October. He feared that any interruption in foreign assistance would jeopardize import liberalization and incite a run on imports (though this did not deter him from pursuing import liberalization during his first weeks in office). The Monetary Board staff was likewise concerned, and it was suggested that the Colombian Government be allowed to continue licensing imports for AID financing between October 15 and January 1, to be paid for by the new loan. A precedent for this procedure had been set in a 1966 program loan to Brazil, and the proposal did not draw any great objection from AID officials either in Bogotá or Washington.

As the monetary crisis developed in September and October, the Colombians requested specifically that \$17 million be authorized for

immediate advanced commodity financing—in effect, an advance against the next program loan which was still in the early stages of negotiation. AID now replied, however, that it could not use 40-year development funds to solve an immediate liquidity crisis with which the IMF and commercial banks were better equipped to deal.

Apparently neither the IMF nor commercial banks offered much hope, however. The Bank of the Republic was already close to the limits of its acceptance lines and rollover bank obligations. The IMF delayed further releases under the 1966 standby agreement, and negotiations for a new standby were stalled by a dispute between the IMF and President Lleras, who adamantly refused to accede to IMF demands that the 13.50 rate be devalued immediately to stimulate minor exports and relieve the strain on the balance of payments.

Thus, on November 29, 1966, with foreign exchange reserves in the Bank of the Republic to cover only about 1 month's imports, no cooperation from Congress on special powers legislation, and no hope of immediate external financial assistance, President Lleras issued an emergency decree establishing full Government control of foreign exchange transactions and abandoning the policy of progressive trade liberalization. The following day, he blasted the IMF, and by implication the United States, in a national radio address:

* * * I personally prefer a policy of liberalization of imports, because there is more open competition and because I believe that this free competition is beneficial to the consumer * * * I know that the United States and the IMF are very concerned over maintaining a free import policy. But I want to advise * * * that maintaining a policy of that nature needed the confidence of the people of the country along with opportune financing. I wishfully hoped we would receive this opportune financing in the latter part of this year with a loan from the "Advanced Commodity Financing" program. * * * We were not able to get these program loans for the latter part of this year in the manner in which we requested them. The Alliance for Progress officials alleged that there were legal problems, that there were political problems, that the United States had difficulties in the balance of payments.

Then * * * it became clear that the U.S. AID program loan hinged on our being in full agreement with the IMF, on its granting the new standby loan that had been asked, and that we had to reach agreement with the IMF on the terms of the loan * * * we differed with the IMF on how technically to face the structural imbalance of our balance of payments. And we differed on the degree of autonomy that should be preserved by countries, even though they need loans, in handling their economic policies.

With these four policy guidelines: a balanced budget policy that will prevent inflation stemming from fiscal causes and at the same time permit a greater development of public investment; a coffee policy that will lead to the actual implementation of market control and of the International Coffee Agreement without resorting to inflationary resources; a credit policy that will fully orient credit toward an increase of production and will divert it from merely speculative uses; and a moderate revenue policy for both salaries and profits that will prevent an abrupt increase in certain lines of income from giving rise to a demand that cannot be supplied and prevent price increases that would nullify the advantages that might otherwise be obtained by workers—all this supplemented by a planned production policy to increase production for both the domestic and the foreign markets. With this plan, we thought that we might work in perfect harmony with the IMF.

I think the IMF is too much inclined to believe that such a profoundly structural lack of equilibrium in the balance of payments should be corrected by abrupt variations in the rate of exchange, including basic devaluation. * * * It is the Colombian Government's belief that one cannot automatically proceed to decree a devaluation. This difference of opinion had become an obstacle to our arriving at a standby with the IMF, and we must explain this to the country.

During the period of crisis which led to the President's action of November 29 and his speech of November 30, the U.S. position had been somewhat ambivalent. The advent of Lleras Restrepo had been viewed with great optimism in Washington. Now at last, it was thought, after 4 years of the sometimes shaky leadership of Valencia, an opportunity would be presented to build upon the accomplishments of the Vallejo stabilization plan, to bring about some fundamental reforms, and to set Colombia on the road to self-sustaining growth. As early as the fall of 1965, AID officials were talking among themselves of a program loan in the range of \$80 to \$100 million for the U.S. fiscal year 1967, which would roughly correspond to Lleras' first year in office. A year later, as the crisis descended on Colombia, they were still insisting that "If ever there were a time for a big push to help Colombia try to achieve the goals of the Alliance for Progress, that time is now, at the outset of this new administration."

The figure of \$100 million was settled on at that time (October 1966) as the absolute minimum level of assistance from AID necessary for the contemplated growth level of 6 percent, which would require imports of \$50 million a month. The \$100 million loan figure was based on what AID regarded as "some extremely optimistic assumptions" about the level of financing available from other sources. AID at that time was particularly concerned about the diminishing participation of the Export-Import Bank, which was scheduled to have only \$35 million in loans outstanding to Colombia by the end of 1966.

AID wanted to use a new program loan to persuade the Colombian Government to develop a fiscal system which would provide adequate revenues for expanded programs without continuous recourse to emergency fiscal measures or inflationary borrowing. AID relied on Lleras' dynamism to put through the necessary measures with or without congressional approval. But Lleras, as we have seen, was deliberately refraining from action on his own as an unsuccessful tactic to force Congress to act. Thus, no progress was made prior to the development of the crisis.

President Lleras' decisive action tended to clear the air and alleviate the climate of crisis. As limited trading in foreign exchange was resumed on December 1, the free rate was abolished and a new "capital market" rate was created for most invisible and capital movements with a buying rate of 16.25 and a selling rate of 16.30. The Government authorized only \$12.5 million of import registrations in December, compared to \$41 million in November and \$51 million in October. The exchange rate applied to the purchase of coffee export receipts was increased from 9.35 to 9.94 pesos per dollar, and the domestic price was lowered from 762.50 to 737.50 pesos per *carga* of 125 kilograms. Finally, after the House of Representatives failed to act on a bill to give the President special economic powers, Lleras decided to use his state-of-siege powers and decreed a gasoline tax to increase revenues by approximately 650 million pesos. He also promulgated the often-postponed income tax withholding system.

On December 15, Ambassador Carlson publicly assured the President that the United States would extend Colombia "routine credits" for \$100 million based on Colombian balance-of-payments performance and not conditioned on devaluation. But it took 5 months more to negotiate the loan agreement.

2. *Exchange reform*

When Congress returned from its Christmas recess, Lleras prodded it further for special powers authorizing the President to regulate exchange and foreign commerce and to take measures on loans for economic development. He finally got what he wanted on February 23, 1967. A month later, he promulgated a major revision of the exchange system.

The Board of Foreign Trade and the Monetary Board were authorized to determine the principal exchange policies, which would be executed by the Superintendencies of Foreign Trade and of Banks and by a newly organized Exchange Office attached to the Bank of the Republic.

The chart below shows the new structure of the exchange system. The most important elements of this new structure were that (1) there was no provision for a free market; (2) the certificate rate, and therefore the coffee rate which was tied to it, were to fluctuate; and (3) the capital rate applied to a wider range of transactions than formerly.

The new structure of exchange rates¹ (values as of Apr. 7, 1967)

<i>Buying</i>	<i>Selling</i>
7.67 (fixed rate). Exchange sales by petroleum companies for exploitation, and for exploration other than by separate contractors. (Unchanged by new exchange system.)	9.00 (fixed rate). Purchases of crude oil from foreign-owned petroleum companies.

CERTIFICATE MARKET

10.03 (certificate market rate minus 26 percent). Coffee exports.	
13.55 (certificate market rate). Exports of petroleum products and cattle hides. (Receipts from exports of crude petroleum need not be surrendered.) Program loans, project loans, and loans accruing to the Private Investment Fund.	13.58 (certificate market rate). Imports except those to free ports. Expenses of approved students. Official services. External public debt. Private debt registered in the former intermediate market.
15.58 (certificate market rate plus 15 percent tax credit certificates). Other exports except those from free ports.	

CAPITAL MARKET

16.25 (fixed rate). Other exports. Gold purchases. Invisibles. Other foreign loans. Exchange sales by petroleum companies for exploration under contract. Capital.	16.30 (fixed rate). Other imports. Import freight. Other invisibles. Other foreign debt. Profit remittances and capital repatriation.
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¹ Source: International Monetary Fund.

Exporters of all commodities other than coffee, cattle hides, and petroleum and its products were to receive a subsidy amounting to 15 percent of their export receipts to be paid by the Bank of the Republic.

The Bank of the Republic continued to be the sole buyer and seller of foreign exchange. Although the Board of Foreign Trade had the authority to designate a free import list, the new system initially continued the requirement of prior licenses for all imports according to general criteria based on consideration of development needs, adequacy of domestic supply, and possible savings of foreign exchange.

Finally, there was established an Export Promotion Fund to be administered by the Bank of the Republic. It was empowered to enter into guarantee and credit operations, to buy and export certain products, to conclude trade agreements, to initiate a system of export insurance, to promote studies, and to give technical assistance that might lead to the development of exports. The Government set a target of \$130 million in minor exports by the end of 1967 and \$300 million by 1970.

President Lleras thought that in time—he would not say soon—the certificate and capital markets would be unified. He stressed, however, that there would not be any abrupt change in the certificate rate, because the Government wished to control factors that produced brusque shakeups and could produce a grave psychological impact on internal prices and wages. In a radio broadcast, he commented that the tendency of the United States and the international organizations had been to support a movement toward exchange and trade freedom, but he insisted that such freedom could only be achieved if there were means of sustaining it. He pointed out that trade liberalization (which he had formerly espoused) did not work in Colombia because an excessive import pressure arose from the fear that liberalization was not going to last.

Another major factor had been the decline in coffee prices. This was partially met when the IMF on March 17, 1967, agreed to a drawing by Colombia of the equivalent of \$18.9 million under the Fund's policy of providing compensatory financial assistance to countries experiencing a temporary shortfall in total export earnings attributable to circumstances beyond their control.

The exchange reform (Decree Law 444) of March 1967 became the cornerstone of new Colombian balance-of-payments policies which formed the basis for renewed international agency large-scale lending to Colombia in 1967. The new Lleras program contained comprehensive goals, not only with respect to balance of payments and monetary matters, but also with respect to agriculture, industry, and education.

The Colombian Government attached "the highest priority and utmost urgency" to the need to strengthen its international reserves. It set comprehensive limits on net domestic credit of the Bank of the Republic, aimed for a larger current budget surplus (which, together with increased foreign assistance, was expected to permit a higher level of public investment), and undertook to seek equilibrium in coffee operations and to follow rational price and wage policies.

The Government hoped to make more long-term domestic credit available from institutional investors, such as the Colombian Social Security Institute, with the help of a new Government bond of constant purchasing power, thus reducing credit demands on commercial banks and progressively freeing their funds for short-term financing. Government authorities were confident that the fiscal program and prospects for 1967 would not require significant central bank credit to the National Government. Besides the new taxes decreed at the end of 1966, efforts were underway to improve tax assessment and collection.

With respect to agriculture, the Government outlined an immediate action program to increase the production of eight basic food staples—meat, milk, corn, rice, potatoes, yucca, plantains, and wheat. This plan

included increased credit, adequate support prices, improved transportation, and better marketing and storage facilities. The bases were being laid for a longer range agricultural plan to be completed by the middle of 1967 by a joint committee from the Ministry of Agriculture and the National Planning Department. A bill was sent to Congress to strengthen the Agrarian Reform Institute (INCORA) by giving it additional funds and broadening its powers. Plans were made to draw up a pilot program for agricultural diversification and the development of agricultural industries in coffee-growing areas, and studies were underway to reorganize the Ministry of Agriculture and the specialized agricultural development agencies. Proposed Government investment in agriculture for 1967 was 70 percent above that of the previous year.

The Institute for Industrial Development (IFI) was reorganized and given new funds resulting from the Social Security Institute's investment in Government bonds.

Expansion and improvement of education became a top Government priority. Primary financial responsibility for elementary education was to be left to the departments (states) and local units of government, and the Government sponsored legislation to increase the land tax in order to provide localities with additional revenues. Basic reforms were planned in the structure, school cycle, and curricula of secondary and vocational education, and the cooperation of the IBRD was sought for plans to establish a number of pilot comprehensive high schools at various points throughout the country.

On April 15, 1967, the IMF announced its authorization of a 1-year \$60 million standby agreement.

3. Negotiation of \$100 million AID loan

Meanwhile, negotiations between Colombia and AID were also going forward. It was apparent that even with an AID loan of \$100 million, the Colombian balance-of-payments position would not be satisfactory. AID estimated that the total balance-of-payments gap before new financing during calendar 1967 would be \$189 million. World prices of Colombia's principal exports were declining. It was estimated that Colombia could support imports during 1967 only about \$50 million above the level of 1965 when shortages of raw materials and intermediate goods resulted in frequent temporary closing of industrial plants and increases in unemployment. In sum, it seemed likely that Colombia's growth rate in 1967 would be less than the 5.3 percent achieved in 1966.

Thus, Colombia's economic prospects were deteriorating at the same time that its economic policies were moving to come to grips with the fundamental problems. This raised serious questions as to the political consequences of economic failure which might well strengthen the extremist Rojistas and the leftwing radicals in the 1968 elections.

U.S. agencies were still preoccupied with insuring additionality of U.S. exports—that is, preventing a shift of Colombia's non-AID resources to European and other suppliers. The problem was becoming somewhat more acute because of Colombia's growing credit balances with those countries (mainly Eastern Europe and Spain) with which it had bilateral compensation agreements. The positive list of eligible commodities under the new program loan was revised to eliminate those items in which the traditional U.S. share of the Colombian mar-

ket was more than 50 percent. This was on the grounds that these items would be imported from the United States under normal business conditions. The new list was designed to expand exports of those U.S. products which had not hitherto had an appreciable share of the Colombian market.

The \$100 million program loan to cover the 15-month period of January 1, 1967, to March 31, 1968, was authorized by the United States May 2, 1967. It was for 40 years at 2½ percent with a 10-year grace period on repayment of principal during which the interest would be 1 percent. The loan was to be released in four tranches—\$40 million immediately and subsequent tranches following quarterly reviews covering the periods ending June 30, September 30, and December 31. Of the first tranche, \$10 million was available under the direct reimbursement system in accordance with prior understandings that Colombia could license imports under the loan before the loan agreement was signed. The balance of \$30 million was to be made available under the standard procedure of letters of commitment to be issued by AID to U.S. commercial banks, with \$10 million specifically assigned for the import of capital goods through the Institute of Industrial Development.

Signature did not follow immediately, however. Domestic coffee prices had recently been increased, and the question was raised as to whether this provided an incentive for increased production. There had been little movement in the exchange rate, thus providing no new incentive for minor exports. Finally, the United States was bothered by the disincentives to foreign investment created by strict capital controls, especially the rigid 7.67 rate on petroleum exploitation.

With respect to coffee prices, Colombian officials pointed to increasing social tensions and guerrilla activity in the coffee-growing areas and to political pressures from the Coffee Federation. With respect to exchange policies, they agreed amiably but maintained the time was not ripe for action.

The two countries agreed to consult further on these matters, and the loan was signed May 27, 1967.

G. IMPLEMENTATION OF THE \$100 MILLION LOAN

1. *First quarterly review*

The first quarterly review sessions under the May 1967 loan for \$100 million were held from July 17 through September 1. The review concentrated on examination of fiscal, exchange, export, import, monetary, wage and price policies, as well as on the preliminary agriculture plan and agricultural price policies, coffee diversification, and additivity for U.S. exports. Such questions as import liberalization, industrial policy, long-term fiscal policy, and education were left for subsequent reviews.

In those areas where quantifiable targets had been set, Colombia did particularly well during the quarter, i.e., foreign reserves, reimbursable imports, net domestic credit, and current budgetary surpluses. Bank of the Republic performance against its target for no change in net reserves was far better than expected. The unadjusted improvement was \$47 million, and the total improvement was \$72 million (ad-

justed for a shortfall in external credit during the quarter). Commercial arrears, which had risen to a peak of more than \$69 million during the first quarter, were reduced to only \$10 million by June 30 and were entirely liquidated the following month.

Net domestic credit of the Bank of the Republic was 1.4 billion pesos below the ceiling on June 30. Price increases were moderate—about 5 percent for the first 8 months of 1967, and well within the Government's goal of no more than 10 percent for the year. Wage increases under collective bargaining agreements had been generally in the range of 5 to 10 percent, compared to 15 to 25 percent during 1966. The Government even went so far as to increase urban bus fares in order to reduce its subsidy. The Government exceeded its current account surplus target of 1,150 million pesos for the 6 months ending June 30 by more than 200 million pesos. At the same time, however, there was evidence of a recession in economic activity and an increase in unemployment.

The certificate rate of exchange had been permitted to move toward the capital market rate, rising from 13.50 in April to 14.50 by the end of June. This represented a depreciation of 7.5 percent. By the end of August the rate had reached 15.01, or a total depreciation for the 5-month period of more than 11 percent. This inspired a moderately good increase in minor exports, which through August 1967 were 16 percent higher than over the same period of 1966. However, the goal of \$130 million for minor exports in 1967 was revised downward to \$120 million. One of the problems was slowness in implementing the new Export Promotion Fund.

There had also been slippages in completing the study of overall industrial policy and the long-term agricultural plan. The date for completion of the latter was pushed back from June 30 to November.

With respect to coffee, the Government had devised a plan for the diversification of marginal coffee areas in the Departments of Caldas, Quindío, and Risaralda, with possible later extension of the plan to other marginal coffee areas.

However, there was concern that the Government was providing an additional incentive to coffee production through tying changes in the support price of coffee to the certificate exchange rate instead of to the world price, as it had indicated it would do. Colombians pointed out that coffee growers were still receiving less in real terms than in 1962 and said that no further increases were contemplated in the domestic support price. A positive result was the improvement in the financial position of the Coffee Federation, whose peso debt to the Bank of the Republic was reduced by 156 million pesos during the quarter.

Perhaps the most troublesome problems during the review sessions were those related to additionality of U.S. exports and to Colombia's bilateral compensation agreements. During the first half of 1967, the U.S. share of the Colombian commercial import market fell somewhat short of the historic share of 39 percent. The decline was particularly marked in June. In August, the AID Mission in Bogotá took action on its own initiative to expand the positive list to include items which it felt had lost ground in the Colombian market. This was at least partly in response to pressure from U.S. exporters, as well as Colombian importers, to place certain products on the list. Once the Mission had

agreed with the Colombian Government to expand the list, the action could not be reversed, but it drew a stern warning from AID in Washington that it was not to be repeated. Washington felt that the larger the list, the more there tended to be an erosion of additionality.

At the same time, the size of Colombia's inconvertible bilateral compensation balances (\$37.3 million at the end of June, down only \$0.8 million in the quarter) exerted pressure on the Government to direct trade toward the countries with which it held these balances.

In the end, the IMF released the \$15 million second tranche of the 1967 standby agreement on August 30, and the AID Mission recommended release of the \$20 million second tranche of the program loan on September 11. Three days later, Washington concurred, and the implementation letter committing the second tranche was delivered to the Minister of Finance September 21.

2. Second quarterly review

The second quarterly review sessions were held from November 10 to November 30, 1967. In general, Colombian performance continued good with respect to monetary, fiscal, price, wage, petroleum, and foreign exchange policies.

The Bank of the Republic continued to follow conservative monetary policies, so that the money supply was increasing consistently with the informal target of a 15-percent rise during the year. The Bank's net domestic credit outstanding on September 30 was only about two-thirds of the adjusted ceiling (4.4 billion pesos compared to 6.5 billion).

In the year ending September 30, the cost of living had risen only 7.3 percent. Wage raises in collective bargaining agreements were mostly in the range of 8 percent to 12 percent.

The Government's net credit from the Bank of the Republic had been reduced by more than half a billion pesos during the first 9 months of 1967, and its surplus on current account was 400 million pesos over the target of 1.75 billion.

Although Lleras used his special powers to take steps against income tax evasion, there was a delay in preparation of a comprehensive tax reform bill which it now appeared would not be ready for presentation during the current session of Congress, as originally intended. Furthermore, the Government had not yet completed its detailed 1968 investment budget.

The Bank of the Republic's reserve position continued to improve, and the certificate exchange rate continued its slow but steady depreciation, reaching 15.30 on September 30. Minor exports for the year totalled \$84 million through September and \$98 million through October, on the basis of which AID estimated a level of \$115 million to \$120 million for the year. There had been no progress, however, toward liberalizing imports.

A major step to rationalize the exchange system and stimulate new petroleum investment was taken in early November, just before the review sessions began, when the petroleum rate of 7.67 pesos to the dollar was eliminated and replaced by the capital rate of 16.25. This meant that petroleum companies which had previously received only 7.67 pesos for dollars brought to Colombia for exploration and exploitation expenditures would now receive 16.25 pesos for such dollars.

On the other hand, the prospects for foreign investment, other than petroleum, were not good. Decree Law 444 in March had guaranteed foreign investors the right to remit only 10 percent profit each year on capital brought into Colombia and duly registered. Practically no remittances were allowed in 1967, because registration of foreign capital was being made for the first time. Between March and November, only some \$22 million in new foreign investments were approved by the Ministry of Planning, and most of these had been pending before March. Very few new commitments were made after March.

The Government indicated that it intended to apply the decree liberally and flexibly and that it considered the 10 percent figure a floor rather than a ceiling, but at the same time several Government officials, including the President himself, made clear their preference for foreign loans over investment for industrial development. In a major address to the Colombian Society of Economists in late October, Lleras discussed the basic need of the country to increase savings and investment and referred to foreign credit as "anticipated savings," stating that "foreign credit is preferable to foreign direct investment for this reason." Publicly and privately, other Colombian officials elaborated on this point. They felt that foreign credits were cheaper than foreign investment because they resulted in a fixed charge on the balance of payments over a fixed period of time, while remittances from foreign investment represented an open-ended charge over an indefinite period of time. It was noted, in this respect, that foreign firms tended to try to recoup their capital investment in periods of only 3 to 4 years, even if they did not try to repatriate all of it in that period. In addition, foreign investment was frequently made in ways which minimized the inflow of dollars, and created additional demands for domestic peso credit while increasing the future potential demands on Colombia's foreign exchange resources. An example would be a foreign firm which brought in as few dollars as possible and borrowed the balance of its capital needs on the local peso market, sometimes to buy a going Colombian concern rather than to establish a new industry. In such a case, the local concern would shift to foreign ownership with only a very small, if any, net addition to the country's industrial capacity.

Slippages continued with respect to the formation of overall industrial, agricultural, and education policies. Two specific industrial policy goals had been established: (1) studies by mixed commissions in several sectors, including food, metal-mechanical, transport, textiles, leather, petrochemical, and chemical-pharmaceutical industries; and (2) a comprehensive study of development problems and policies which was to have been ready by September 30. As of the November reviews, neither commitment had been fulfilled, though Colombian officials indicated that all of the studies were nearing completion.

Some progress had been made on Andean regional economic integration, a movement in which Carlos Lleras had taken the lead through hosting a "Little Summit" in Bogotá shortly after his inauguration in August 1966.

Completion of an overall long-term agricultural plan was not expected before March 1968, though several subsector plans had already been completed. Meanwhile, agricultural credit had been increased and it was expected that Congress would pass the agrarian

reform law amendments to authorize easier land expropriation before it adjourned for Christmas. There continued to be concern over repeated Government actions to raise the domestic price of coffee.

With respect to education, Congress had not acted on bills to provide more revenues for local governments, nor had much progress been made toward reorganizing either the departmental secretariats of education or the national Ministry. On the other hand, pending problems with teachers, especially over salaries, had been settled, and steps were being taken to regulate academic qualifications for teaching and to fix rules for promotion.

On November 30, the IMF agreed to release the \$15 million third tranche of the 1967 standby, and on December 12 the AID Mission recommended release of the \$20 million third tranche of the May 1967 loan. Washington concurred December 16, and 2 days later the letter of implementation was delivered to the Minister of Finance.

3. Third quarterly review

The third quarterly review sessions were held from February 12 to February 23, 1968. The economic situation continued good on the whole. The Bank of the Republic had achieved a net improvement in foreign reserves of \$80 million during 1967. The Government's operations with the Bank had been neutral, and the Coffee Federation's debt had been reduced by 213 million pesos. The cost of living rose by only 7 percent in 1967 and wholesale prices by only 6.6 percent. Collective bargaining agreements continued to provide wage settlements of about 10 percent plus fringe benefits. Current budget revenues rose by 11 percent over the 1966 level, and the current account surplus was 33 million pesos over the target. The certificate rate of exchange rose from 15.30 on September 30 to 15.81 on December 31, for a depreciation of only 3.3 percent during the quarter. (In February the rate again began an upward movement and reached 16.18 on May 3.) Minor export receipts in 1967 had totaled \$118 million, a little more than 15 percent above the 1966 level, but short of the \$130 million target.

According to one view, this was the result of overreliance on specific minor export incentives such as the Export Promotion Fund and tax credit certificates at the expense of tailoring overall financial policies, including exchange rate policy, to facilitate the priority goal of expansion and diversification of exports. In this view, the certificate rate was not yet high enough to give exporters an adequate incentive and the present movement in the rate was only enough to maintain past levels of export expansion. A differing view was that gradual increases in the rate maintained for a long period of time were much more important for the stimulation of exports than sharp increases with the likelihood of further fluctuations.

This problem was related to the broader question of import policy and specifically of import liberalization. One way to subject the certificate rate to real supply and demand conditions would have been to ease import controls, something that the Colombian Government had declared its intention of doing.

The Colombian Government, however, was now unwilling to fix an exact date for liberalization. An initial draft list of items to be put on a free list had been drawn up, but a majority of the members of the National Council for Economic Policy were opposed to liberalization.

This opposition was due to a belief in the success of the current system of gradually increasing monthly import licensing levels. It was argued that there was a marked speculative approach by importers, who did not expect financial stability to last and who therefore took advantage of liberalization to put undue pressure on imports.

Another disturbing development in the area of import policy was the continuing decline in the U.S. share of the Colombian commercial (i.e., non-U.S. financed) import market. In the last quarter of 1967, this share dropped to 21 percent. For all of 1967, it was 29 percent compared to an average of 39 percent during 1962-66. The reasons given for this decline were: (1) the high level of AID licensing in relation to the total demand for imports from the United States; (2) the Colombian Government's attempt to accelerate the use of its bilateral balances; (3) the lack of control over licensing of imports financed through open bidding under international agency financing; and (4) the increase in Export-Import Bank disbursements. This became one of the biggest issues between AID and the Colombian Government in connection with the release of the fourth tranche of the 1967 loan. It seems clear, however, that if AID and the Export-Import Bank were financing an increasing percentage of Colombia's imports, then the commercial sector would inevitably decline percentagewise and with it, the U.S. percentage share. Nonetheless, AID revised the list of commodities eligible for AID financing to reduce the number of items and to give greater emphasis to capital and other goods for which the U.S. share of the market had been traditionally small.

As had been the case in earlier quarterly reviews, Colombia's performance with respect to current budget and financial matters was better than with respect to long-range industrial, agricultural, and educational policy. The industrial policy study which had been due September 30, 1967, was still not ready, nor was the long-term agricultural plan which was due in March, 1968. The programs drawn up earlier for increasing the production of eight basic agricultural commodities were underway but were limited to certain areas of the country. Legislation had been passed broadening the powers of the Land Reform Institute (INCORA) and it was hoped shortly to begin an ambitious program aimed at making landowners out of 25,000 sharecroppers in 250 *municipios* (roughly equivalent to U.S. counties) by August. INCORA also had a program to provide technical assistance and credit to 12,000 to 15,000 families to increase production on inadequately developed lands. The coffee diversification study was scheduled to be completed by the end of March (originally, the plan resulting from the study had been scheduled to be in operation by the end of March). Meanwhile, the Government continued its policy of increasing the domestic price of coffee and stated its intention to follow this policy until the real income of coffee growers was restored to the 1962 level.

Reforms in the educational sector were also still in the planning stage, and Congress had not yet acted on the President's proposal for an increase in the land tax to be used by *municipios* for education expenditures.

On the basis of the overall review, the AID Mission in Bogotá recommended release of the \$20 million fourth—and last tranche—of the loan on February 29, 1968.

On March 28, the Mission informed Washington that the Colombian Government was making a serious effort to remedy the additionality problem by requiring importers to shift \$2.1 million in import applications from AID financing to ordinary payment from Bank of the Republic reserves for January and an additional \$2.8 million for February, but it was not until May 8 that the Colombian Government met the 20 percent import liberalization goal and Washington agreed to release of the last tranche of the loan.

H. POLITICAL CONSOLIDATION AND THE DEVELOPMENT OF ECONOMIC POLICY UNDER LLERAS RESTREPO

1. *Political consolidation*

The summer of 1967 marked the beginning of a period of significant political consolidation in Colombia and preparation for transition from the system of the National Front to whatever would follow it. This was accompanied by the evolution of an economic policy—which did not always show through clearly in the quarterly program reviews with AID—designed to put more emphasis on development as stabilization goals were achieved.

In December 1966, Congress had approved a law permitting passage of a wide range of measures for a 2-year period by a simple, instead of a two-thirds, majority. Nevertheless, moving bills through Congress remained a time-consuming and frustrating process, and the President still preferred to use special powers to implement his programs. Much of the major tax and administrative reform legislation was enacted in this manner. In June, Lleras Restrepo began a renewed effort to push through additional constitutional reforms. Under the existing constitution, decrees issued during the state of siege would become inoperative when the state of siege was lifted unless they had been approved by the Congress. One aspect of Lleras' proposed reform would provide for a "state of economic emergency" as distinguished from a state of siege to handle economic and social problems, so that governments would resort to a state of siege only for the originally intended purpose of fighting subversion and reestablishing peace.

Another facet of the reforms to which the President attached great importance was a proposal to reduce the membership of both Houses of Congress so as to make the bodies less unwieldy and to mitigate the chronic problem of absenteeism. The Senate rejected this article and then refused to reconsider by a margin of one vote less than the necessary two-thirds. The administration's defeat was accounted for by absenteeism plus dilatory tactics on the part of independent Conservative Senators and the followers of Rojas Pinilla. In addition, the House approved a rider to the bill to extend the terms of all of its members for 2 years by eliminating the congressional elections scheduled for 1968.

At this point, the President found a new ally in the person of Alfonso López Michelsen, leader of the Liberal Party faction which had hitherto been opposed to the National Front. One of the tenets of the *Movimiento Revolucionario Liberal* (MRL), which López headed, had always been opposition to the principle of presidential alternation, and as Lleras Restrepo moved to modify the National Front, López Michelsen moved closer to Lleras. Now, López came to Lleras'

rescue and the Senate voted to reduce its membership by a bare two-thirds majority of 61 to 30. It also passed the constitutional amendment providing for the gradual phasing out of the National Front.

This led to reunification talks between the two factions of the Liberal Party, and these bore fruit in an accord of August 11, 1967. This was followed by a Liberal Party national convention on October 20 at which a four-man national directorate (two old-line Liberals and two MRL) was elected, a platform was approved, and the merger of the Liberal forces was formalized. The convention strongly endorsed the Government of President Lleras, supported the policies and programs of his administration, and pledged to approve the administration-sponsored legislation currently languishing in Congress before the March 1968 congressional elections.

Indeed, a good deal had been done already. The accord of August 11 gave the combined National Front forces in Congress 73 out of 106 Senators (two more than a two-thirds majority) and 127 of 190 Representatives (exactly a two-thirds majority). In September, the House of Representatives approved the first of three constitutional amendment bills. The bill provided for the establishment of a state of economic emergency, which would allow the government to enact permanent legislation by decree once a year for 90 days on economic matters. It also partially eliminated the two-thirds requirement for administration proposals.

On October 3, the Minister of Government presented to the Congress a broad, five-point legislative program. The key areas were the third part of the constitutional reform bill dealing with departmental and municipal reform, and a revamping of the tax structure to strengthen departmental and municipal fiscal resources.

Following the Liberal Party Convention later in October, leaders of the Liberal and Unionist Conservative Parties and President Lleras agreed on November 9 on a program for modifications in the National Front. Parity between Liberals and Conservatives in departmental and municipal assemblies and councils would be eliminated in 1970, but it would continue in Congress until 1974 and in ministerial and administrative positions until 1978 with provisions for equitable representation of all parties in these positions thereafter. The requirement of a two-thirds vote for amending the constitution would also be eliminated. The 1974 date for terminating the alternation of the Presidency remained unchanged. These provisions were introduced as amendments to the second constitutional reform bill already before Congress. The bill was promptly approved by a House committee on November 23, but because it amended the constitution, it required approval by two sessions of Congress. The same week, another House committee approved a bill—already passed by the Senate—giving the President special powers for administrative reform and to raise military salaries. This bill included authority for the elimination of offices, creation of new agencies, and modification of pay schedules.

In a final flurry before the Christmas recess, Congress approved several bills of high importance to the Government, notably the road fund bill which ratified the gasoline tax decreed under state-of-siege powers in December 1966, and the bill for military pay raises, including the rider of special powers for public administration reform. Also passed was the modification of the agrarian reform bill which

simplified administration of the agrarian reform law, gave INCORA greater powers for expropriation of land, facilitated titling, and enabled INCORA to contract with private owners to insure against expropriation for periods necessary to amortize development investments.

This activity continued into 1968. On February 20, a House committee approved a constitutional amendment reducing the number of Representatives from 190 to 162, and the number of Senators from 106 to 90. (These numbers were subsequently altered due to the creation of new departments.) On February 29, the House approved the progressive abandonment of the National Front.

Thus, the Lleras Restrepo Administration went to the March 1968 elections at the head of a Liberal Party which was united for the first time since the introduction of the National Front 10 years before, and also with the support of the biggest faction of the Conservative Party. The key to this was Liberal unity, something which had long been desired by various groups within the official Liberal Party and which was given added impetus by the failure of Congress to pass the Lleras-sponsored constitutional reform legislation in the summer of 1967. This underlined growing awareness that constructive legislative action was almost impossible under the existing arrangement. Liberal politicians were also concerned about the dangers of entering the post-National Front period with a divided party, and the MRL (which had itself suffered schisms over the Communist issue) was worried over its decline at the ballot box between 1964 and 1966. The Unionist Conservatives, who needed Liberal support to elect their candidate for President in 1970 under the National Front principle of presidential alternation, also supported Liberal unity as contributing to the strength of the National Front.

The fruits were gathered in the March 1968 elections for the House (Senate seats were not at stake). The National Front increased its strength from 107 out of 190 seats in 1966 to 144 out of 204 seats in 1968 (the increase in the total number of seats being accounted for by the creation of new departments.) Most of these gains were at the expense of the Lauro-Alzatista wing of the Conservative Party (the doctrinaire followers of the late President Laureano Gómez). The followers of Rojas Pinilla maintained their numerical strength, but their votes dropped by approximately one-fourth.

It should also be noted that on December 17, 1968, President Lleras lifted the state of siege under which Colombia had been governed since May 1965. This was done after Congress approved most of the economic legislation which the President had decreed under his state-of-siege powers. Congress also provided for Presidential proclamation of a state of economic and social emergency for periods of up to 90 days a year, during which the President could legislate by decree with respect to economic and social matters. Congress likewise finally passed the constitutional amendments paving the way for dissolution of the National Front.

President Lleras commented:

A balance between the executive and the legislative branches has been established, and it will be the latter which will have the last word on the suitability of development programs.

2. *Development of economic policy*

While Lleras was consolidating his political position in the last half of 1967 and the beginning of 1968, he was also moving ahead with the development of his economic policies. The two things were related, and success in one field made it easier to achieve success in the other. As the Economist Intelligence Unit put it in September 1967: "Colombians now have the feeling that events are not controlling them to the extent that they were before." The atmosphere was further improved by a lessening of guerrilla activity.

One of Lleras' major points of emphasis was a bill to curb tax evasion. A study by the United Nations Economic Commission for Latin America showed that the top 5 percent of the population received 30.5 percent of personal incomes and the top 10 percent received 42.5 percent of incomes, while the bottom half of the population received only 20 percent of the income. Evasion of taxes meant that the tax burden fell on those least able to pay. Colombia's fiscal problems came not so much from excessive spending as from insufficient revenues. When Congress failed to act on the tax evasion bill (as well as on the constitutional reform bill), Lleras publicly chastised it for "an incredible lack of political discipline and the absence of a functional system of congressional operation." At a later stage, he was to go on television to read individual tax returns without mentioning names.

On July 20, 1967, the last day his special powers were effective, Lleras issued a tax decree law in the face of opposition from both industrialists and labor unions. The new law was expected to raise Government revenues by at least 300 million pesos. It had the following major provisions:

1. Late tax payments were to carry a penalty of 2.5 percent per month, in place of the former penalty of 2 percent the first year and 3 percent the following years, which had made it far cheaper to owe the Government than to pay bank interest of 15 to 20 percent for a loan. As the Finance Minister had put it at the end of June, the former system meant that the state was treated as a bank that gave credit to its taxpayers.

2. Contracts for lifetime income, designed to evade inheritance taxes, were outlawed.

3. All groups hitherto free from making income declarations must now do so—religious bodies, universities, public institutes, and other nonprofit bodies. Formerly taxpayers who received income from such groups did not declare it as part of their taxable income, because they knew there were no financial statements made to tax authorities by these groups.

4. Tax-free fringe benefits were to be listed, and a limit was set of 10 percent on what an enterprise could spend in this way.

5. Lists of taxpayers were to be published, giving gross income, taxable income, net estate, and taxes paid.

6. All kinds of tax exemption used as promotion were ended—e.g., the tax-free feature of agricultural and livestock bonds.

During the fall of 1967, the broad outlines of Lleras Restrepo's development plans became clear: both farm and factory expansion through two growing agencies, the Land Reform Institute (INCORA) and the Industrial Development Institute (IFI), with the direction they took headed toward regional economic integration. Such integra-

tion had long been one of Lleras' major goals. One of his first acts after becoming President was to be host to a "Little Summit" August 14, 1966, attended by the Presidents of Chile and Venezuela, plus representatives of the Presidents of Peru and Ecuador. The object was to promote subregional Latin American economic integration among the Andean countries, on the premise that it was easier to integrate parts of the area than to integrate the whole.

This policy gained force from the difficulties encountered by the Latin American Free Trade Area (LAFTA), which includes all of South America plus Mexico. In August 1967, the original "Little Summit" countries, now joined by Bolivia, agreed to form the Andean Development Corp., to be capitalized at \$50 million, contributed in the same proportion as its members' subscriptions to the Inter-American Bank, and with its headquarters in Caracas. Its capital was to be used to finance the expansion and modernization of existing industries, the establishment of new ones, and multinational development works such as highways and power.

On February 7, 1968, the Andean Development Corp., officially came into being in a ceremony in President Lleras' office attended by the personal delegates of the presidents of Venezuela, Ecuador, Peru, Bolivia, and Chile. Member countries underwrote a working capital of \$25 million, with a \$100 million ceiling to be covered in subsequent months. Also in February, an agreement was signed between the cattle-raising federations of Colombia and Venezuela for the export of 120,000 head of Colombian cattle to Venezuela during the coming year at a total value of \$24 million. Both governments hoped that the new agreement would put an end to smuggling. In March, the presidents of the oil enterprises of Peru and Colombia agreed to collaborate on the development of petroleum in the Amazon region. They stated that the complementation of oil and petrochemicals constituted a necessary step within the integrationist policy which the Andean nations were striving to attain.

Later in 1968, however, the Andean integrationist movement suffered a setback due to the reluctance of Venezuelan industrialists to subject themselves to international competition from countries with lower costs and weaker currencies.

Another of the major goals of the Lleras Restrepo government was to break the inflationary psychology of the country. It argued that repeated, dramatic devaluations led the country to expect more of the same, while a fluctuating, gradually devaluing exchange rate would inspire more confidence.

All of this, of course, meant increasing central control over the economy based on what Minister of Development Antonio Alvarez Restrepo termed the "development tripod" of balanced budgets, stable monetary policy, and adequate wages to avoid increases which could lead to an inflationary spiral.

In his address to the Colombian Society of Economists in October 1967, President Lleras justified increased government control of the economy in a discussion of the social implications of various methods of capital formation and their applicability to Colombia. He made it clear that "primitive capitalism" was not the path for Colombia to follow, and that his government would adopt policies looking toward "the harmonious development of all classes, and the creation

of a more egalitarian society." He emphasized social justice, the impossibility of accepting the classical route to capital formation, and the vital importance to Colombian development of protecting and developing human resources.

At least through 1967, the anti-inflationary policies were successful, aided by firm price controls and only moderate wage increases. Price controls were relaxed somewhat at the end of December 1967, and Colombia's major steel producer, Acerías de Paz del Río, immediately raised its prices 25 percent. Through the first 8 months of 1968, however, the cost-of-living index rose only 5.5 percent.

At the same time, the Lleras Government made greater efforts to increase public investment, particularly to concentrate resources in more limited sectors, to make funds available more promptly for the domestic costs of projects partially financed by foreign aid, and to give a higher priority to projects using more labor and less capital. According to the Colombian industrial census tabulated in 1965, employment rose by 18.4 percent between 1959 and 1965, while wages in constant terms rose 68.2 percent and investment 117.9 percent. This meant that the country's industrial growth was occurring through the establishment of modern facilities requiring skilled labor and heavy capital investment. This was in accordance with a worldwide trend, but it was precisely opposite to Colombia's needs, which were to use more labor so as to reduce unemployment and to use less capital so as to conserve foreign exchange.

Public investment financed by the budget increased 42 percent (29 percent in real terms) in 1967 over 1966, and also showed a marked shift in emphasis toward agriculture, which had been relatively neglected in the past. As will be discussed in a subsequent section, a good deal of the increase in investment was accounted for by the use of program loan counterpart funds.

By the end of 1967, the IMF, which a year earlier had been denounced by Lleras over the devaluation issue, was expressing its satisfaction with the course of Colombian policy and was even guardedly optimistic about the future. The IBRD was less restrained. It found Colombia's 1967 performance "impressive" and saw the beginnings of a "sound basis for achieving a higher rate of growth."

One further aspect of Lleras' policy must be mentioned—his initiative in reestablishing diplomatic relations and promoting trade with Eastern Europe. Diplomatic relations were established with Yugoslavia, Bulgaria, Czechoslovakia, and Poland in November 1966, and with the Soviet Union in January 1968. The basic purpose was to expand commercial relations, but by mid-1968 this had achieved only modest success. It had, however, served to provide at least in some quarters another reason to justify continuation of U.S. aid at substantially the same levels. This view was based on the fear that if the United States should withdraw or substantially reduce its support, the U.S.S.R. would be inclined to exploit the situation by offering limited assistance in selected fields, such as credits for capital and technical assistance for establishment of industries.

V. USE OF FOREIGN CURRENCY

U.S. program loans and Public Law 480 sales to Colombia till mid-1968 generated some 3.9 billion pesos of counterpart funds, most

of which were available for grants or reloans to Colombia for purposes of economic development. One of the presumed merits of a program loan and of a Public Law 480 sale is this generation of counterpart which can then be reused so that the original dollars, in effect, do double duty. Upon examination, however, the use of counterpart turns out to be the most complicated part of foreign aid—the most difficult to understand, the most difficult to trace, the most difficult to manage.

There are several reasons for this. The availability of large amounts of counterpart, in effect, gives the United States control over a significant percentage of a foreign country's money supply. It is as though a foreign power controlled some tens of billions of dollars of the U.S. budget and of deposits in Federal Reserve banks. This money is fungible with all the other money in the budget or on deposit. But although counterpart is additional available money, it is not additional available resources; these were the commodity or food imports paid for by the original dollars, and they are injected into the economy only once.

In a balanced monetary situation, the goods financed by a program loan or by Public Law 480 and the counterpart generated thereby, equalize each other and the economy proceeds at a higher level of activity. But AID loans and Public Law 480 sales are typically not made in a balanced monetary situation. More commonly, they are made in an inflationary situation, in which the original input of goods serves to soak up excess purchasing power—an effect which would be nullified by the prompt spending of counterpart. In these circumstances, "sterilization" of the counterpart may be indicated—that is, not using it at all.

On the other hand, counterpart may be useful in enabling the private sector, in either industry or agriculture, to get a piece of the action—that is, to procure some of the goods or services which the original dollars which generated the counterpart have made available. Thus, for example, if a program loan finances the import of fertilizer, the counterpart might be lent to farmers to buy fertilizer. But this example is oversimplified. It is more common that the goods imported through a program loan bear no direct relation to the goods or services financed by the counterpart. Furthermore, the counterpart frequently goes into the Government's budget, where for all practical purposes it becomes indistinguishable from budgetary resources resulting from taxes or local borrowing.

Because money is fungible, counterpart can be managed, directed, and controlled only to the degree that a country's total money supply is managed, directed, and controlled. If, for example, AID limits its concern only to a given quantity of counterpart, it can be frustrated and evaded through the simple expedient of more government borrowing from the central bank. This is one of the reasons why AID and the IMF concern themselves with foreign government commitments respecting monetary policy—government borrowing, bank reserves, budget surpluses or deficits, foreign exchange rates, and all the rest. But once these external agencies inject themselves into these matters, they are, of course, involving themselves in some of the most sensitive areas of sovereignty. And because there are practical, political limits as to how far one can meddle in these areas, AID and the IMF tend to lose control, regardless of what may be written in the pertinent agreements.

Finally, in the nature of things, most governments, including Colombia, which borrow from the United States have budgetary deficits and see the counterpart resulting from U.S. loans as an easy way to make up these deficits without resorting to the more politically unpopular device of raising taxes.

All of these facets have been noticeable in the use of the counterpart resulting from AID program loans and U.S. Public Law 480 sales to Colombia. Further, for reasons which lie in the inherent complexity of the problem, there has been a noticeable tendency on the part of AID/Washington to leave decisions regarding counterpart to the AID Mission/Bogotá. Washington has occasionally admonished the Mission as to guidelines, and it has occasionally asserted its rights for prior approval; but by and large, the allocation and spending of counterpart has been left to the Mission in Bogotá. Indeed, an exhaustive review of the files in Washington leads inexorably to the conclusion that it is impossible, on the basis of these files, to trace in detail the uses of counterpart in Colombia. What follows is a brief summary of what is revealed by data available in Washington; it does not purport to be an exhaustive study, much less an audit, of the use of counterpart.

One of the great problems of counterpart has been what to do with it. As was related in section IV.A above, the counterpart resulting from the first program loan to Colombia in 1962 was supposed to be sterilized—that is, not used at all—as part of an anti-inflationary program. This position was not maintained, and the counterpart was eventually released in a single installment for budgetary support to help pay the current operating expenses of the Colombian Government.

Thereafter, AID developed the policy of using counterpart for specific, identifiable projects, at first in the private sector, later in the public sector. The most ambitious undertaking in the private sector was the Private Investment Fund, which between 1963 and 1968 received a total of about 755 million pesos. This fund, which is discussed in more detail in section VII below, was designed to provide credit to small- and medium-sized business. But aside from the Private Investment Fund, AID found that there were few projects sufficiently well planned to provide an outlet for the counterpart available. AID policy papers contained repeated statements of the necessity for unremitting emphasis on project preparation.

A further problem has been encountered in the unpredictability of when, and how much, counterpart would actually be generated. The amount of counterpart is dependent on the exchange rate at which program loan dollars, or Public Law 480 commodities, are sold to Colombian importers. As the peso depreciated against the dollar, a given quantity of aid generated more pesos. In fact, the great increase in the free rate of exchange at which Public Law 480 title I commodities were sold to the Colombian Government in 1965–66 caused Colombia to cease purchases.

The timing of counterpart generation is, of course, dependent on disbursement of loans, a process which has frequently been subject to long delays. These delays were extended even more in 1964–65 by the policy of allowing Colombian importers 3 or 4 months to make their peso payments to the Bank of the Republic against the dollars which financed AID program loan imports. This amounted, in effect, to an initial use of counterpart as credit to Colombian importers, but it de-

layed by the length of the credit the time when the counterpart became available for more traditional uses.

Finally, there was a delay of some months before the Colombian Government decided that the use of counterpart was not subject to the appropriation process by the Colombian Congress.

By mid-1965, AID was re-examining its earlier emphasis on a project-by-project use of counterpart, particularly in the private sector. According to this analysis, Colombia's private industry was more advanced than its government and it was in the public sector that there was to be found the principal drag on the country's social and economic development. The priority problems were seen to be: (1) lagging infrastructure development, (2) education at all levels, (3) health services, (4) inefficient administration, (5) poor or nonexistent overall planning, sector planning, and inter- and intra-sector coordination, especially in agriculture, and (6) insufficient organization for the transfer of private sector profits to finance public sector development needs.

AID suggested that these problems were not adequately dealt with by a policy of returning to the private sector, through credit, the pesos which had been generated by commodity sales to the private sector, regardless of administrative convenience and regardless of the great absorptive capacity of the private sector for low-cost credit under hot-house conditions of overprotection and inflationary spending.

The recommendation which followed from this observation was that AID should concentrate on building infrastructure and public institutions by channeling peso funds intended for the public sector into broad programs carried out by fairly well-operating public institutions, rather than into individual investment projects. It was added that so far the project-by-project approach had done little institution building and had resulted in little improvement of sector planning and investment coordination. Indeed, there was some evidence that it had circumvented consolidated planning on a priority basis. USAID and the Embassy had sometimes given vague promises of favorable financing, without regard to the inherent uncertainties as to the timing and amounts of counterpart availability, instead of encouraging planning and making clear that priority designation was essentially a responsibility of the Colombian Planning Office. The Planning Office itself frequently approved projects outside of an overall analysis of financial availabilities and competing priorities.

Accordingly, AID began outlining plans to examine possibilities for replacing project financing with the financing of sector programs, together with adequate inputs of technical assistance. The policy that counterpart should not finance items in the budget was modified to provide that counterpart should not finance regular, ordinary, operational, that is, recurring, expenditures. AID still believed that these expenditures should be financed from regular, recurring budgetary income. The change came in AID's new, positive attitude toward using counterpart to finance investment projects in the budget.

The first major allocation of counterpart under this new policy was made in June 1966 in the amount of 429 million pesos for 17 activities in a wide variety of fields. While some of these did not meet "all desirable criteria," AID felt that all of them contributed in "some measurable way" to program objectives—i.e., social and political stability, financial balance, agricultural diversification and increased productiv-

ity, and infrastructure development. Two of the allocations were approved "reluctantly." One of these was 13 million pesos for the Augustin Codazzi Institute, a semiautonomous agency which carries out economic mapping, cadastral surveys, and soil and forestry investigations. Of the 13 million (all of it a grant), 12 million pesos supported the Institute's operating expenses during the last 5 months of 1966 and made up the shortfall between the Institute's budget request and the amount approved by the Colombian Government. The second was a 12-million-peso grant to the Ministry of Health to assist in an expanded malaria control campaign in cooperation with the U.N. Children's Fund. AID approved these allocations in view of "the overriding importance of the project," but warned the Minister of Finance that it disapproved the use of counterpart for operating expenditures and stressed the necessity for the Colombian Government to provide an adequate operating budget from regular sources.

Additional allocations of 522.7 million pesos were made in November and December 1966. These included 11 million pesos to the Planning Office to carry out project preparation, 57 million to the Ministry of Public Works to provide part of the local currency required for projects whose foreign exchange costs were financed by an IBRD loan, and 100 million for school construction.

The bulk of the 1966 counterpart allocations were on a grant basis. Generally speaking, loans were made for activities which would generate revenues, such as power, water supply, sewerage, etc., though there were exceptions, notably for housing. Grants were made for non-revenue-producing activities such as education.

During the course of the year, considerable bad feeling developed on the part of Colombian entities which failed to receive an allocation at the time or in the amount they had been led to believe they could expect. Aside from the inherent problems mentioned above, there was a particular problem arising from diversion of Public Law 480 wheat to meet a critical shortage in India. This meant a shortfall of 60 million pesos in counterpart generation during 1966.

Part of the difficulty of counterpart management on the U.S. side was the lack of coordination with respect to allocation procedures between the Embassy and AID Mission in Bogotá on the one hand and the State Department and AID in Washington on the other. The programming and management of U.S.-controlled local currency was primarily a Mission responsibility, and little information other than the final decisions on peso allocations was transmitted to Washington. These allocations were originally proposed to the AID Mission by the Colombian Planning Office on the basis of an initial review of requests for counterpart from the various ministries and independent agencies of the Colombian Government. An agreed AID-Planning Office proposal was then submitted to the Ministry of Finance for approval. Before forwarding the proposal to the Ministry of Finance, USAID/Bogotá requested the concurrence of AID/Washington which usually gave its routine approval.

In August 1966, AID/Washington sent a circular telegram to all missions instructing them that Washington needed to know on a forward basis that the mission was using program currency as a program instrument and how the proposed use of local currency related to dollar requirements.

About a month later, USAID/Bogotá reported the guidelines which it used in reviewing the Planning Office's proposed uses of counterpart:

(1) Importance of the project to economic development and program goals.

(2) The desirability of funding an activity to completion or of completing a discrete part of an activity.

(3) Preference for major activities to minimize the management workload of USAID and the Colombian Government.

(4) The desirability of using counterpart to match sources of foreign exchange.

(5) Reluctance to finance a budget shortfall, because of the desirability of providing such financing from a more regular source than counterpart.

The following year, this last guideline was dropped and replaced by one which emphasized a preference for rapid disbursement.

The December 1966 allocations of counterpart for Colombian Government use during 1967 not only reflected these guidelines, but also a shift from the "additive project" programming, which had treated counterpart as a special additional funding source to be programmed apart from the annual budgetary process. USAID and the Colombian Government now moved toward programming counterpart on the basis of an integrated investment plan and budget. It was thought that this new system would permit better management of Colombian resources by Government planning authorities and would also provide USAID with a wide latitude of influence in the planning and implementation process. Another advantage was simplified administration, especially with regard to the post allocation stage. USAID and the Planning Office agreed that instead of negotiating a separate agreement with each counterpart recipient, they would include all counterpart allocations and commitments in the budget in a single letter of agreement. This overall agreement would also cover the self-help measures relevant to each counterpart allocation and shift the responsibility for enforcing these measures from the Mission to the Colombian Government. The Colombian budgetary system, as policed by the Controller, was to be the form of control to insure that the allocations were used by the recipient entities for the purposes intended.

In addition, the new system required the Colombian Government to prepare a total resource investment plan and public sector investment budget, lumping together central government revenue and counterpart as a single funding source. This plan and the Colombian Government's proposed distribution of counterpart would then be reviewed by USAID, a procedure which involved USAID more intimately in the total Colombian budgetary process.

Finally, it was agreed that counterpart under program loans would be deposited and made available for allocation at the time of dollar disbursement by the U.S. bank to the U.S. exporter. This avoided the delay of up to 120 days which had previously been caused by waiting until the Colombian importer had paid the pesos to the Bank of the Republic.

The AID Mission felt that this system enabled progress to be made in a number of key problem areas: the attraction of private capital; lower delinquency rates in public housing; the financing of supervised

agricultural credit; better financing and operation of public hospitals and health clinics; and the utilization of scarce primary school classroom space.

In July 1967, the Colombian Government issued its major supplemental 1967 budget, containing 461.8 million pesos, of which 238 million was counterpart. It had previously been agreed by USAID and the Planning Office to limit counterpart allocations to 238 million pesos because of concern over the possibility of excessive monetary expansion and because high priority counterpart requirements might be developed later in the year.

More than half of the total was for agriculture, including 100 million pesos in a grant to INCORA for irrigation and land reclamation activities. In addition to the 238 million pesos, 105 million was earmarked for the Private Investment Fund.

In December 1967, the Colombian Congress approved the 1968 budget which had been presented in August. The budget totaled 8 billion pesos, to be supplemented in January 1968 by 700 million pesos in receipts from the gasoline tax authorized by Congress just before the Christmas recess. It included 1 billion pesos in counterpart, which was allocated in an agreement between AID and the Ministry of Finance in February. Total counterpart generation from the 1967 program loan was estimated at approximately 1.6 billion pesos, of which 343 million had been allocated in July 1967 as described above and included in the 1967 Colombian budget. The remainder was to be allocated during 1968 and included in the 1968 Colombian budget.

As approved in December 1967, the 1968 budget continued a steady upward trend which had been noticeable for 3 years in public investment, particularly in education which was to receive 1.25 billion pesos, comparable in magnitude only to the appropriations for the Ministry of Public Works and the debt repayment of the Ministry of Finance. It was obvious, however, that while the Colombian investment budget was growing, so was its dependence on counterpart (216 million pesos in 1966, 688 million in 1967, and 1 billion in 1968). This led some AID officials to doubt that the Colombian Government was making a sustained effort to mobilize more of its own resources. The Mission also felt that counterpart allocations to the private sector were inadequate and should be increased to a minimum of 20 percent. (They eventually reached 17.4 percent including credit channeled to industrial and agricultural private sectors.)

As finally worked out, the 1968 counterpart allocations were distributed as follows: agriculture, 40 percent; public health, 18 percent; industrial development and private sector finance, 12 percent; education, 11 percent; planning, 8 percent; public works and power, 6 percent; urban renewal and social stability, 4 percent; and a special trust fund, 1 percent. The trust fund was a new idea brought up in connection with the fiscal year 1969 loan negotiations. It was designed to cut down on U.S. dollar expenditures in relation to the proposed \$5.1 million grant program of technical assistance. In the past, dollars had been furnished on a grant basis to allow for the generation of counterpart to support the local costs of dollar grant programs, though the intent of the Foreign Assistance Act is clearly that these local costs should be paid by the recipient government. The counterpart trust fund from the program loan was designed to pay these local costs.

In conclusion, it seems clear that AID has not solved the problem of the effective use of counterpart as an instrument to build institutions. It appears that too much counterpart has been used simply for the sake of using it. The AID Mission has usually submitted proposed allocations to Washington for approval in haste under the pressure of Colombian budgetary requirements which demand rapid release of the funds. Rarely has Washington been provided with a detailed account of the uses and effects of counterpart.

In these circumstances, one cannot reach a firm judgment. However, there appear to be grounds for at least tentatively concluding that:

1. Much of the counterpart—particularly that used in agriculture, public works, and health—may be in substitution for, and not in addition to, Colombian resources.

2. Counterpart used in agriculture appears to have favored highly absorptive activities rather than those institutions and activities which are supposed to receive emphasis under the agriculture sector loan signed in July 1968. These include providing infrastructure and improved technology and material assistance to that group of the rural population most in need of assistance from the central government; that is, penetration and farm-to-market roads in connection with spontaneous colonization, supervised agricultural credit to small or medium farmers entering the commercial economy, expanded extension services to place available technological information in the hands of the farmer, and agricultural marketing studies of particular foodshed areas.

3. There has been a failure to use counterpart vigorously to support local development activities, such as rural civic action programs and the relief of underemployment and urban renewal problems. Only 4 percent of the 1968 counterpart was allocated to the diverse purposes embraced under the general heading of social-political development.

VI. EFFORTS AT MULTILATERALISM

A. THE CONSULTATIVE GROUP

One of the principal reasons for U.S. enthusiasm about Colombia at the start of the Alliance for Progress was the development plan which the Lleras Camargo government produced in December 1961. The Charter of Punta del Este put great emphasis on planning, and Colombia was the first Latin American country to produce an overall plan. It seemed reasonable to assume that support of the Colombian plan would encourage planning efforts elsewhere in the hemisphere.

The Colombian plan was really two—a 4-year public investment plan and a 10-year general plan for social and economic development. The 10-year plan envisaged an annual growth in the gross national product (GNP) of 5.6 percent between 1961 and 1970 on the basis of 1959 prices (compared with a growth rate of 4.3 percent for the period 1950 to 1959). It called for a total investment over 10 years of \$8 billion of which \$1.2 billion was to come from foreign sources, including annual net private foreign investment of approximately \$20 million.

The plan was examined by the nine wise men appointed under the Punta del Este Charter and also, at the request of the Colombian Government, by the International Bank for Reconstruction and Devel-

opment (IBRD). Both the Bank and the wise men concluded that the targets for output and the levels of investment contemplated in the program were feasible and provided a focal point for the formation of a consortium of interested governments and international agencies to review Colombia's needs for external financing of development projects, and coordinate lending activities around the goals of the plan.

U.S. evaluation of the plan was more critical. It was pointed out in April 1962, for example, that some of the monetary and fiscal projections for the first year of implementation were drastically out of line with what had transpired:

(1) There was a budget deficit of \$50 million due partially to incomplete implementation of the 1960 tax legislation.

(2) Export earnings were \$137 million below the projected \$636 million.

(3) The need for foreign loans and credits to maintain a flow of essential imports was \$66 million more than the \$137 million anticipated.

Preliminary evaluation of the plan also indicated that the predicted growth rate was overly optimistic, that potential export expansion was overrated, and that import substitution possibilities were exaggerated. There were not enough projects sufficiently well advanced in conception, planning, and design to permit prompt implementation. There was an absence of precise priorities, inadequate treatment of the agricultural sector, and an insufficient awareness of the need for rapid improvement of tax administration to realize the needed revenue.

There were even some officials who suspected that the Colombians had initiated the plan largely as a means to attract foreign development capital. Nevertheless the plan stated the preconditions set by international agencies for Colombian policies and performances. Further, it was the first Latin American plan to be given serious consideration for financing through a consortium-type arrangement, and Colombia's experience was likely to set a precedent for other Latin American countries. Thus, the United States seconded the request of the Colombian Government for an IBRD-led consortium on the plan. The United States also concurred with the IBRD and the "nine wise men" that, as conditions for the establishment and continuation of a consortium, Colombia should be made aware of the crucial importance of consistently following realistic financial and exchange policies, of making steady and substantial progress in the improvement of tax administration, and of allocating each year an appreciably higher percentage of its national budget for purposes of education.

The State Department suggested the following division of effort. The United States would concentrate its assistance in the fields of agriculture, industry, housing, and improved tax administration, with some limited supporting attention to education and public health. The IBRD would concentrate its attention in its traditional fields of specialization, namely, power and transportation. The Inter-American Development Bank (IDB) would give preferential attention to water and sewerage systems. The OAS would provide technical assistance and modest financial help in the field of development planning and taxation. Finally, the participants from the Development Assistance Committee (DAC) would give primary attention to specific projects and specific industries in which the individual countries had special

interests. On the basis of these conditions, the United States was willing to undertake a 3-, 4-, or 5-year commitment to supply through development loans some 50 percent of the external financing required for Colombia's development program, that is, an amount in the magnitude of \$60 to \$80 million annually. The United States supported the IBRD taking primary responsibility for arranging to bring together prospective participants in the consortium, for leadership in arranging financing, and for advising Colombia and the participants with respect to the overall program.

1. Organization of Consultative Group

The IBRD held a meeting on August 8, 1962, for the purpose of preliminary discussion of procedures for the coordination of financial assistance to Colombia. At that time the Bank's plans were revealed for a coordinating group which would review the Colombian program, discuss plans to finance projects, and serve as a mechanism for the exchange of information. A list of priority projects for external financing was drawn up. Particular attention was directed to external financing for a private investment fund which would provide a source of noninflationary financing for private industry and agriculture. The point was strongly made to the Colombians at this time that the main prerequisite for the success of the group was ample evidence that Colombia was moving promptly and forcefully with its exchange reform program and toward raising the necessary domestic revenues to finance the plan.

This preliminary meeting was followed in September by a meeting of DAC countries in order to interest European countries in the Colombian development program. At this meeting, the United States expressed its intention to undertake the financing of a number of projects on the IBRD list and said it would be willing to participate jointly with other countries in specific projects—especially in the case of the private investment fund. In a largely unsuccessful effort to inspire potential European donors, the United States said it expected to make a multiyear commitment soon on development assistance to Colombia, pending the conclusion of a new standby agreement between Colombia and the IMF. Both the United States and the IBRD emphasized that soft loan terms for development loans would be highly desirable. Since the main purpose of the September meeting was to familiarize the DAC countries with the IBRD and OAS "wise men" studies of the Colombian development program, no official commitments were made at that time. A further meeting to organize the Consultative Group was scheduled for mid-January 1963 in Washington.

In the intervening months, the Colombian Government was urged to enact the reforms necessary to implement the plan, that is, new tax legislation, exchange reform, a reduction of operating expenditures, and allocation of a greater percentage of financial resources to education. This was part of a U.S. effort to impress upon the Colombian Government the importance which sources of external financing attached to the plan and to Government policies which supported it.

2. The January 1963 Consultative Group meeting

As the date of the January 1963 meeting of the Consultative Group approached, it became apparent that the meeting was ill timed. Colombia was still in the throes of the repercussions of the 1962 devalua-

tion. Proposed measures for exchange reform and tax legislation had been submitted to the Colombian Congress, but no action had been taken. There had been a renewal of heavy Government spending toward the end of 1962 and insufficient counteracting measures by the Bank of the Republic. The Government wage bill before Congress was inflationary in that it contained an escalator clause and provided for wage increases in the private as well as the public sector.

The IBRD case for Consultative Group cooperation, however, was based on its more optimistic long-term estimates of Colombian development potential in the light of a history of successive self-help initiatives taken by the National Front Government since 1958.

Both IBRD and U.S. representatives reiterated the need for lenient loan terms. The 1962 ratio of service of external public debt to foreign exchange earnings was 13 percent. In view of the country's heavy reliance on coffee earnings and uncertainties regarding the speed at which other exports could be expanded, the Bank warned against excess use of short-term exporter credits which would oblige Colombia to use a larger proportion of its total resources for the servicing of external debt during the period of its development plan.

In order to support the IBRD position, the United States agreed to finance up to \$60 million for capital projects before July 1, 1964, subject to the approval of projects and availability of funds. The United States also stated its intention to give priority to the projects on the IBRD list, and agreed to consider financing beyond the \$60 million level.

This stimulus did not, however, encourage equal generosity on the part of other participants—Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Switzerland, and the United Kingdom besides the IBRD, the International Monetary Fund, Inter-American Bank, and the OAS wise men.

The conclusions drawn from these proceedings by U.S. officials were: (1) most countries were interested only in selling equipment through suppliers' credit, which did not satisfy the needs of Colombia's developing economy; (2) an expanded effort would be necessary to enlist the support of European countries in Latin American development efforts; and (3) the need was evident for continued and intensified U.S. leadership in the consortium arrangement.

3. Post-conference developments

As economic conditions in Colombia deteriorated during the first quarter of 1963, IBRD efforts to attract European donors lagged somewhat. Particularly disturbing were the decisions by the Colombian Congress to increase wages and to change the rate of exchange for coffee. In addition, the original estimates of yield from the proposed tax measures had to be reduced from a range of 400–500 million pesos to 200–275 million pesos. What began to emerge from this situation was the realization of the difficulty and contradictions involved in enforcing an austerity policy while promoting a development program. In the case of Colombia, the apparent weakness of the political leadership made the economic problems even more critical.

By October 1963, the loans made to Colombia under the auspices of the Consultative Group amounted to \$143 million out of a total of \$461 million in projects discussed at the January meeting. Additional loans of \$131 million were under active consideration. The

sources of most of these, however, were United States or international agencies. The others were mainly in the form of supplier credits and other short-term private and public obligations.

There also seemed to be a lack of coordination of lending agency activities and advice. The Consultative Group generally seemed to be primarily concerned with debt service capacity and project readiness. AID was primarily concerned with development priorities, especially in agriculture and education—fields which the Consultative Group largely ignored. In the private sector, the Inter-American Bank and World Bank loans to the Private Investment Fund were limited to financing foreign exchange costs.

4. Second meeting of the Consultative Group, June 1-2, 1964

The meeting was called to review Colombia's economic position and consider past and prospective external credits for individual projects and the Private Investment Fund. The United States, IBRD, and IMF all approached the meeting with qualified optimism concerning Colombia's developmental prospects.

The main issues were: (1) the need for greater participation by the Europeans, Canada, and Japan, who had provided only 7 percent of 1963 lending by the group; (2) obtaining long-term development loans for a second list of projects, and holding down short-term supplier credits; and (3) the channeling of new funds into the PIF, which had so far received long-term loans of \$23.3 million (peso equivalent) from AID, \$3 million from IDB, and \$1.4 million from the Dutch Government.

The United States especially emphasized the need for loans on favorable terms with long maturities, grace periods, and low interest, and expressed concern over the growing debt burden which would result from additional credits on short term. On the assumption that new capital would be provided annually in an amount of \$210 million on average terms of 20 years at 6 percent with 3-year grace period, net new foreign resources for Colombia would fall to zero in 1974. With a few exceptions, however, the average terms of European suppliers' credits were 10 years at 6 percent. It was clear that the major source of concessional assistance to Colombian development still remained the United States which stated at the meeting that it hoped to be able to commit funds at the same level as fiscal year 1964, that is, \$87 million, at low-interest rates and long repayment terms.

5. Third meeting, June 1967

The third meeting of the Consultative Group was held in Paris June 20-21, 1967. After a lapse of 3 years since the second meeting, during which Colombia had had a change in government and Lleras Restrepo had broken and then made up with the IMF, the international agencies were again optimistic.

Colombia presented a list of projects entailing public and private external financing of \$381 million during the next 2 years. These projects included \$290 million in public investment, mainly in electric power, transportation, and agriculture; \$80 million in the private sector, mainly for the Private Investment Fund and the Industrial Development Institute; and \$11 million in technical assistance.

Two power projects totaling \$51 million and a Bogotá water supply project of \$26 million were listed for "joint financing," a concept

developed by the IBRD in an effort to extend its resources over more projects than it felt able to finance alone. Joint financing applied to projects requiring large amounts of foreign equipment normally eligible for supplier credits. Countries whose firms were bidding on these IBRD projects would agree to finance a given share of the project if the contract was won by their suppliers.

As of February 1968, no U.S. firms had qualified for participation, and the three projects were under negotiation between the IBRD, the Colombian Government, and Germany, Italy, and Japan, where firms had qualified for participation.

Although the response of European investors to United States and IBRD initiatives has on the whole been somewhat disappointing, recent developments indicate that they are becoming more interested in Colombia, apparently because of improved Colombian economic prospects. The Economist Intelligence Unit reported in March 1968 that the Consultation Group for the Organization for Economic Cooperation and Development from the private sector has chosen Colombia as the only Latin American country in which it will carry out a study on prospects for capital investment. A spokesman for the Group added that the European nations, taken together, now have more funds to invest abroad than either the United Kingdom or the United States. What remains to be seen are the terms on which these potential investments will be made.

B. THE INTER-AMERICAN COMMITTEE FOR THE ALLIANCE FOR PROGRESS (CIAP)

Concurrently with its efforts to promote the Consultative Group organized by the World Bank, the United States also was engaged in a somewhat ambivalent effort to fit the Colombian aid program into a multilateral inter-American context.

At the Punta del Este Conference which established the Alliance for Progress in August 1961, the United States had wanted to go further than the Latin Americans were willing to go in making the Alliance a multilateral enterprise. The United States felt that multilateralization of the program would lead to better Latin American performance, because the Latins would be more likely to accept criticism from, and meet standards set by, other Latins. The Latin Americans, on the other hand, generally preferred to keep their relations with the United States on a bilateral basis. In sum, the United States felt that it could achieve more leverage on the Latins in a multilateral framework; the Latins felt they could achieve more leverage on the United States in a bilateral framework.

The best compromise the United States could get out of this conflict in Punta del Este was the establishment of the OAS Committee of Experts, which came to be known as the nine wise men and which was charged with reviewing country development plans. By 1963, however, on the basis of a report by former President Kubitschek of Brazil and former President Lleras Camargo of Colombia, the Inter-American Economic and Social Council agreed to create the Inter-American Committee for the Alliance for Progress (popularly known as CIAP, after its Spanish initials).

The membership of CIAP was to be selected in the same way as the Executive Directors of the Inter-American Development Bank—that is to say, one of the seven members would always be a North American, while the other six would be elected by the Latin American states according to weighted voting based on their capital subscriptions to the IDB. CIAP was charged with making an annual estimate of the financing needed for Latin American development and of the total funds that might be available from domestic and external resources; with making an annual review of national and regional plans, including specific recommendations to members of the Alliance; and with coordinating those efforts which required multilateral action, such as economic integration and foreign trade policies. In addition, in the resolution creating CIAP the member States agreed that they would give special consideration to its recommendations regarding distribution of external public funds under the Alliance for Progress.

At this point, the U.S. ambivalence toward multilateralism began to appear. The United States wanted a multilateral mechanism to bring pressure to bear on the Latin Americans to meet the self-help standards of the Alliance, but it did not want a multilateral mechanism to bring pressure to bear on the United States with respect to the distribution of its aid money. This contradiction was more marked in the middle reaches of the U.S. bureaucracy than it was at the top, where a more conscious effort was made to influence CIAP in the direction which the United States wanted it to take.

Although CIAP concerned itself with a variety of generalities with respect to overall Latin American economic development, its most specific, concrete activity was the annual country review. During the course of this review, CIAP addressed itself to a country's development plan, economic policies, and performance, and made recommendations. The United States supported CIAP because it felt that these recommendations, coming from a predominantly Latin American group, would carry more weight and would be more politically palatable than similar recommendations coming from AID. In fact, this has sometimes turned out to be the case.

On the other hand, CIAP has shown a tendency to couch its recommendations in such generalized terms as to weaken their impact. This has been due in part to the fact that it is not so well staffed, technically, as AID, the IMF, or the IBRD. In part, it has been due to the fact that Latin Americans do not like to say harsh things to each other, at least in public. And in part, it has been due to the fact that CIAP's country reviews are much more cursory than the reviews carried out by AID, the IMF, or the IBRD. In the former case, reviews are carried out over a period of days; in the latter case, over a period of weeks.

In practice, furthermore, the two sets of reviews have had no relationship to each other. CIAP's first country review of Colombia was held on August 27–28, 1964. This was 6 months after the IMF had approved a standby agreement, 2 months after the IBRD Consultative Group had recommended disbursement levels for 1964 and 1965, and 1 month after AID had signed a program loan—all after exhaustive review, negotiation, and agreement on conditions.

CIAP's review concentrated on the same problems as the earlier ones—the need for budgetary austerity; careful control of imports to

assure the availability of needed capital goods, especially for agriculture and for industries that would not depend on subsequent large-scale imports of raw materials; reduction of the short-term debt of the Bank of the Republic; tax reform; export promotion; the development of an agricultural plan; and the preparation of a rational scheme of manpower development, together with its implications for Colombian education.

The CIAP recommendations resulting from this review were substantially the same as the conditions for foreign assistance which had been negotiated earlier by AID, the IMF, and the IBRD. However, the Colombian Government was less hesitant in publicizing the CIAP recommendations than it had been about the earlier AID-IMF-IBRD conditions. There is little evidence, however, that this made a great deal of difference in what the Colombian Government actually did about the recommendations—or in what AID actually did about extending assistance.

The U.S. Congress has been willing to go further than the executive branch—or than many Latin Americans, for that matter—in giving CIAP more substantial powers. An amendment to the Alliance for Progress title of the Foreign Assistance Act, adopted in 1966, provides that:

Loans may be made under authority of this title only for social and economic development projects and programs which are consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

This is hardly a difficult task in view of the general nature of CIAP recommendations.

VII. THE PRIVATE INVESTMENT FUND

One of the proposals advanced by the IBRD as a result of its consideration of the Colombian 10-year development plan in 1962 was the formation of a Private Investment Fund (PIF). The Bank's mission to Colombia had concluded that the prospective sources of non-inflationary internal credit and of ordinary external credit would not be adequate to finance the investment in private industry and agriculture that would be needed if the goals of the development plan were to be achieved. The mission accordingly recommended that additional resources be provided by means of external credits to the Bank of the Republic with the local currency equivalent channeled to the private sector through a Private Investment Fund administered by the Bank. The foreign credits to the Bank would be used to finance imports, principally of capital goods needed to carry out the development program and to increase private productive capacity. Funds from PIF would be lent to private borrowers through institutions having access to the credit facilities of the Bank of the Republic. The intermediate lending institutions would be fully liable for repayment of PIF loans to the Bank.

The fund would primarily be used for medium- or long-term loans for investments resulting in export promotion, import substitution, and bottleneck-breaking (e.g., cement industry). Hopefully, also, the fund would promote the development of new, small-scale industrial enterprise. The World Bank mission estimated that \$40 million would be needed during 1963-65 to supplement financing available from

noninflationary internal sources and from external loans from other sources.

Prior to the January 1963 meeting of the IBRD Consultative Group, the IBRD staff expressed great optimism that European countries would participate heavily in the fund. The United States was particularly interested in this aspect of the IBRD program and decided to stand ready to make up any shortfall in the fund's resources.

In the agreement for the \$60 million development loan in December 1962, it was provided that the local currency counterpart generated by the loan be used to finance projects primarily in the private sector, under AID approval and within the framework of the Colombian development plan. In January 1963, it was agreed that up to \$30 million of the peso counterpart would be designated for the Private Investment Fund. (At the IBRD Consultative Group meeting, the Netherlands proposed lending the equivalent of \$1.4 million. Other participants in the meeting generally approved the idea of the fund, but were not ready to implement it.)

The fund was created by the Colombian Congress February 28, 1963, generally along the lines envisaged by the IBRD's mission. It was made clear the PIF credits would only supplement other investments; in no case would they cover the total value of a project. Individual loans could not exceed 3 million pesos, but this limit could be breached in "exceptional" cases. Loan terms could be up to 5 years in agriculture and up to 10 years in industry. Interest which could be charged the ultimate borrower by the intermediate lender ranged up to 8 percent for 3-year loans, 9 percent for 5-year loans, and 10 percent for loans with longer maturities. Loans could be made for longer than 10 years by special arrangement with the Bank of the Republic, and the bank could also change the specified interest rates "when economic conditions require it." The Bank of the Republic was to charge the intermediate lender 4 percent.

A. IMPLEMENTATION OF THE PIF

The initial financing of the PIF was provided in March 1963 in the form of 60 million pesos in counterpart (\$6.7 million equivalent) generated by the first tranche of the program loan which had been disbursed in January. U.S. officials made it clear to the Colombian Government that any further PIF financing by the United States would be dependent on actual experience with the PIF and on joint review of any modifications in operation found mutually desirable by the Colombian Government, the Bank of the Republic, and the sources of external financing, naturally including the United States.

By August 1963, the first issue concerning the PIF arose between the United States and Colombia over the use of counterpart pesos. At that time, the Colombian Minister of Finance expressed his concern about the impending 1963 budget deficit, and on various occasions requested that pesos reserved for the PIF from the December 1962 program loan, but not needed for PIF disbursements during 1963, be shifted to budget support. This request came into direct conflict with U.S. policy which viewed the domestic credit system of the country as the key tool with which to channel development assistance into private sector production.

The unused pesos in the PIF were not the result of a scarcity of loan applications, but rather of initial administrative lethargy in processing the applications. The request to divert the pesos to the budget was made when it appeared to Colombian authorities that the amount of pesos allotted to the fund would exceed the value of loan applications processed in 1963. The U.S. reaction was to urge the Bank of the Republic to expedite the consideration of loan applications and the commitment of these funds to the private sector so as to avoid the accumulation of large uncommitted balances in the fund which could become an irresistible attraction to the Government for budget uses.

This policy was so successful that by November the Finance Minister was asking for more counterpart pesos generated by the program loan to be authorized for the fund, and 150 million pesos were so authorized.

By the end of December 1963, the PIF had also received commitments of \$3 million from the Inter-American Development Bank and \$1.4 million from the Dutch Government. The IDB loan was earmarked solely for foreign exchange purposes. Later, the PIF also received a line of credit equivalent to approximately \$5 million equivalent in deutsche marks from Kreditanstalt of Germany.

By mid-1964 (the time of the second meeting of the IBRD Consultative Group on Colombia), the PIF had received 118 applications totaling 512 million pesos (US\$57 million), and had approved loans for 70 projects totaling 327 million pesos (US\$36 million). Seventy-eight percent of the number of loans approved exceeded the 3 million pesos limit specified in the fund's charter. At that time the IBRD noted that if the Private Investment Fund was to be the main channel for providing medium- and long-term financing for the private sector, it would require additional foreign loans at the rate of about US\$40 million a year. (Of the \$36 million equivalent in loan commitments made by the PIF during its first year of operations, only \$26 million in foreign financing had been committed. Bank of the Republic lending policy was that all loan approvals in excess of pesos on hand were conditional; that is, that pesos needed in later periods would be provided only if funds were available.) However, the scale of additional financing recommended by the IBRD was not forthcoming. By March 1965, the only increase in the total available PIF resources was an AID loan of \$10 million to the Bank of the Republic in December 1964 to finance the foreign exchange costs of PIF-approved projects.

The shortfall in anticipated foreign financing resulted in a gap between PIF commitments and disbursements in 1963 and 1964. By the end of 1964, 93 loans totaling 438.3 million pesos were approved by the board of directors of the PIF, while disbursements for that same period reached only 268.8 million pesos, out of total resources of 302 million pesos. US AID officials expressed concern about the continuance of the policy of making loans in excess of firm resources, but nevertheless agreed to consider the possibility of allocating 270 million pesos from the proceeds of AID program loans for 1965 to provide the PIF with sufficient funds to cover its projected obligations.

By the middle of that year, however, some disillusionment was apparent in the AID Mission in Bogotá, though the Mission still expected to provide additional peso support for PIF. The Mission continued to

consider the PIF with cautious optimism, but was not yet satisfied that the fund was in fact an effective, self-perpetuating institution which had approached the realization of its potential. There was a widespread suspicion that PIF funds were being channeled mainly or entirely to the large customers of the intermediate credit institutions. Bank of the Republic personnel were not satisfied, either, with the quality of the investment investigations done by these intermediate institutions or with the Bank staff's own capacity to examine projects; yet the bank's management had so far rejected U.S. technical assistance.

Some thought was given to creation of a Government bank to furnish small- and medium-industry credit, but ways were not found to overcome the problem of reasonably pinpointing such credit toward development objectives rather than scattering it over the vast area of essential and unessential, efficient and inefficient, small and medium industry alike.

B. FINANCIERAS

Almost half of the project loan applications channeled to the PIF were made through *financieras* or finance corporations established principally to foster industrial development. The *financieras* were, in fact, predecessors to the idea of the Private Investment Fund. As early as 1961, the IDB made a \$1 million loan to the *Corporación Financiera Colombiana de Desarrollo Industrial, S.A.* (Colombian Financial Corporation for Industrial Development, Inc.), for industrial development projects in Colombia. The corporation was to relend the funds to small and medium industries to enable them to purchase new equipment and build additional facilities. Preference was to be given to industries producing for export or those whose products substituted for imported articles. This particular corporation had begun operations in 1959 as a private development bank whose principal purpose was to channel domestic and foreign capital toward the promotion of domestic mining, industrial, and agricultural production.

When the PIF was created, and supplied with counterpart pesos from the AID program loan, the IBRD suggested the alternative of the World Bank lending to the *financieras* directly rather than participating in the PIF. U.S. officials agreed that this sort of operation was necessary to supplement the activities of the PIF. They suggested that the *financieras* might be the channel for individual loans to the ultimate borrower larger than the PIF ceiling, and also indicated that it might not be a bad idea for AID to put money into the *financieras* directly. This, it was felt, would enable the United States to influence the *financieras* toward full-scale development operations, would make additional capital available to the private sector, and would strengthen the ability of the *financieras* to employ technical and management services. In the tight monetary situation which prevailed in Colombia during 1963, additional loans to *financieras* appeared an especially useful tool to expand available private sector development financing and to influence the Colombian credit system.

However, it was eventually decided to limit AID participation in private sector lending to the Private Investment Fund. Part of the reason behind the U.S. decision may have been the feeling voiced by Mission officials that to respond favorably to the separate *financiera* applications might mean financing second priority projects or proj-

ects which could receive financing elsewhere, since first priority projects presumably were to be covered under the PIF, and the *financieras* had shown themselves able to obtain financing elsewhere—from U.S. and European banks and the International Finance Corporation, as well as the IDB.

In May 1966, after two and a half years of negotiation, the IBRD lent the Bank of the Republic \$25 million for the specific use of five private *financieras* on condition that the established interest rate structure would be relaxed so that a more reasonable long-term rate—approximating a free market level of 14 to 16 percent—could be established and that the existing flexible ceiling on loan size of 3 million pesos would be abandoned for this particular credit. In April 1968, the IBRD made another loan (\$12.5 million) to the *financieras*.

VIII. AGRICULTURE

A. SUMMARY

The Charter of Punta del Este contains two agricultural objectives—increased productivity and agrarian reform. Although these are mutually consistent over the long term, they present certain short-term contradictions, particularly when limited resources are available to devote to them. This is especially so in the case of an agricultural sector such as Colombia's, which has been well described in a statement by the AID Mission in Bogotá to the House Banking and Currency Committee:

In discussing the structure of the agriculture sector in Colombia it is helpful to make a distinction between the traditional segment and the capitalized (i.e., mechanized crop production and beef cattle) segment. Each of these segments has its own requirements with respect to kinds of land resources used, each produces its own types of agricultural products, each has its own sources of credit and of technical information and each serves largely independent end-use demands. The surprisingly small amount of competition between the traditional segment and the capitalized segment of Colombian agriculture in the marketplace and in use of soil resources is due to the circumstance that the two segments do not produce the same agricultural products. Thus it is not exact to describe Colombian agriculture as being in "transition" from traditional to modern agriculture. Rather, it is traditional agriculture to which a modern agriculture is being added, largely through the introduction of new agricultural products. Moreover, it seems probable that this dichotomy will continue for some time, with separate services, institutions, marketing arrangements and policies for each of the two segments. From the standpoint of substantially increasing the national agricultural product, the capitalized segment offers far more flexibility than the traditional segment of agriculture.¹

From one time to another, AID has vacillated between emphasizing productivity (or economic considerations) and emphasizing land reform (or social considerations). This has been due in part to pressures from within Colombia, where for political reasons AID (and more importantly the Colombian Government) have felt that one purpose could not be emphasized unduly at the expense of the other.

On balance, however, the main thrust of AID's agricultural program in Colombia has been toward increasing productivity. This has been a reflection of AID's overall program in Colombia, which has been one basically of balance-of-payments assistance aimed at economic

¹ U.S. Congress, House Committee on Banking and Currency; Subcommittee on International Finance, "Food for Progress in Latin America," 89th Cong., second sess., 1967, p. 79.

stabilization as a basis for growth. The greatest benefit that the balance of payments can derive from agriculture is through increased agricultural exports, and thus AID's program in agriculture has tended to emphasize (though not exclusively) activities aimed at the increase and diversification of agricultural exports, as distinguished even from increased production of basic foodstuffs for domestic consumption except to the extent, perhaps, that such increased production would substitute for imports. Indeed, all of the AID loans to the agricultural sector have also provided balance-of-payments support through financing the import of goods which are not necessarily related to the project at hand.

These loans, which will be discussed in more detail below, totaled \$38.5 million from fiscal year 1962 through fiscal year 1968. An additional agricultural sector loan of \$15 million was made early in fiscal year 1969 out of 1968 funds. All of these loans are repayable in dollars. Further, Colombian agriculture has been allocated 985 million pesos of program loan counterpart and has received \$7.6 million in technical assistance during the Alliance for Progress period. This program loan counterpart figure does not include Private Investment Fund pesos which were channeled to the private agricultural sector for credit, nor does it include counterpart allocated to budget support which found its way to the Ministry of Agriculture.

Finally, note should be taken of Public Law 480 assistance, which represents agricultural inputs into the country, though by no means all of the counterpart has gone into agricultural projects. Between 1962 and 1967 a total of \$108.9 million in Public Law 480 assistance was committed to Colombia. A shortfall in deliveries of U.S. agricultural commodities, however, reduced the final value of these agreements to \$76.6 million. Under a 1963 title IV agreement, the Colombians declined to purchase the full quota of tobacco stipulated because of domestic problems with contraband imports. A 1964 title I (local currency sales) agreement was curtailed because of heavy Colombian inflation which made purchases at the highest exchange rate prohibitive. A 1966 title IV (dollar sales) agreement was not complied with by the United States where low wheat surpluses forced a diversion of the Colombian allotment of wheat to India which was facing a food shortage crisis. On May 31, 1968, a new \$13.6 million title IV agreement was signed with Colombia.

Efforts to increase Colombian agricultural production, however, have been at best only moderately successful. Indeed, on a per capita basis, food production in 1967 was only 96 percent of the 1957-59 average.

B. DEVELOPMENT OF U.S. POLICY

1. Technical assistance

At the time the Alliance for Progress began in August 1961, the United States had been furnishing technical assistance to Colombia in agriculture for a number of years under the point 4 program through an agency known as *Servicio Técnico de Asistencia Colombiano-Americano* (STACA). This was one of a number of *servicios* which had been created throughout Latin America in the 1940's and 1950's, some of them predating point 4, to furnish technical assistance,

primarily in the fields of health, education, and agriculture. *Servicios* were staffed and funded jointly by the United States and the Latin American country involved. In the case of STACA, more than half the costs were paid by the Colombian Ministry of Agriculture, and United States and Colombian technicians worked side by side to carry out STACA programs, the basic goal of which was to train Colombians.

At the time the Alliance for Progress came into being, STACA was conducting eight projects—agricultural economics, agricultural administration, agricultural extension, forestry, agricultural engineering, special tropical products agriculture, livestock improvement, and agrarian reform and supervised agricultural credit and cooperatives.

Aside from STACA's technical assistance activities, the United States made \$34.2 million in loans of Public Law 480 counterpart during the 1950's to Colombia's Agrarian, Industrial, and Mining Credit Bank (*Caja de Crédito Agrario, Industrial y Minero*, popularly known as the *Caja Agraria*). By the end of 1961, almost 90 percent of these loans had been disbursed—mainly, so far as agriculture was concerned, for large-scale projects such as fertilizer production, irrigation projects, lumbering, and reforestation.

With the coming of the Alliance for Progress, U.S. policy with respect to assistance to Latin America underwent a massive change. Hitherto, U.S. aid had been limited mainly to technical assistance under the point 4 concept that this would gradually teach the Latins better ways of doing things. Now, U.S. aid was aimed at total economic development, accompanied by social reform. The shift was from agronomists, or other specialized technicians, to macroeconomic planners.

This big change proved rather difficult to bring off, personnelwise. The "shirt-sleeve diplomats" of point 4 found themselves no longer wanted, while their places were taken by the economic developers, who likewise were found to be in short supply.

In 1961-62, the *servicios*, which had been the instrument of the point 4 program in Latin America, were liquidated throughout the hemisphere, as the United States moved from a program of technical assistance to a program of economic development and social reform. The end for STACA came in December 1962.

Technical assistance activities were continued, however, outside the *servicio* framework. Specifically, AID continued STACA projects in agricultural diversification and agricultural planning which had been begun in fiscal years 1960 and 1961, respectively. The diversification project has provided technicians to the Livestock Bank (*Banco Ganadero*) and the Land Reform Institute (INCORA) and has been geared to backing up the development loans made to these organizations. The planning project is directed to the Colombian Ministry of Agriculture and is aimed at improving that organization's efficiency.

In addition, in fiscal 1966 a project was started in agricultural education. This is being carried out by the University of Nebraska which is working with the *Instituto Colombiano Agropecuario* (ICA-Colombian Agricultural and Livestock Institute) and the National University to improve agricultural education, research, and extension activities.

The central theme of all of these projects is increased agricultural productivity.

2. Agriculture project loans

In August 1961, the old Development Loan Fund lent the Caja Agraria \$8 million to provide production credits to support small farms involved in agrarian resettlement programs. The terms were 4 percent for 20 years with a 1-year grace period for repayment of principal.

This loan was intended to deal with the social aspects of Colombia's agricultural problem. The basic agrarian reform legislation creating the Agrarian Reform Institute (INCORA) was not enacted until later in 1961, but meanwhile the Caja Agraria was concerning itself with resettlement of landless *campesinos* and with helping those who simply squatted on vacant land. This loan was intended to enable the Caja to provide subloans to these family-sized units in a program of supervised agricultural credit. It subsequently developed that the loan was in fact used to liquidate an existing debt of the Colombian Government to the Caja. In 1966, AID reached agreement with the Government to recommit the loan in accordance with the original intent.

In June 1963, AID lent INCORA \$10 million, again for supervised agricultural credit to family sized units. The program contemplated both credit and technical assistance; the credit would be extended against a farm plan worked out between the technical adviser and the farmer. The terms were 0.75 percent for 40 years with a 10-year grace period. By the time the loan was fully disbursed at the beginning of 1966, it had contributed to the training of more than 200 INCORA supervisors and more than 8,600 subloans were made. AID estimates that there are 890,000 family sized farms in Colombia, of which about half are large enough—that is, 12 to 50 acres—to make proper use of supervised agricultural credit. The figures indicate that the average loan was something more than \$1,000, and this in turn implies that most of the loans, dollarwise, went to larger units.

In July 1964, AID lent the Banco Ganadero (Livestock Bank) \$4 million. The terms were 0.75 percent during the 10-year grace period and 2 percent during the subsequent 30 years of the loan's maturity. The Bank's sub-borrowers were to repay in pesos at 2 percent over 20 years, with a 5-year grace period. The purpose was to increase cattle production through the purchase of breeding stocks, acquisition of new equipment, and pasture improvement. The loan was aimed mainly at increasing Colombia's livestock exports and thus improving the balance of payments. A secondary purpose was to allay fears which had been engendered among ranchers by the agrarian reform law. More efficient exploitation of ranchlands would tend to protect them from expropriation.

In March 1966, AID lent INCORA \$8.5 million to continue the supervised agricultural credit program started in 1963. The loan was for 20 years with a 10-year grace period at an interest rate of 1 percent during the grace period and 2.5 percent thereafter. The same terms applied to sub-borrowers. The loan was supplemented by the allocation of 65 million pesos in counterpart derived from program loans.

The subloans were to be directed mainly to *campesinos* involved in INCORA's resettlement programs.

In July 1966, AID made a further loan of \$8 million to the Banco Ganadero for continuing the activities financed by the 1964 loan. These had been spectacularly successful, as Colombia's exports of cattle, beef, and related products increased from \$351,000 in 1961 to \$11.7 million in 1965. A part of this apparent increase probably reflected better statistical reporting and a decline in smuggling across the Venezuelan border. The new loan was for 40 years with a 10-year grace period at an interest rate of 1 percent during the grace period and 2.5 percent thereafter. Sub-borrowers were to repay at 5.5 percent over 20 years with a 7-year grace period.

Finally, in July 1968, AID made its first sector loan to Colombian agriculture—\$15 million for 40 years with a 10-year grace period and interest at 2 percent during the grace period and 2.5 percent thereafter. This is in all respects like a program loan, but all of the conditions relate to agriculture and all of the counterpart is allocated to agricultural projects previously agreed to.

The loan is to be used to finance imports needed by Colombia's commercial farms and the counterpart is to be used primarily for infrastructure projects oriented to rural development and agrarian reform. In addition, the loan is tied to policy and institutional reforms aimed both at encouraging private investment in large-scale commercial agriculture and at accelerating the distribution of land titles to INCORA colonists. Thus, the loan seeks to bridge the dilemma between economic and social objectives.

IX. EDUCATION

As U.S. policy toward assisting Colombian agriculture vacillated between an economic and a social emphasis, so U.S. policy toward assisting Colombian education vacillated between emphasizing, at various times, assistance to primary education, to secondary education, to vocational education, or to universities. As in the case of agriculture, aid to education was also caught up in the dilemma posed by the political desirability of producing immediate results in a situation where most programs had to be long range.

The United States began technical assistance to Colombian education as early as 1943, when an educational *servicio* was organized. The effort, however, was extremely modest, amounting to only \$700,000 in U.S. funds over the 18 years from 1943 until the beginning of the Alliance for Progress. Additional funds were supplied by the Colombian Government for *servicio* projects in education management and planning, primary education, vocational agricultural education, and trade and industrial education. From 1958 through 1961, the United States spent an additional \$191,000 on educational demonstration projects.

In 1961, as the Alliance for Progress was starting, the Colombian Ministry of Education drew up a 4-year primary education plan aimed at the ambitious goal of providing primary education for all children between the ages of 7 and 11. The plan called for the construction of 22,000 classrooms, four normal schools, the training of 9,500 new teachers, the upgrading of about 11,000 additional teachers through inservice training, and the training of 400 supervisors and 2,500 school

administrators and inspectors. This was very much in accord with the Charter of Punta del Este and its emphasis on the elimination of illiteracy. Thus, on December 12, 1961, AID signed a primary education agreement with Colombia providing for a U.S. contribution of \$3,540,000 and Colombian financing of 47,850,900 pesos (the peso at that time being approximately 8.50 to the dollar). In March 1963, 28 million pesos (the peso then being approximately 9 to the dollar) of counterpart from program loans was made available to the Education Ministry budget for primary school construction, furnishing, and administrative expenses. This was despite the fact that the Colombian Government had not met its scheduled contributions under the original project agreement. In November 1963, AID also acquiesced to a Colombian Government decree which allocated approximately 11 million pesos from the early 1962 supporting assistance loan to the Ministry of Education, to be used primarily for payment of teachers' salaries and Christmas bonuses. Meanwhile, in 1962, the *servicio* had been terminated and an administrative office for all national education programs established within the Ministry of Education.

By mid-1965, all of the funds for the primary school construction project had been expended, but only about 5,000 classroom units had been built. One reason for the shortfall was management difficulties, but another reason was an increase in classroom unit cost from an original estimate of 17,000 pesos in 1961 to 28,000 pesos in 1964.

Even while supporting the primary school construction project, AID began to have serious second thoughts about the matter and about Colombian educational efforts in general.

A spate of reports in the early 1960's—from the Ford Foundation, the OAS wise men, UNESCO, the IBRD, and AID itself—had stressed the importance of qualitative improvements as well as school construction. At both the primary and secondary levels, the curriculum was oriented toward preparation for the next stage of education which only a minority of students would attend. Dropout rates were high, especially in rural primary schools, and many students reverted to illiteracy. Teachers at both primary and secondary levels were poorly trained. In concentrating on college preparation, the secondary schools discouraged enrollment in the urgently needed technical categories offered by normal, industrial, and agricultural schools. There was a wasteful proliferation of universities (24 with only 34,220 students by 1964). Because students were forced to make their career choices upon entering the university, they usually chose the traditionally prestigious occupations of law, architecture, or economics, and devoted little attention to industry or agriculture. Faculty salaries were low, and most professors were part time. The Ministry of Education itself suffered from a high turnover of personnel, the overcentralization of routine procedures in the Office of the Minister, and the lack of any clearly formulated long-range program objectives. It was attempting the impossible task of directly administering hundreds of schools. Finally, the resources devoted to primary education varied widely from one department to another.

The reports which made these findings generally coincided also in their recommendations. These were for a reorganization of the Ministry of Education, including the transfer of primary school administration to the departments; development of an overall education pol-

icy looking toward establishment of a balanced system related to the country's needs for development; a modification in the construction goals for primary schools; a substantial increase in investments in secondary, vocational, technical, and higher education; a more balanced geographical distribution of the national education budget; and more emphasis on teacher training and the gathering of manpower data.

Further, it appeared that the primary school construction program had been undertaken without adequate consideration of the scope of the program or of the speed at which the goals could be approached. These goals had been stated almost entirely in quantitative terms with little attention given to the quality of the teacher or to the qualitative aspects of what the child was to learn. Even in quantitative terms, there was no evidence that the supply of teachers was expanding at the same rate as the number of classrooms. The expansion of primary schools was creating a whole new set of massive demands on secondary schools.

AID's response to this situation was to refrain from making loans for education, pending the investment of more of Colombia's own resources, and to limit itself, with a few exceptions, to technical assistance. One of the more important technical assistance projects was to provide advisers to a new planning office which was created in the Ministry of Education in early 1964.

A. EDUCATIONAL TELEVISION

After administrative weakness and financial crisis had doomed two earlier educational television attempts by the Colombian Government (1955 and 1960-62), Peace Corps representatives picked up the idea in late 1962 as a way to counter the teacher shortage. The Colombian Government then requested U.S. assistance through the Alliance to aid Peace Corps and Colombian agencies in carrying out the project. By December 1962, the project had won the support of the U.S. Ambassador who saw it not only as a means to improve education in Colombia, but also as a demonstration project to provide an example to other underdeveloped countries of the controlled use of educational television. He suggested that AID should be responsible for the purchase and delivery of reception equipment, the Peace Corps would handle recruitment, training and salaries of its own volunteers and professionals to service the project, and the Ford Foundation should participate in the development of broadcast program content, and in continuous experimentation, testing, and evaluation. The Colombian contribution was to be the provision of television network operations, teacher education and added teacher supervision. The AID Mission endorsed the proposal and recommended that the AID portion of the financing be provided through a development grant. An agreement was signed on June 27, 1963, for joint Peace Corps/AID participation in the project. AID obligated \$575,000 to be used for the procurement of 1,500 TV sets, essential hardware for operation, educational materials for classroom use, and shipping charges. AID also provided \$59,000 to finance the training in the United States of 28 Colombian technicians connected with the project.

The inauguration of Colombian ETV took place in February 1964, under the Colombian sponsorship of the Ministries of Education and

Communications. The network was to transmit 20 to 25 hours a week of instruction to primary grades in language, mathematics, social and natural sciences in 500 schools, and would also conduct teacher training sessions several hours a week. A Colombian Institute under the governing board of the two Ministries controlled the content of instruction, designation of courses and teacher participation. The failure of the Institute's planning committee to meet frequently and the failure of the Ministry of Education to provide sufficient Colombian technicians caused the project to falter badly during its first year of existence. Ford Foundation support faded when the Colombian Government delayed in submitting the organizational and funding assurances requested by Ford's chief representative in Bogotá. AID's enthusiasm also waned, in part because the school construction project was coming under increasing criticism and AID officials were reluctant to get deeply involved in another piecemeal impact project in education. They reiterated on several occasions in 1963 that AID's support of the project was limited to initial hardware.

By September 1965, only 850 of the planned 1,500 TV sets had been installed. Recommendations were made in the State Department that "future ETV projects should be initiated only after substantial evidence is given that the host government is sincerely interested in having such a program. This means the provision of a realistic, viable program by the Ministry of Education." What this recommendation overlooked was the fact that AID administrators in 1962 had been influenced by the initiatives already taken by Colombia to institute an ETV program and by Colombian officials' enthusiastic commitments to comply with AID's administrative suggestions.

The survival of the ETV project was assured by the continuous activity of the Peace Corps under a dynamic and dedicated project director. By December 1965, 1,000 of the 1,500 sets had been installed in elementary schools of seven departments. ETV programs were reaching approximately 350,000 Colombian schoolchildren and 6,000 primary schoolteachers (the source of the most enthusiastic support for the program). Decentralization of project administration was put into effect by 1966, thus deepening local commitment to the longevity of the program. This Peace Corps initiative and planning brought AID Mission interest back into the project, and in March 1966, a new project agreement was signed committing \$25,000 additional AID grant dollars for the purchase of equipment needed to complete facilities of new ETV studios. Despite the further expansion of the program (1,250 receivers installed by February 1967) and increased participation at the departmental level, one of the major stumbling blocks continued to be the inability of the Ministry of Education to meet its financial commitments as stated in the two project agreements.

B. ASSISTANCE TO SECONDARY EDUCATION

Several overtures were made to the AID Mission by the Colombian Government for grant assistance to secondary school construction prior to 1966, but AID refused to allocate funds for this purpose because of the lack of a basic overall plan for reorganization of the secondary system. Between 1964 and 1966, however, AID did furnish approximately \$240,000 in technical assistance to a national education plan-

ning project, the major focus of which was secondary education. In January 1966 the National Education Planning Mission in Colombia recommended that the fragmented system of small single-purpose schools be replaced by a system of large all-purpose or comprehensive high schools. These schools were to be considered as a first step in a program for the reorganization of the total structure of secondary education in Colombia. The new schools were also to serve as centers for the demonstration of new teaching techniques and for inservice education of teachers. Two other reasons for building large all-purpose secondary schools would be to reduce per pupil costs and facilitate curriculum reform. The basic 4-year course would provide all students with minimum skills in preparation for earning a living at the semi-skilled level. Completion of an additional 2-year course would provide the student with opportunities for greater specialization and allow him to continue studies at the university level. The proposal was adopted by the Ministry of Education and in anticipation of an IBRD loan in support of the project, the Government included an appropriation in the national budget for its share of the costs of building the schools and acquiring the school sites.

During the spring of 1966, indications were that the IBRD was prepared to act quickly and favorably on the loan proposal subject to the understanding that USAID would provide the essential technical assistance and participant training. (AID technical assistance was specified because of AID experience with the Colombian educational system.) Both AID and UNESCO, which were already in the process of providing technical assistance to the national educational plan, participated in the preparation of the IBRD loan application. The AID effort was aimed primarily at designing new curriculum organizations and subject matter content. Subsequently, this was expanded to include the development of college of education faculties for secondary school teaching. It was also contemplated that AID would provide contract teams with specialties in supervision and curriculum, school administration and finance, guidance, and specific subject matter areas. UNESCO planned to provide technicians in science, mathematics and audiovisual education. The project agreement committing \$11,200 of U.S. technical assistance to the final planning of the Colombian application for the \$12 million IBRD loan was signed on January 30, 1967. The agreement was amended in February, May, and June to raise the total value of U.S. planning assistance to \$196,200. This increase permitted the expansion of the technical advisory program in Colombia, and included provisions for a study-internship program for Colombian education administrators at the University of New Mexico.

The original target of the project was the construction of 18 comprehensive high schools. However, by the end of May 1967, AID technicians who had been contracted under the agreement and an IBRD representative in Bogotá recommended cutting this number in half for several already familiar reasons: (1) the lack of Colombian manpower available to complete the plans; (2) inability of the Ministry of Education to support the new schools and salary increases for teachers in the future; (3) inadequate supervision facilities in the Department of Inspection of the Ministry of Education to help the new schools grow and improve; and (4) the indecision on the part of the Ministry of

Education on the basic questions of the capacity and organizational structure of the proposed schools. The completed loan application was submitted to the IBRD in October 1967, and in July 1968, the loan agreement was signed in the amount of \$7.6 million for 10 high schools as the first stage of the larger project. AID, however, continued to base its program requirements on the ultimate project of 18 schools. It justified the expansion of its technical assistance program on the completion in 1965 of a joint national education planning study which it undertook with the Ministry of Education and which provided a general plan for educational reform and gave priority to an action program in secondary education. AID cited the extent of Ministry of Education participation in this project as one of encouraging developments toward reform of the Colombian educational system and recommended the approval of additional technical assistance funds for participant training. In 1968 AID was contemplating the negotiation of an educational sector loan, the amount to be determined.

C. U.S. ASSISTANCE POLICY TOWARD HIGHER EDUCATION IN COLOMBIA

The problem of the proliferation of Colombian institutes of higher education and the consequent duplication of effort and expense has already been mentioned. In 1962, the Colombian Association of Universities requested U.S. assistance to conduct a study of higher education for the purpose of developing a national plan. The immediate AID response to this request was in the form of two technical assistance contracts with American universities. One of these involved the School of Administration and Finance, Medellín, and Syracuse University. The project began in February 1962, with the objective of meeting the needs of Colombian industry for trained administrative personnel through the preparation of undergraduates and executive development programs. The project absorbed approximately \$840,000 and was extended to December 1966, in order to design a postgraduate fifth year course of study, and allow time for an evaluation of the curriculum.

The second contract was between the University of Los Andes, Bogotá, and the University of Minnesota. The objective was to establish a program of graduate study in economics, leading to a master's degree, and to assist in developing research techniques of the University's Center for Studies in Economic Development (which is largely supported by Colombian Government contracts for studies of local problems). The project absorbed approximately \$400,000 and was completed in May 1966.

These two efforts were minor contributions to the overall study which had been requested by the Association of Universities. It was not until January 1965, that concrete plans were made by the AID Mission to undertake an intensive study of postsecondary education in Colombia through a contract with the University of California for advice to the Planning Commission of the Association of Colombian Universities. The major reform objectives to be included in the program were (1) an improvement in educational standards; (2) substantial increases in enrollments; (3) reduction of duplication and waste; (4) optimum use of human and financial resources; and (5) an increase in the number of well-qualified graduates. Before any of these

goals could be accomplished, however, close attention had to be given to the reorganization and reform of the National University which represented approximately 25 percent of the total university enrollment in Colombia, and had continuously been the center of considerable political activity. AID interest in financially supporting National University reform developed between June 1964, and March 1965. During that period, the newly installed rector of the university, José Félix Patiño, took several preliminary steps toward administrative reorganization, stemming student unrest, adding full-time faculty members, and consolidating some of the schools in the university complex. These initiatives plus a desire to alleviate student dissatisfaction with inadequate facilities on the campuses prompted AID administrators to propose the allocation of peso proceeds from the 1964 program loans toward the completion of construction of a new library and student center. It was not until December of 1965, however, that the amount of 15 million pesos in counterpart was agreed upon.

In anticipation of further USAID peso support, Patiño and the National University Planning Commission drew up a comprehensive reform program based on a 4-year investment plan. The plan aroused much enthusiasm among AID officials in Washington and Bogotá, and stimulated several proposals for U.S. loans as well as extensive technical assistance. The main objectives of the reform program were: (1) orientation of the university program toward the nation's development needs; (2) improvement of the university faculty and its conversion from a part- to full-time basis; (3) implementation of a student welfare program, including a student loan fund (90 percent of the students came from low-income families); and (4) the centralization and strengthening of administration through the establishment of standard procedures. Despite strong U.S. interest in supporting the National University effort, however, it was finally decided that the IDB would provide a more acceptable source of funds. The IDB agreed with this approach and worked out its own loan agreement with the National University and the Colombian Government.

An IDB loan of \$7.7 million was authorized in December 1966, to finance up to 41.8 percent of the project costs included in the 4-year investment plan. Both this loan and AID's release of the 15 million pesos in counterpart were contingent on a larger budget allotment from the Ministry of Education to the National University. In February 1968, the United States agreed to the allocation of an additional 30 million pesos of grant counterpart funds to support the National University 4-year development plan.

D. U.S. COUNTERPART SUPPORT OF COLOMBIAN SCHOLARSHIP PROGRAM

During his visit to Bogotá in December 1961, President Kennedy suggested that a substantial grant should be made to Colombia to provide scholarships to underprivileged secondary and university students. Shortly thereafter, the Colombian Institute for Technical Specialization Abroad (ICETEX, after its Spanish initials) submitted a loan proposal to the AID Mission.

ICETEX is an autonomous Government agency which was founded in 1952. It has engaged primarily in making loans to needy Colombian university students, for study both in Colombia and abroad, mainly

in the fields of engineering, education, and agriculture. It makes loans exclusively on the basis of academic records, subject to applicants being admitted to the university of their choice.

At the time of its loan application to AID, ICETEX had already financed a survey of high-level human resources in Colombia to provide information for university program planning. The proposed loan was intended to finance the local currency requirements of the ICETEX program with emphasis on scholarships in technological and scientific fields in order gradually to fill the existing gaps in skilled and high-level manpower.

The loan proposal was supported by AID administrators in Bogotá and Washington as contributing to U.S. objectives in Colombia through the development of an institutional and manpower base, but the loan was not approved until the spring of 1964 when \$1 million in counterpart was allocated to the ICETEX scholarship program to be disbursed in five equal annual installments for loans to students for study in Colombian universities.

The program was suspended toward the end of 1965, however, because of a shortage of counterpart arising from delays in disbursement of program loans and of Public Law 480 sales proceeds and because no new program loans had been made since July 1964. In these circumstances, both the Colombian Government and AID agreed that other high-priority projects would have to absorb the pesos allocated to ICETEX. ICETEX was also undertaking a reorganization of its domestic scholarship program and felt it might not be able to use the pesos immediately. Subsequently, there has been developed a similar scholarship program financed through commercial banks and the Bank of the Republic and administered by ICETEX on the basis of academic qualifications.

E. AGRICULTURAL EDUCATION

In 1965, the National University and the Colombian Agricultural Institute (ICA, after its Spanish initials) began a joint effort to expand and upgrade the faculties of three agricultural colleges in order to orient agricultural curricula toward applied research and extension. The target campuses for this program were Medellín, Palmira, and Bogotá, and the principal objectives were crop diversification in traditional areas of production and the further development of tropical lands.

This project was shortly singled out by USAID as a potential major force in Colombia's economic development and as a prime target for technical assistance. On March 7, 1966, USAID contracted with a consortium of universities headed by the University of Nebraska for approximately 30 American professors to assist the National University and ICA in the modernization of existing curricula and teaching, research and extension methods, and to supplement the existing Colombian faculty in teaching important specialties. The project received a technical assistance grant of \$600,000. In June 1966, USAID concurred in a request by the Ministry of Finance to allocate 20 million pesos of counterpart on a grant basis to finance research and capital improvements under ICA's 5-year investment plan in conjunction with the project. In December 1966, an additional 57.3 million pesos of counterpart was allocated to the ICA for disbursement during calen-

dar 1967 under the same program. Further counterpart was channeled into the ICA project from the 1967 program loan as follows: July, 1967, 20 million pesos; February, 1968, 67 million pesos; and July, 1968, 5 million pesos.

In cooperation with the AID-ICA agricultural development program, the Ford and Rockefeller Foundations agreed in April 1968 to contribute \$750,000 each per year toward the establishment of a specialized research and training center in the field of tropical agriculture. The center is located at Palmira, in the Cauca Valley, with research concentrated on adapting improved crop variations to tropical Latin America. The center is associated with local schools of agriculture.

F. RECENT AID POLICY TOWARD THE MINISTRY OF EDUCATION

After its disappointment with the early primary school construction project, USAID notified the Ministry of Education that large-scale continuing grants to education would not be possible until a general plan for the reorganization of the public school system was developed. In view of the Ministry's efforts to draw up such a plan in connection with the secondary school construction project, AID encouraged the Ministry to submit a loan application. A loan application for primary and secondary school construction was finally received for \$13.7 million, which AID considered excessive. Parts of the plan, however, were in consonance with AID thinking, and during 1965 AID suggested that counterpart might be available. This idea was shelved, however, until the Ministry finally submitted its reorganization plan in January, 1966. This plan contained the following major points: (1) primary education should be financed at the local level (departmental and municipal) largely through the property tax, in order to allocate more national government resources to higher and secondary education; (2) secondary education should be financed by the national government and to some extent by the student; and (3) higher education costs should be reimbursed, at least in part, by the student after his graduation. Although AID had once been disillusioned with its activities in primary education, it now saw the Ministry's approach as a departure from the concepts of the Punta del Este Charter which had emphasized universal primary education and which had led to expectations of large-scale foreign assistance at the primary level. However, the Colombian Government agreed to increase the Education Ministry's share of the national budget from approximately 15 percent to approximately 20 percent, and in December 1966 AID agreed to the allocation of 100 million pesos in counterpart to public school construction projects—40 million pesos for primary education to assist in the construction of approximately 2,000 schoolrooms and 60 million pesos for expansion and improvement of the secondary school system. In February 1968, the United States agreed to the allocation of an additional 148 million pesos of counterpart grant assistance to the Ministry of Education to support school construction and improvement in primary, secondary and higher education.

G. PROSPECTS FOR THE FUTURE

Today more than one-third of Colombia's population over the age of 7 still can neither read nor write simple instructions, and are, therefore, functional illiterates. The majority of the population still has little more than 2 years of formal education. Until the new plan for improvement of the secondary education system is formally underway, the major emphasis will continue to be on preparation for a university education which is not in line with the development needs of the country. Higher education planning, which has been the focus of Association of Colombian Universities study, supported by a contract with the University of California, is still not seen as a governmental responsibility. The Association of Colombian Universities does not seem to speak for the Government, and the Ministry of Education has not involved itself in the present planning operations. There have also been indications that the universities themselves have not been and are not being involved enough in the development of the basic plan for higher education, and might well reject the fundamental tenets under which the study has proceeded if they were given an effective voice.

The Ministry of Education continues to suffer from policymaking and administrative weaknesses. While some progress has been made toward decentralizing primary school administration from the national to the local level, the problem of the relative weakness of the departmental and municipal governments has not been resolved. This has been one of the major causes of lack of adequate financing for education—one of the most serious handicaps to Colombia's educational improvement. In higher education, a similar problem exists. Universities cannot count on any specific amount of assistance from the departments or the National Government, and, therefore, cannot proceed with systematic, multiyear budgeting.

AID is considering an educational sector loan to Colombia which in effect would be a program loan tied to Colombian educational performance. The loan would finance imports which would not necessarily be related to education, but it would be related to major changes in the organization and financing of the Colombian educational system—for example, more adequate salaries, a strengthened planning office in the Ministry of Education, development of an improved system of financing, establishment of inservice teacher training centers, and preparation for a financial and administrative reorganization of the primary school system. It is anticipated that technical assistance will be extended in the fields of secondary teacher training and curriculum and administration.

The biggest problem, however, remains unresolved. In a situation where so much needs to be done, neither AID nor the Colombian Government has been able to decide what to do first.

X. EPILOG

The administration of an economic assistance program to any less developed country carries with it inherent obstacles, limitations, and contradictions, which often frustrate both donor and recipient in efforts to implement reforms. On the recipient side, the problems arise

from the very characteristics of underdevelopment: (1) institutional vacuums; (2) lack of technical skills and statistical data; (3) political and economic instability; (4) political dominance by a social and economic elite; and (5) strong nationalism and sensitivity to outside interference in domestic policies. The United States, on the other hand, has a tendency to project its own political, economic, and technical biases, to say nothing of its balance-of-payments difficulties, into its aid program. The history of the U.S. aid program in Colombia is replete with instances in which these forces have reacted to hinder progress toward development and at times to cause friction.

The factors of institutional voids, basic statistical data weaknesses, and a lack of skilled human resources combined to render obsolete the initial planning efforts of the Lleras Camargo administration in 1960-62, and hold down to a low level all planning activity and ministerial coordination during the 4 succeeding years of the Valencia administration. Project preparation in the key areas of education and agriculture was so poor that international lenders hesitated to invest in them, and initial U.S. impact projects foundered because of insufficient financial and technical backstopping. Even under the current Lleras Restrepo regime, lengthy delays have occurred in the drawing up of sectoral and subsectoral analyses upon which development planning can be based. Under such circumstances, U.S. projections based on overly optimistic estimates of Colombian short-term growth potential led to embarrassment and friction in annual negotiations with Colombian leaders.

The goals of the Charter of Punta del Este itself were overly ambitious, compressing into a decade changes which could more realistically be expected in a generation. False hopes were encouraged and some disillusionment was inevitable on the part of both lenders and borrowers as the magnitude of the task became more apparent.

A byproduct of this situation has been the emphasis by United States and other international lenders on macroeconomic self-help reforms which the lenders were better equipped technically to handle. In this area the conflicting goals of economic stability and economic development often complicated negotiations between the United States and Colombia, and frequent confusion resulted with the injection of other agency views (especially those of the International Monetary Fund). At times, programs of austerity and expanding investment competed for Government sponsorship, and more often, "objective" economic measures recommended by the United States for alleviating foreign reserve and budgetary strains ran counter to Colombian Government policy. A case in point was the reiterated suggestion by both AID and IMF officials that Colombia devalue its currency to bring domestic prices more in line with international hard currency values, and stimulate exports. Strong Colombian opposition to exchange devaluation was grounded in immediate, pragmatic considerations which were reflected in many of Colombia's other negotiating positions.

Another situation where conflicting and often counterproductive strategy marred development efforts arose when the United States attempted to cater to its own balance-of-payments problems and to Colombia's economic difficulties through the same mechanism—the program loan. By insisting on additionality—that is, that the value of U.S. exports financed by the program loan must be an addition to

the traditional annual value of regular commercial sales to Colombia—the United States has added discussion of an elaborate “positive list” to the normally complicated program loan negotiations, and thus reduced its flexibility in other areas of potential leverage. A side effect of additionality has been to discourage more active trade with Europe at the same time that the United States has been actively encouraging greater investment and participation by European countries in Colombia through the Consultative Group.

Another side effect of additionality has been to emphasize—through the selection of items for the positive list—U.S. exports of capital goods to Colombia. This, in turn, intensifies a dilemma which is common to all of Latin America. On the one hand, increased imports of capital goods enhance Colombia’s industrial capacity and expand its long-term potential for earning more foreign exchange. On the other hand, capital-intensive industry provides few job opportunities, and these only for an elite of highly skilled workers. In Latin America generally, capital is expensive and labor is cheap—the precise opposite of the situation which prevails in the United States and Western Europe. The technology of the United States and Europe is developed with a view to saving labor at the expense of capital. This does not meet the needs of Latin America, where it would be economically more efficient and socially more acceptable to make a greater use of labor and a lesser use of capital.

Failure of the Colombian economy to provide job opportunities for more than a fraction of its rapidly growing labor force casts a long and ominous shadow of massive unemployment and underemployment in the decade of the 1970’s.

On the other hand, failure of the Colombian economy adequately to expand its export capacity through the development of products which are competitive in world markets will become more serious as dollar repayment of the program loans of the 1960’s becomes due in the 1970’s. This foreign debt service problem will be aggravated by the steadily higher interest rates which have been applied to program loans.

PART II

Report by the Comptroller General

Administration and Management of Nonproject Assistance to Colombia

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., July 8, 1968.

Hon. J. W. FULBRIGHT,
*Chairman, Committee on Foreign Relations,
U.S. Senate.*

DEAR MR. CHAIRMAN: This is our report on the administration and management by the Agency for International Development of nonproject assistance furnished to Colombia during the Alliance for Progress. This review was made in response to your request of June 6, 1967.

A copy of this report is being sent to the Administrator, Agency for International Development, as authorized by the committee staff. No further distribution of this report will be made without specific approval of the committee.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States.

I. DIGEST

Why the review was made

The chairman of the Foreign Relations Committee, U.S. Senate, requested the General Accounting Office on June 6, 1967, to review the administration and management by the Agency for International Development (AID) of its economic assistance program for nonproject purposes in Colombia.

Nonproject assistance financed imports in support of Colombia's development program without tying these to specific projects. Project assistance has been directed to individual capital projects or technical assistance.

Findings and conclusions

The principal findings and conclusions are summarized in the highlights section of this report.

Economic assistance to Colombia from all sources from 1946 through December 1967 totaled \$1.6 billion. Of this amount, \$430 million was provided by AID, 91 percent of which was made available during the Alliance. AID's program in Colombia is its third largest in Latin America.

GAO's review showed that Colombia's aggregate economic and social progress during the first 5 years of the Alliance for Progress (1962-66) was less than AID and Alliance goals.

During the Alliance, AID has not made systematic or substantive evaluations of Colombia's progress and performance in many areas.

There has been a serious lack of basic data in Colombia, and no substantial progress has been made during the Alliance toward developing a system for gathering and assessing basic data in a timely manner.

In Colombia, AID:

- Did not develop a system for accumulating prior experience for application in developing its future strategy;
- Was not explicit or definite, in many instances, in its goals and targets; and
- Did not tailor its level of assistance to specific levels of country performance.

AID made no independent overall review of the adequacy and effectiveness of AID strategy for achieving U.S. and Alliance developmental objectives in Colombia.

Recommendations or suggestions

GAO has made four suggestions to the Administrator of AID which we believe may strengthen the administration and management of nonproject assistance. (See sec. X.B., p. 184.)

Agency actions

AID agreed that two of our suggestions warrant further consideration (see pp. 184 and 186) and, with respect to a number of other issues (identified in sec. III), AID agreed to take corrective action.

Issues for further consideration

AID has taken exception to two of our suggestions. (See sec. X.B.) The committee may wish to inquire further into some matters reviewed in this report. (See sec. XI.)

Legislative proposals

None.

II. INTRODUCTION

The General Accounting Office has examined into the administration and management of U.S. assistance furnished to Colombia by the Agency for International Development (AID) under the program lending technique for nonproject purposes during the Alliance for Progress. Our review was essentially completed in November 1967, and therefore, the contents of the report are based upon information available up to that time. This examination was made at the request of the Committee on Foreign Relations, U.S. Senate, included as appendix I, and pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our work was directed toward developing an exposition of how AID's program in Colombia was conceived and implemented along with special analyses which we determined to be useful and appropriate. A country's performance and progress can be analyzed against its past, against self-established goals, or by comparison with the performance of other countries in somewhat similar circumstances. We have used all three measures in this report. The extent to which each was used depended, in large part, on the reliability and comparability of available data.

The indicators of Colombia's economic and social progress and self-help performance during the Alliance, discussed in this report, were selected from those generally recognized by AID and/or other devel-

opmental authorities as being of paramount importance in the development process. We have not attempted to rank these indicators in any order of priority or significance with respect to Colombia.

Our review was made at the Washington office of AID and at AID's overseas mission in Colombia (referred to in this report as the mission). The scope of our review is further described in section XII.

Most of the matters discussed in this report were presented to the mission for comment during our review. The mission responses, approved by the AID Washington Bureau for Latin America, were taken into account, where appropriate, in preparing this report. A draft of this report was submitted to AID for review and comment on January 19, 1968. AID's comments dated March 19, 1968, and additional comments presented on April 19, 1968, are included as appendixes B and C, respectively, and are incorporated in applicable sections of the report and evaluated where appropriate.

The principal officials responsible for the administration of the economic assistance program in Colombia since 1961 are shown in appendix D. A summary of the types of nonproject commodities financed by AID for Colombia through June 30, 1967, and pictures illustrating the Colombian port warehousing of, and markings on, such commodities are presented in appendix E. A comparative summary of AID assistance to Alliance countries through December 31, 1967, is presented in appendix F.

III. HIGHLIGHTS

Our review, made at the request of the Senate Committee on Foreign Relations, was for the purpose of developing an exposition of how AID's program in Colombia during the Alliance was conceived and implemented. Colombia was selected by the committee as being fairly representative of the Alliance nations.

Our review showed that Colombia's aggregate economic and social progress during the first 5 years of the Alliance for Progress was less than Alliance goals. Colombia's average annual per capita economic growth rate was 1.3 percent during the Alliance, greater than the comparable per capita growth rate of 0.9 percent prior to the Alliance, but less than the Alliance growth goal of 2.5 percent.

During the Alliance, Colombia has expanded its transportation and electric power infrastructure, but its per capita agriculture production has lessened and its external debt burden has increased substantially. In the social area, progress toward transforming Colombia's land tenure and income distribution structure has been slow. Improvement in the availability of health and sanitation facilities has been achieved and about 224,000 housing units have been constructed, but the shortage of housing has become more critical.

Colombia has increased its school enrollment during the Alliance, but its overall achievements in the area of education have been less than Alliance and AID goals. However, we have noted that these goals, in some cases, were somewhat optimistic considering the circumstances in Colombia. A major factor contributing to Colombia's more limited than planned economic growth and social progress during the Alliance has been problems encountered in self-help efforts.

Our review of Colombia's self-help performance during the first 5 years of the Alliance, in terms of mobilizing its development re-

sources, revealed problem areas. Minimum levels of domestic saving were not attained, tax reforms achieved only limited success, the degree of inflation increased, there was a need for improved incentives to attract private foreign investment, little progress was made to solve the increasingly critical unemployment problem, and there was a limited expansion of exports.

With respect to Colombia's utilization of its available resources during the Alliance, there have been improved efficiency in use of available resources and increased utilization of Government revenue for development purposes. However, development planning efforts of the Government of Colombia encountered problems, nonessential commodities were imported, capital flight exceeded minimum acceptable levels and there was some loss of professional and technical personnel from the country.

During our review we noted that:

- AID, from the beginning of the Alliance, had not made systematic or substantive evaluations of Colombia's progress and performance in many areas.
- There was a serious lack of basic data in Colombia, and no substantial progress was being made during the Alliance toward developing a system for gathering and assessing such data in a timely manner.
- AID had not developed a system for accumulating prior experience in Colombia for application in developing its future strategy.
- AID goals and targets, in many instances, lacked specificity.
- AID had not tailored its level of assistance to Colombia to specific levels of Government performance.
- No management reviews had been made, by knowledgeable internal or external officials who had no direct responsibility for administering the AID program in Colombia, of the overall adequacy and effectiveness of AID strategy for achieving United States and Alliance developmental objectives in Colombia.

AID stated in its comments dated March 19, 1968, that the performance of the present administration in Colombia during its 18 months in office had been exceptional and that, if the current trend should continue, all previous efforts of AID would have been worth it. AID also pointed out that other international agencies shared this general optimistic attitude toward Colombia's progress in 1967. In this regard, AID estimated Colombia's overall growth rate as 4.6 percent during 1967 (equivalent to 1.4 percent per capita rate) and 6 percent or more during 1968 (equivalent to 2.8 percent per capita rate).

We are proposing that the Administrator, AID, take the actions necessary to—

- Insure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development.
- Develop alternative annual levels of assistance tailored to specific levels of Colombian performance.
- Develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to, specific improvements in Colombian performance.

—Require that the overall effectiveness of AID assistance strategy in Colombia be reviewed at appropriate intervals by knowledgeable internal or external officials who have no responsibility for management of the program.

AID has agreed to the fourth proposal above with certain provisos as outlined in section X and has agreed that our third proposal warrants consideration. With respect to our first proposal, AID has informed us that the subject evaluations are already carried out in Colombia. We do not agree that substantive evaluations have been made in many areas, and we have summarized a number of key areas where they were not.

With respect to our second proposal, we do not believe AID has developed an annual level of assistance for Colombia tailored to specific levels of Government performance. This is, in our opinion, contrary not only to AID-stated policy and public pronouncements but also to prudent management and, thus, deserves reappraisal.

Although it was not the principal thrust of our work, we noted several areas where we believed AID could improve its management practices, some of which would be substantive, others less so. We believe there is a need for improvement in AID's management to insure that:

1. AID-financed commodities are not substituted for commercial U.S. exports to Colombia.
2. Independent management reviews of overall AID strategy and effectiveness in Colombia are made at appropriate intervals.
3. AID-controlled local currency resources are allocated to priority Alliance objectives.
4. Available excess property is used as a first source of supply.
5. AID-financed commodities are actually received by Colombia.
6. Timely collections are made for ineligible procurements.
7. Adequate audit effort is applied to nonproject activities.

After we brought these matters to AID's attention, we were informed of actions being taken:

1. To insure that available excess property is used as a first source of supply in AID-financed procurement.
2. To establish an adequate commodity arrival accounting system.
3. To obtain collection for ineligible procurements.
4. To insure that adequate audit effort is applied to nonproject activities.

In commenting on our draft report, AID agreed that independent management reviews of overall AID strategy were needed, but did not inform us of planned actions to insure that:

1. AID-financed commodities are not substituted for regular Colombian commercial imports from the United States.
2. AID-controlled local currency resources are allocated to priority Alliance objectives.

IV. BACKGROUND

A. STATUTORY AUTHORITY FOR AID PROGRAM

The basic authority to finance economic assistance activities in foreign countries is provided by the Foreign Assistance Act of 1961, as

amended. This act provides that, under the direction of the President, the Secretary of State be responsible for the continuous supervision and general direction of economic assistance. The Secretary of State has delegated to the Administrator, AID, the above responsibility.

The statute provides that economic assistance activities may be financed by development loans or grant funds for the purpose of promoting economic development of less-developed friendly countries and areas. The legislation restricts development loans to cases where there are reasonable prospects of repayment and sets forth the following criteria which are to be taken into account in making each loan:

- Whether financing could be obtained in whole or in part from other free-world sources on reasonable terms, including private sources within the United States.
- The economic and technical soundness of the activity to be financed.
- Whether the activity gives reasonable promise of contributing to the development of economic resources or to the increase of productive capacities.
- The activity's consistency with, and relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives.
- The extent to which the recipient country is responsible to the vital economic, political, and social concerns of its people and demonstrates a clear determination to take effective self-help measures.
- The possible effects of the loan upon the U.S. economy with special reference to the balance of payments and areas of substantial labor surplus.

The basic authority provides, and it is AID's policy in accordance therewith, that emphasis be placed on the long-term nature of development assistance, the principle of self-help, and the need for concentration on selected sectors or areas of activity in each country. AID policy is to integrate assistance activities with (1) U.S. foreign policy, (2) programs of other free-world donors, and (3) the recipient country's development program.

B. METHOD OF PROGRAM FORMULATION

The annual program planning cycle begins with an analysis by the mission in Colombia of the current situation in the country and of the alternative ways in which U.S. aid can most effectively promote development. The mission discusses the country's development plans and AID priorities with the Government of Colombia. The mission then recommends to AID/Washington, subject to approval by the Ambassador, the level and content of the U.S. program of assistance to Colombia for the coming year and indicates the expected range and pattern of assistance for the next several years.

The mission's analysis and proposed program are subjected to review in Washington within the Regional Bureau for Latin America and subsequently by the Administrator of AID. The mission director and other key officials often come to Washington to participate in this review. The review process is to examine whether the proposed program reflects adequate economic analysis, Colombia's self-help efforts, and the probable availability of assistance from other donors.

The consensus reached as a result of this review is summarized in a

country assistance strategy statement. The program planned in this way provides the basis for AID's annual request to the Congress for appropriation of funds. The level of assistance for Colombia is then later readjusted to fit the total level of funds actually appropriated.

C. COLOMBIA'S DEVELOPMENT HISTORY PRIOR TO THE ALLIANCE

According to AID, Colombia's economic development has been somewhat out of step with that of the other major countries in Latin America. During the 1920's and 1930's, when other countries such as Chile, Argentina, and Brazil started to develop, Colombia remained a relatively isolated agricultural country. During the 1940's this pattern was substantially changed and the country started developing rapidly.

During the early 1950's this process was accelerated under the impact of high coffee prices. A large part of the income derived from coffee was put to good use, improving the country's roads and building new industries. During the period 1945-55 about one-half of all imports consisted of capital goods.

As a result, AID found that per capita national income increased at a rate of 4.5 percent a year, one of the highest in Latin America, during the years 1950-55. Since an abundance of foreign exchange was available, much of the new industry developed was based on the importation of raw and semifinished materials from abroad. It was essentially a transformation industry. Because of a growing dollar shortage in the late 1950's, some of the new industry had a difficult time to keep going. The Colombian Government also embarked on a number of business ventures, most of which failed to achieve the desired or expected results. A negative factor which prevented Colombia from achieving a more rapid development in the 1950's, according to AID, was a lack of planning coupled with a certain misdirection of investment.

On the political front, Colombia, after the overthrow of a dictatorship in 1957, adopted, by plebiscite, a National Front political structure. The National Front, a unique two-party coalition government, was adopted as a means of achieving political peace between Colombia's two traditional parties—Liberal and Conservative. The 1957 plebiscite, an outgrowth of a prior interparty understanding, formally established as a constitutional amendment its major core—parity in all levels and branches of government between the two major parties and the principle of approving legislation by a two-thirds majority.

A third major feature of the system, alternation of the presidency between the two parties, was formalized in another constitutional amendment promulgated in 1959 which also extended the life of the system from 12 to 16 years (two administrations for each party).

Generally, Colombia's National Constitution provides for universal suffrage, due process of law, and other civil rights and liberties common to most Western democracies.

D. AID PRE-ALLIANCE ASSISTANCE TO COLOMBIA

U.S. assistance to Colombia began in 1942, in the form of technical assistance, under the U.S. Institute of Inter-American Affairs. The first assistance operations began in the health field under the auspices

of a cooperative health service created in 1942. For 10 years this was the major activity of the U.S. assistance program.

In 1954, a technical assistance program in agriculture began under a cooperative agriculture service. A cooperative education service was instituted in 1958. The program was subsequently expanded and continued under successor agencies and was directed primarily for projects in agriculture and natural resources, health and sanitation, and education. In 1961, the Alliance for Progress was created and Colombia was selected by AID as a country in which an important effort would be made to achieve rapid economic development combined with social progress.

E. CREATION AND OBJECTIVES OF THE ALLIANCE FOR PROGRESS

The Alliance for Progress had its origin in a speech in March 1961, by the President of the United States to the Latin American diplomatic corps assembled at the White House. The 20 American Republics were invited to join in a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health, and schools.

In August 1961 the American nations met to discuss the shape of the cooperative effort to develop the hemisphere. This meeting culminated in the signing of the Charter of Punta del Este. This meeting not only established achievement goals, but also established a framework of cooperation.

The Alliance for Progress was to differ markedly from previous foreign assistance programs in Latin America. The sense of the Charter of Punta del Este was that external assistance, to be of permanent benefit, must be based upon basic social and institutional reforms within Latin America. U.S. assistance was to be directed toward facilitating Latin America's own self-help measures.

To this end, the Latin American Republics agreed to undertake the reforms necessary to insure that the fruits of economic development would be broadly distributed. They pledged to improve health, housing, and sanitation; wipe out illiteracy; modernize tax structures and land tenure; reduce unemployment; maintain sound fiscal and monetary policies; and stimulate private investment. The countries of Latin America also promised to formulate comprehensive and well-conceived programs for the development of their own economies as their contributions to the Alliance for Progress.

Among the most important goals of the Alliance for Progress, as contained in the Charter of Punta del Este, are:

- To achieve sustained growth of per capita income and self-sustained economic growth of not less than 2.5 percent per capita per year.
- To achieve more equitable distribution of national income and a higher proportion of the national product to be used for investment while maintaining stable price levels.
- To achieve economic diversification, involving reduction of dependence on exports of primary products, and stabilization of export earnings.
- To raise agricultural productivity as well as to encourage agrarian reform.

- To eliminate adult illiteracy and by 1970 to insure access to at least 6 years of primary education for each school-age child.
- To improve health conditions, including the increase of life expectancy by a minimum of 5 years.
- To increase low-cost housing construction.
- To strengthen existing agreements on economic integration, with a view to the ultimate fulfillment of aspirations for a Latin American common market.

The charter called for a minimum of \$20 billion in external capital during the next 10 years, principally in public funds, in support of well-conceived programs, which include the necessary structural reforms and measures for the mobilization of internal resources.

On its part, the United States pledged grants or loans on flexible terms and conditions which, along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals of the charter. The United States also agreed to cooperate in seeking international solutions to the problems created by excessive price fluctuations in the basic exports of Latin American countries on which their prosperity so heavily depends.

On November 22, 1965, the President of the United States informed the Latin American governments that the United States was prepared to extend the Alliance for Progress beyond the 10-year period foreseen in the Charter of Punta del Este.

F. SUMMARY OF ASSISTANCE TO COLOMBIA BY ALL DONORS

Assistance to Colombia has been substantial, amounting to about \$1.6 billion from 1946 through December 1967. Direct U.S. participation has amounted to about \$977 million, or 59 percent of the total. The balance represents assistance primarily from international agencies. A summary of the assistance to Colombia by donor is outlined below:

	Total assistance through December 1967		Percent furnished	
	Amount (millions)	Percent	During Alliance	Prior to Alliance
U.S. Government programs:				
AID and predecessor agencies.....	\$430.3	26.1	91	9
Public Law 480.....	163.6	9.9	60	40
Social Progress Trust Fund ¹	49.9	3.0	100	-----
Export-Import Bank.....	224.3	13.6	25	75
Other U.S. economic programs.....	26.1	1.6	89	11
Military assistance programs ²	83.2	5.0	53	47
International agency programs (percent of U.S. participation):				
International Bank for Reconstruction and Development (28 percent).....	455.7	27.6	56	44
International Development Association (32 percent).....	19.5	1.2	100	-----
International Finance Corporation (35 percent).....	15.0	.9	85	15
Inter-American Development Bank (57 percent).....	131.9	8.0	92	8
United Nations (approximately 40 percent).....	31.2	1.9	74	26
Other assistance:				
Other free-world donors.....	8.9	.5	100	-----
U.S. nonprofit foundations ³	11.7	.7	⁴ 100	-----
Total.....	1,651.3	100.0	67	33

¹ The Social Progress Trust Fund (SPTF) was established in 1961 as a part of the Alliance for Progress. The SPTF is administered by the Inter-American Development Bank, and all financing has been provided by the United States. The SPTF involved a new approach in the foreign-aid field—a willingness on the part of the United States to permit a multi-lateral cooperative institution, representing the Latin American Republics and the United States to make decisions in the field regarding the commitment and disbursement of funds made available by the United States.

² June 30, 1967, figures—most recent ones available.

³ Does not include assistance by the Rockefeller Foundation, as this data was not available to AID.

⁴ Breakdown by period was not available.

V. OBJECTIVES AND DESCRIPTION OF AID PROGRAM

A. U.S. DEVELOPMENTAL OBJECTIVES

The principal long-range objective of the U.S. economic assistance program in Colombia is an accelerated rate of economic and social progress by a strengthened democratic, private enterprise system. The immediate goal is to help Colombia reach the point at which its own increased human and capital resources, combined with its improved ability to attract and service foreign investment and credit on commercial terms, are adequate to sustain satisfactory growth. The Alliance economic growth goal is, and has been since 1962, a minimum annual increase in per capita growth rate of 2.5 percent—a goal that AID believes is both reasonable and attainable.

In supporting economic development, the United States seeks to strengthen Colombian institutions and capabilities essential to economic development, social stability, and financial balance. In this regard AID has concluded that Colombia is one of the major hopes for development success under the Alliance for Progress because of its:

1. Exceptionally rich and varied natural resources.
2. Relatively wide distribution of industrial and agricultural activity.
3. Large land area—the fifth largest in Latin America—and large population—the fourth largest in Latin America.
4. Unusual potential among developing countries for a relatively high level of economic growth and social progress achieved in an open political and economic setting.

The United States has attempted to promote its development objectives in Colombia through cooperation with the consultative group for Colombia which is led by the International Bank for Reconstruction and Development (IBRD), and includes the International Monetary Fund (IMF), Inter-American Development Bank (IDB), the United States, and 10 other developed countries. Three meetings of the consultative group on Colombia have been held—the first in January 1963, the second in June 1964, and the last in June 1967. According to AID no minutes have been kept of informal meetings among members.

AID's assistance program for Colombia through mid-1965 was in support of Colombia's 10-year development plan, with little reference in primary AID documents to consultative group decisions. Thereafter, AID's assistance program for Colombia was directed toward support of an outline of goals and measures furnished to the consultative group by the Colombian Government.

B. SUMMARY OF FORMS OF AID ASSISTANCE TO COLOMBIA

AID assistance to Colombia has taken a variety of forms. Dollars have been loaned to finance developmental imports for both specific projects and in support of the general economy (i.e., for nonproject purposes) and to finance local currency costs of capital projects. U.S. specialists and advisers have been financed, usually on a grant basis, to teach new skills, demonstrate techniques, conduct surveys, and advise on programs for human resource and institutional development.

Grant funds have also financed the training of Colombian officials and specialists in the United States and other countries. A summary of the various forms of AID loan and grant assistance to Colombia is outlined below.

[In millions]

	Total	Nonproject assistance	Project assistance	
			Capital	Technical ¹
Fiscal year 1961 and prior:				
Loans.....	\$25.0		\$25.0	
Grants.....	15.4			\$15.4
Total.....	40.4		25.0	15.4
Fiscal year 1962 to December 1967:				
Loans.....	358.7	\$305.0	53.7	
Grants.....	31.1			31.1
Total.....	389.8	305.0	53.7	31.1
Total.....	430.2	305.0	78.7	46.5

¹ Includes cost of training Colombian officials and specialists.

In return for dollar nonproject assistance the Colombian Government deposits its own currency, in amounts equivalent to the dollar value of the nonproject commodities received, in a special account. This currency is not owned by the United States but is subject to AID concurrence as to its use by Colombia. The United States also sells surplus U.S. agricultural commodities to Colombia for Colombian currency (pesos). Such sales are made under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1961), commonly referred to as Public Law 480.

AID has programing responsibility for the Colombian funds received from each type of dollar assistance. These currencies do not represent additional resources; only the imports that generate them are additional. They do, however, represent a claim against domestically available resources and constitute an important tool of assistance to be used by AID to improve the total pattern of Colombia's resource use. A summary of the estimated Colombian currency resources available to, and programed by, AID for Colombian development follows:

[Millions of dollars equivalent]

Source of generation	Total	Fiscal year 1961 and prior	Fiscal year 1962 to December 1967
AID nonproject import programs.....	\$220		\$220
Public Law 480 programs.....	57	\$32	25
Total.....	277	32	245

The following schedule shows the total dollar and peso project assistance furnished for principal economic development sectors in Colombia.

[In millions of dollars equivalent]

	Dollar obligations	Local currency allocations	Total
Agriculture.....	\$50	\$61	\$111
Industry and mining.....	5	101	106
Transportation and power.....	1	33	34
Public administration and safety.....	6	12	18
Education.....	9	15	24
Housing and urban facilities.....	23	33	56
Health and sanitation.....	10	22	32
All other.....	21		21
Total.....	125	277	402

C. RATIONALE AND OBJECTIVES OF NONPROJECT ASSISTANCE

As mentioned earlier AID has used two types of assistance—project and nonproject—in implementing its objectives in Colombia. Nonproject assistance has been used to finance imports in support of Colombia's development program without tying these to specific projects, whereas project assistance has been directed to the planning and execution of individual capital projects or technical assistance activities.¹ The particular recipients of foreign exchange provided under nonproject loans to the Government of Colombia and then made available to finance commodity imports are normally determined by market forces.

Nonproject assistance does not involve the degree of direct AID participation in implementation required in project assistance. The special characteristic of nonproject assistance is that neither the immediate form of the assistance nor the specific use of the funds is necessarily directly related to the objective of influencing Colombia's development policies and practices to which the aid is addressed.

Of the \$430 million of AID dollar assistance to Colombia through December 1967, \$305 million, or 71 percent, has been made available on a nonproject basis as follows:

[Dollar amounts in millions]

Date of loan	Amount	Disbursements as of Dec. 31, 1967	Life of loan (years)		Interest rate (percent)	
			Grace period	Amortization period	Grace period	Amortization period
Apr. 12, 1962.....	\$30	\$30.0	5	10	3.5	3.5
Dec. 18, 1962.....	60	60.0	10	30	.75	.75
Mar. 11, 1964.....	15	15.0	10	30	.75	2.0
July 13, 1964.....	35	35.0	10	30	.75	2.0
Dec. 20, 1965.....	65	64.1	10	30	1.0	2.5
May 27, 1967.....	100	25.2	10	30	1.0	2.5
Total.....	305	229.3				

AID has also programed significant additional nonproject loan funds for fiscal year 1968.

The level of AID assistance is based on long-term projections of Colombia's balance-of-payments situation and is intended to fill a gap between foreign exchange expenditures and receipts which exists as a

¹ GAO reports B-160064 dated Sept. 23, 1966, and B-161882 dated Sept. 21, 1967, deal with the management of AID economic development projects in Colombia.

direct consequence of development efforts. The object is to provide resources additional to those available to Colombia in order to accelerate the process of development.

AID has determined that, relative to project assistance, nonproject type of assistance—

1. Provides greater flexibility in meeting agreed resource needs.
2. Provides a more effective basis for negotiating specific agreements with the recipient country.

3. Does not unduly emphasize large schemes or the public sector.

4. May be less expensive inasmuch as the aided country is permitted to select for procurement in the United States those parts of its import requirements for which U.S. procurement offers price or quality advantages, whereas aid provided on a project basis must be spent on requirements for the projects financed and foreign exchange costs financed by such assistance must be procured from U.S. sources without regard to competitive cost advantages.

Recognized disadvantages of nonproject type of assistance include a greater risk of creating a politically frozen aid level, the lack of visible or tangible results, less public appeal, and a greater degree of difficulty in achieving effective control of channeling funds into institutions and economic sectors to be employed for development.

The rationale for, and objectives of, each nonproject loan made to Colombia is outlined below. For the \$60 million loan of December 1962, the \$15 million loan of March 1964, and the \$35 million loan of July 1964, the following comments do not include data on how the specific amount of each loan was arrived at, because we were unable to find, and AID was unable to furnish us, this information.

1. \$30 million loan—April 12, 1962

During 1961 an austerity program, which started in 1958, was relaxed by the Colombian Government and the Colombian balance-of-payments situation seriously deteriorated.

In December 1961 and early 1962, Colombia requested substantial balance-of-payments assistance from the United States. An AID and Department of State task force reviewed the Colombian balance-of-payments position, projected Colombia's requirements, and concluded that about \$38 million would be required from the U.S. Government to meet Colombia's foreign exchange requirements in the first half of 1962. The Export-Import Bank agreed to postpone payments due by Colombia in the amount of approximately \$8 million. In April 1962 AID provided Colombia a \$30 million balance-of-payments loan from the contingency fund.

The loan agreement authorized all the \$30 million to be advanced to Colombia on the condition that AID be provided with satisfactory documentation to account for expenditures within 180 days after the advance. No self-help performance commitments were specified as a condition for the release of the loan funds.

It was recognized at the time the loan was authorized that Colombia's balance-of-payments problem had arisen primarily from inadequate fiscal and monetary policies but AID felt that Colombia had performed well in other fields in the spirit of the Alliance for Progress, as evidenced by the enactment of tax and agrarian reform laws and the preparation of a 10-year national development plan. For a

discussion of the adequacy of the development plan, see section VII A.

AID judged that the loan would assist in enabling Colombia to serve as an example of a country whose government was meeting the needs of its people by democratic reforms within the framework of the Alliance for Progress. AID also anticipated that the Government would take steps to achieve sound fiscal and financial policies.

2. \$60 million loan—December 18, 1962

During 1962 Colombia continued to face serious foreign exchange problems. In October 1962, the U.S. coordinator for the Alliance for Progress and the country team, after discussions with the IMF and IBRD missions and the Colombian Minister of Finance, indicated that the United States was willing to give urgent consideration to a \$60 million loan to Colombia to support the initial phase of Colombia's planned 10-year development program. This loan was the first Alliance for Progress development loan in support of a national development plan. AID had determined that Colombia exhibited an institutional capacity for rapid economic growth and that with relatively minor policy changes could become a model developing country. AID concluded that U.S. assistance would promote a faster rate of growth for Colombia.

In November and December 1962, the Colombian Government carried out a foreign exchange reform satisfactory to the IMF. On that basis a nonproject loan to Colombia in the amount of \$60 million was authorized by AID in December 1962. AID released \$13 million of the loan as a cash advance. The loan agreement provided that the remainder of the loan be released after submission by Colombia of documentation evidencing procurement.

This loan was to help Colombia maintain an import level needed to sustain planned levels of investments in both the private and the public sectors of the economy. The loan was agreed to on the basis of evidence by the Colombians (1) that satisfactory monetary, financial, and fiscal measures necessary for Colombia's economic and social development program had been carried out and (2) of the measures undertaken to provide the resources to achieve investment levels called for by the Government's development program. The second condition was to be met prior to release of loan funds in excess of \$30 million.

3. \$15 million loan—March 11, 1964

In July 1963, the Colombian Government requested an additional nonproject loan of \$100 million. AID advised the Colombians that the United States expected to provide development assistance in 1964 of the general magnitude of the past year, or up to \$60 million, for a development nonproject loan, on the basis of agreed self-help measures, if the Congress appropriated the funds. The details of the range of self-help policy changes which possibly would be required for 1964 to make U.S. assistance most effective, however, were not clearly identified. For that reason, AID negotiated only a \$15 million nonproject loan in support of Colombia's development program.

The additional assistance was the subject of a subsequent loan agreement. However, the full range of self-help conditions was not identified. The conditions established were that Colombia would provide evidence of arrangements for the implementation of an import

budget for calendar year 1964, carry out a sound monetary policy, and use its best efforts throughout calendar year 1964 to insure a surplus on current account of not less than 1.1 billion pesos.

Goods and services delivered after July 1, 1963, were eligible for financing under this loan.

4. \$35 million loan—July 13, 1964

In April 1964, the proposal for a second loan during 1964 of \$45 million was prepared by AID. This loan, authorized in July 1964 in support of Colombia's planned development program, was justified on the basis that the Colombian Government would comply with certain general performance commitments relating to reducing short-term debt and imports, expanding exports, improving planning for agriculture and education, and adopting sound fiscal policies and measures. Of this loan \$25 million was for financing goods and services delivered after July 1, 1963, and \$10 million was for commodities ordered after July 14, 1964.

AID authorized the immediate release of the first \$20 million of this loan. Release of the final \$25 million of this loan was not dependent on specific self-help performance understandings but on a future mutual agreement by AID and the Colombian Government that performance under the program and prospects for the program were satisfactory. The performance and prospects of the program were to be based on a detailed review of the Colombian development program. Because of Colombia's failure to act on its budget deficit or to improve its balance-of-payments management, AID notified the Government in December 1965 that the last \$10 million of this loan would not be released, and therefore the loan was reduced from \$45 to \$35 million.

5. \$65 million loan—December 20, 1965

During late 1965 Colombia developed a program of economic and financial stabilization. AID and the IBRD agreed to join the IMF in helping to support a new economic development program in Colombia. AID calculated that Colombia would have a balance-of-payments gap for the 12-month period of October 1965 through September 1966 of \$133 million and estimated that portion requiring financing by an AID loan to be \$54 million.

AID records show that AID determined that a \$65 million nonproject loan was necessary to add \$54 million to Colombia's balance of payments, during the program year of October 1, 1965, to September 30, 1966, because of the lag between actual fund releases by AID and the balance-of-payments effect arising from the arrival of financed imports.

In December 1965 AID authorized a \$65 million nonproject loan to Colombia. The purpose of the loan was to provide support for Colombia's planned development program by (1) assisting in the financing of essential imports, (2) enabling the Government to adopt the development policies necessary to formulate and implement major development programs, and (3) permitting the Colombians to establish the institutions and services needed for development.

AID's earlier nonproject development loans had been in support of Colombia's published 10-year development program. In early 1965, it was recognized that there was, in fact, no Colombian development plan to support and that, therefore, the nonproject loans were not

as effective as they might have been. However, following an AID review, the development program supported by this loan was an outline of goals and measures announced by the Colombian Government in November and December 1965.

AID authorized the immediate release of \$20 million of this loan. The release of the remainder of the loan was conditioned on the Colombian Government furnishing AID (1) evidence of satisfactory efforts to advance the social and economic development of Colombia in accordance with the Colombian Government's outline of goals and measures submitted to the IBRD and the IMF, and (2) evidence that prospects were satisfactory for further such development in future periods. AID did not, however, specify what would constitute either satisfactory efforts or satisfactory prospects.

In its outline of goals and measures furnished to the IMF and the IBRD, the Colombian Government established quantitative targets for monetary, financial, fiscal, and trade areas. In addition, general statements were made concerning increased efforts on national planning, agriculture, and education development.

6. \$100 million loan—May 27, 1967

During 1966, AID computed that Colombia's balance-of-payments gap for the period January 1967 through March 1968, would be \$246 million, of which \$73 million would be required to be filled by AID nonproject loan funds. AID records show that AID concluded that, because of the timelag between the shipment of commodities and the actual release of AID loan funds, a \$100 million loan was necessary to achieve a \$73 million positive impact on Colombia's balance of payments within the program period.

In May 1967, AID authorized a \$100 million nonproject loan to Colombia. This loan was justified on the basis that it would assist in closing Colombia's balance-of-payments gap and permit the Government to undertake the structural reforms and economic development projects necessary to enable Colombia to achieve self-sustaining growth, at an annual level of 6 percent during the program period.

The loan was in support of a Colombian development program announced by the Colombian Government in March and April 1967. This program described the specific policies, undertakings, and goals which the Colombians believed necessary for the achievement of their development program.

AID authorized the immediate release of \$40 million of this loan. The release of the remainder of the loan as in the previous loan, was conditioned on the Colombian Government furnishing AID with (1) evidence of satisfactory efforts to advance its social and economic development program pursuant to the outline of goals and measures submitted to the IMF and IBRD, and (2) evidence that prospects were satisfactory for further such development in future periods. AID did not specify what would constitute satisfactory efforts or satisfactory prospects.

In its outline of goals, the Government of Colombia established quantitative targets for foreign reserves, money supply, minor exports, fiscal surpluses, imports, and expenditures in agriculture. In addition, general statements were made concerning national planning, education, and industrialization policies.

VI. COLOMBIA'S ECONOMIC AND SOCIAL PROGRESS

A. ALLIANCE GROWTH GOALS

Colombia, during the first 5 years of the Alliance, attained an average annual per capita growth rate of 1.33 percent, less than the minimum Alliance goal of 2.5 percent, but greater than the annual average per capita growth rate of 0.92 percent attained by Colombia during the 5 years prior to the Alliance.

In 1961, the Colombian Government initiated a development program which was designed to yield an annual average increase in gross domestic product (GDP)¹ of 5.6 percent, with a resultant annual increase in per capita growth of 2.5 percent, through 1964, and to provide a base for an accelerated rate of growth thereafter. Both AID and the Colombian Government determined early in the Alliance that the planned growth rate was reasonable and attainable.

The following schedule regarding the relative aggregate success of Colombia's development efforts under the Alliance shows that (1) during the first 5 years of the Alliance Colombia's average annual per capita growth rate failed by a substantial margin to meet the minimum Alliance goal of an annual increase of 2.5 percent, and (2) Colombia's annual average per capita growth rate during the first 5 years of the Alliance exceeded the annual average growth rate for the 5 years preceding the Alliance by about 0.4 percent.

[In percent]

	Average 1957-61	1962	1963	1964	1965	1966	Average 1962-66
Per capita growth goal.....		2.5	2.5	2.5	2.5	2.5	2.5
Actual per capita growth.....	0.92	1.78	-.06	2.85	-.12	12.20	1.33

¹ Preliminary estimate by AID in August 1967. A member of the Consultative Group estimated 2.1 percent in February 1968.

AID currently is of the view that as Colombian self-help measures take hold there will be a gradual buildup in the rate of Colombian growth until the 2.5-percent per capita target is met and surpassed. In this regard the \$100 million AID nonproject loan to Colombia in May 1967 was justified on the basis that it would enable Colombia to achieve self-sustaining growth at an annual level of 6 percent or a per capita level of 2.8 percent.

The mission director informed us in October 1967 that Colombia's quantitative growth goals during the first 5 years of the Alliance had not been met because of inadequate Colombian self-help efforts, but that such efforts had improved during 1966. The mission director also pointed out that, although nonproject assistance provides imports which are needed for economic development and thus affect growth rates, there are substantial leadtimes before the results of AID capital assistance infrastructure projects and many technical assistance activities are reflected in increased growth rates.

¹ GDP is that portion of gross national product (GNP) which results in an accrual of income for nationals as a result of domestic activity. GNP is the total value of final output of goods and services produced by residents of a country.

To achieve the 2.5-percent per capita growth goal, Colombia established annual growth goals for each sector of its economy. During the first 5 years of the Alliance these sectoral growth goals on the average were exceeded in housing, communications, finance, and personal services, but were not achieved in the basic areas of agriculture, mining, manufacturing, construction, commerce, transportation, utilities, or government.

A comparison of the relative significance of each sector of Colombia's economy to its total product, prior to and at the beginning of the Alliance and as of 1966, is shown by the following schedule:

ORIGIN OF COLOMBIA'S GROSS DOMESTIC PRODUCT

[In percent]

	1957	1961	1966
Agriculture.....	34.9	32.9	30.3
Manufacturing.....	17.0	18.1	19.3
Commerce.....	15.0	15.4	15.7
Personal services.....	7.3	7.1	7.2
Transportation.....	6.0	5.9	5.9
Housing.....	4.9	5.4	5.9
Government.....	4.6	4.8	5.0
Mining.....	3.6	3.4	3.5
Construction.....	3.4	3.3	2.6
Finance.....	2.1	2.3	2.8
Electric power, gas, and water.....	.7	.8	1.0
Communications.....	.5	.6	.8
Total.....	100	100	100
Total Colombian GDP (billions of 1958 constant pesos).....	20.2	24.2	30.1

B. PER CAPITA AGRICULTURE PRODUCTION

Colombia's overall growth and development is dependent, to a large degree, on the growth and development of its agriculture sector, which in 1966 accounted for about 30 percent of the country's GDP. Our review of the growth and development of Colombia's agriculture sector during the Alliance and of AID actions related thereto showed that:

- Colombia's per capita agricultural production had declined during the Alliance.
- The average daily per capita caloric intake in Colombia had decreased during the Alliance and is at a level below the 2,500 calories required for an adequate diet.
- Increased production of food and crops during the Alliance had resulted mainly from expansion of areas under cultivation. Yields for five of Colombia's six most valuable crops were less in 1966 than yields achieved prior to the Alliance.
- Colombia is a net importer of food, except for coffee, and of fiber although AID has long recognized that Colombia has sufficient land to produce the required food and fiber for its own population and to sustain a net export.
- Factors adversely affecting Colombia's agricultural production and development include (1) problems in planning, (2) maldistribution and inadequate utilization of land, (3) lack of agricultural credit, (4) insufficient availability of fertilizers and pesticides, (5) lack of marketing and distribution, and (6) insufficient storage facilities.

The problem of Colombia's lagging agriculture sector, in AID's opinion has long posed one of the most serious obstacles to an accelerated rate of Colombian economic development. Colombia's excellent soils and variety of climates provide the necessary potential to develop a strong agricultural economy which could form the foundation for accelerated industrial development and thus make the country less dependent on coffee, which has been traditionally the principal source of foreign-exchange earnings, accounting for about 66 percent of Colombian exports during the Alliance—a drop of about 6 percent over the preceding 5-year period.

Colombia has about 275 million acres of land, of which about 65 million acres were in agricultural use as of 1966. Of the 65 million acres, about 9.4 million acres were under cultivation and the balance in pasture and fallow. In 1967 between 40 and 45 percent of Colombia's labor force was employed in agriculture. Colombia's agriculture sector accounts for about 30 percent of the country's gross domestic product, which makes it one of the more significant sectors in the Colombian economy.

In 1953 AID instituted a technical assistance program in agriculture for Colombia, and since 1962 agriculture has been an AID top-priority goal in Colombia. AID has directly channeled about \$111.1 million into Colombia's agricultural sector since 1953, including loans totaling \$38.5 million, technical assistance totaling \$11.7 million, and the equivalent of \$60.9 million in U.S. owned and/or controlled Colombian pesos. Assessments made in 1966 indicated that there had been relatively little progress toward the mutual AID and Colombian agricultural goals of (1) self-sufficiency in agricultural production, (2) diversification of agricultural exports in order to reduce Colombia's almost total dependence on coffee for foreign exchange, (3) improvement in the present land tenure system and (4) raising living standards in rural areas.

The following index of Colombia's agricultural production shows that, in the aggregate, Colombia's per capita agriculture production is decreasing; but crop production, excluding coffee, has risen slightly.

INDEX OF PER CAPITA AGRICULTURE PRODUCTION

[1957-59=100]

	1960-64	1964	1965	1966 ¹
Overall.....	101	99	97	97
Food production.....	101	99	102	100
Crop production.....	102	100	98	98
Crop production, excluding coffee.....	107	111	106	112
Livestock production.....	97	95	93	94

¹ Based on preliminary data.

Source: U.S. Department of Agriculture and AID.

Colombia's relatively low agricultural output has been a major cause of a deficient Colombian diet and measures are needed to increase production in the agricultural sector at prices that permit absorption of the increased output by exports and the internal market. The average daily per capita caloric intake in Colombia has decreased during the Alliance as shown by the following schedule and is below the 2,500 calorie level established under the Alliance as the minimum required for an adequate diet.

	1957	1961	1966
Average daily per capita caloric intake.....	2,525	2,466	2,428

The AID mission director informed us in November 1967 that the short fall in caloric intake, although increasing, was not considered critical. This view differed from the view of the mission's food-for-peace officer, who pointed out that the above averages did not reflect the wide variance in the caloric intake between Colombia's high- and low-income groups or the protein deficiencies in the diet of Colombia's low-income groups.

In this regard a mission study estimated, in December 1966, that one third of Colombia's population, principally that located in the less prosperous urban areas, had a caloric intake of only 1,800 calories a day.

We reviewed production data for Colombia's six most important agricultural crops and found that total annual production of each crop had increased, because of expansion of cultivated land, but that yields for four of the six crops were less in 1966 than yields achieved prior to the Alliance, as illustrated by the following tabulation:

Year	Coffee	Rice	Sugar	Brown sugar	Corn	Potatoes
Total production (thousands of tons):						
1957.....	365	350	234	480	698	682
1961.....	450	474	363	610	758	551
1966.....	456	700	386	650	895	832
Yield (tons per hectare):						
1957.....	0.46	1.84	4.4	2.6	1.2	11.4
1961.....	.54	2.00	5.8	2.8	1.1	11.5
1966.....	.56	1.86	4.2	2.4	1.0	10.2

Source: Department of State and AID.

Our review did show, however, that, for Colombia's four major agricultural noncrops, production had increased during the Alliance as shown below:

[In millions]

Year	Cattle (head)	Milk (tons)	Poultry (each)	Eggs (each)
1957.....	2.2	1.1	22.0	879
1961.....	2.3	1.2	27.4	1,096
1965 ¹	2.6	1.4	38.0	1,521

¹ Latest available data.

Source: Department of State and AID.

Colombia is a net importer of food, except for coffee, and of fiber despite the availability of sufficient land to produce the required food and fiber for its own population and to sustain a net export. On the average, during the Alliance, Colombia was a net importer of food and fiber to the extent of \$6.4 million. In 1966 Colombia was a net importer to the extent of \$31 million.

AID determined, prior to the Alliance, that sufficient quantities of paper and pulp, wheat, rubber, cocoa, wool, and edible oils—Colom-

bia's principal agricultural food and fiber imports—could be produced within Colombia to meet Colombian requirements. AID accordingly provided assistance to Colombia to assist in achieving such production. Nevertheless, Colombian imports of these products during the Alliance increased from about \$42 million in 1961 to about \$77 million in 1966—an increase of 83 percent. This compares with a Colombian population increase of about 16 percent from 1961 through 1966.

Key factors, many of which are interrelated, limiting Colombia's agricultural growth and development during the Alliance are discussed below.

Planning.—During the Alliance periodic assessments indicated deficiencies in Colombia's agriculture policy planning and coordination, which adversely affected Colombia's agricultural growth and development.

In 1962 Colombia's agricultural planning and coordination were significantly deficient, and overall specific plans and priorities with respect to achieving planned increases in agricultural production had not been developed.

In 1963, because of various reasons, an overall agricultural policy or plan had not been developed. In 1964 the urgent need in Colombia for developing a national agriculture planning organization to formulate agricultural development policies and priorities was recognized. In addition, it was generally recognized that sufficient basic data was not available in Colombia on which to formulate long-range agriculture plans.

In 1965 agricultural planning in Colombia continued to be deficient and outside the Agricultural Ministry. More studies had been made, more experts consulted, and more institutions set up in the area of agriculture than in any other area of Colombia's economy. The problem, however, was that only a relatively small amount of attention was given to agriculture in past development efforts and that these activities were not being coordinated into an overall pattern of agricultural policy.

Agricultural programs were planned and run by individual groups which lacked coordination with overall national planning. This appeared to be the basic reason for the many changes over the years in the relationship between Colombian crops in cultivation, yet little change in the overall acreage.

In both 1966 and 1967, inadequate agriculture planning efforts were identified as a continuing key area that limited Colombia's agriculture growth and development. Also, in 1967 a study indicated that, in the field of agriculture, statistics were inadequate and were gathered by various Government entities and that the data was conflicting and very difficult to use to determine what had happened in Colombia's agricultural sector in any given year, which made it particularly difficult to reach informed policy decisions.

The mission director informed us in November 1967 that Colombia's slow progress in agricultural planning was due to several factors, the most important one being a severe shortage of qualified personnel.

Land distribution and utilization.—There are vast areas of unutilized and underutilized lands in Colombia, and during the Alliance poor distribution has had an important impact on utilization. Never-

theless, progress in changing Colombia's land tenure system during the Alliance has been slow.

Large and medium holdings comprise the best lands, which are the level fertile valleys of Colombia's predominantly mountainous country; small holdings are located on mountain slopes with poorer soils. The best lands, representing the large holdings, are often used to raise stock; the poorer mountain-slope plots are used to raise new crops. Stock raising is frequently extensive rather than intensive, and, although 46 percent of farmland is used for stock raising, only 30 percent of the agricultural income is produced by stock raising. At the time of our review in November 1967, it appeared that it would be some time before Colombia's marketing and transportation facilities would be adequate to permit more intensive land use.

Available statistics indicate that about 988,000 acres have been brought under cultivation during the Alliance; this brings the total cultivated area to 9.4 million acres. Approximately 429,000 acres of land have been irrigated since 1961.

AID has determined that, since there is a need to increase agricultural production and there is a large amount of underutilized land in Colombia, reasonable, but effective, taxation of properties could lead property owners to exploit their land more fully, which would tend to reduce rural unemployment, provided that capital intensive methods were not employed.

Agricultural credit.—AID has determined that approximately 600,000 farm families in Colombia cannot qualify for bank credit although they have potential need for supervised agricultural credit. Supervised agricultural credit is the provision of both credit and technical assistance to small farmers who are unable to obtain sufficient credit on reasonable terms from other sources.

AID has supported Colombia's supervised agricultural credit program since 1961. The AID goal, established in 1964 and revised upward in 1965, was to provide supervised agricultural credit to 30,000 families by 1967. The total number of families receiving supervised agricultural credit in 1964 was 2,556; in 1965, it was 7,621; and in 1966, it was 11,570.

AID records show that through December 1966 only AID resources—\$26.5 million in dollar loans and the equivalent of \$14 million in peso releases—were allocated to make supervised credit available to Colombian farmers. The Colombian Government financed the equivalent of \$7.1 million in administrative costs from 1963 through 1967 and provided the equivalent of \$5.2 million for supervised credit in 1967.

About 15 percent of bank loans in Colombia are agricultural credits. It has been reported by a leading U.S. commercial banking institution that these funds are channeled to large farmers who have the resources and ability to use the funds effectively. AID informed us in November 1967 that, at the close of 1966, the loans outstanding in agriculture amounted to 36 percent of the total loan portfolio in Colombia.

A recent Embassy evaluation pointed out that continued shortages of agricultural credit have hindered Colombia's agricultural development, and this was confirmed by a member of the consultative group. An international agency also pointed out that the supervised agricul-

tural credit program needs to be expanded to nationwide coverage as soon as possible.

During a field trip to a supervised agricultural credit project, we observed that the program appeared to be effective in terms of making credit available to small farmers who might not have been able otherwise to obtain credit to farm small plots of land. However, sufficient basic data on the increased yields, if any, and on the relative cost was not available for enabling determination of the aggregate effect, if any, such supervised credit programs have had on Colombia's total agricultural production.

Fertilizer and pesticides.—Colombian agricultural yields during the Alliance have been limited, to a large degree, because of insufficient availability and use of fertilizer. The United Nations Economic Commission for Latin America determined that for 1963 the ideal annual fertilizer consumption in Colombia would be 350,000 tons. From 1963 through 1966 Colombia has never had nearly the amount of fertilizer needed, as shown by the following table:

	Ideal fertilizer consumption ¹ (tons)	Fertilizer available (tons)	Percent available
1963.....	350,000	86,900	25
1964.....	350,000	129,300	37
1965.....	350,000	90,300	26
1966.....	350,000	128,000	37

¹ Actual annual ideal consumption of fertilizer, based on 1963 estimate. Amount would fluctuate somewhat each year, depending on amount of land in cultivation and types of crops.

Since the Alliance began, imports of fertilizer financed with AID nonproject loans have been about \$260,000, or less than 1 percent of the total value of commodities financed. This compares, for example, with \$39.7 million, or about 19 percent of all nonproject loan funds, which was used to finance motor vehicle spare parts during the same period.

Throughout the Alliance, AID has recognized that the increased use of fertilizer could significantly increase crop production in Colombia and that, for many key crops, the use of fertilizer could produce an increase in crop production valued at from two to eight times the cost of the fertilizer. On the basis of agricultural research data, some estimated typical yields from use of proper amounts of fertilizer as compared to actual yields were made as follows:

[Tons per hectare]

Crop	Yield from use of proper amounts of fertilizer (estimated)	Actual yield range, 1961-66
Rice.....	3.7	1.8-2.2
Corn.....	3.0	1.0-1.2
Barley.....	2.5	1.5-1.9

During the period 1957-62 AID made available to Colombia approximately \$11.5 million worth of pesos for a fertilizer production project.¹ This project, which went into limited production in 1963,

¹ This project has been commented on in detail in GAO report B-161882, dated Sept. 21, 1967.

increased Colombian production of nitrogenous fertilizer but went out of business in 1965 because of plant breakdown and accumulated losses. AID informed us in December 1967 that the company responsible for this project had been reorganized, that the reorganized company had completed a general plant overhaul and expansion, and that the project should be in production by the end of 1967. AID subsequently informed us in February 1968 that production was to start in March 1968.

In addition to the shortages of fertilizer, there were decreases in the availability of pesticides during the Alliance. Essentially all of the active ingredients for pesticides are imported, and currently Colombia is imposing an import duty of 30 percent. Major losses of rice and cotton in Colombia are attributed to inadequacy of pesticides. A comparison of the imports of pesticides prior to and during the Alliance is shown below:

	Net imports (millions of kilos)
1957-61, prior to the Alliance-----	46.1
1962-66, during the Alliance-----	34.4

Marketing and distribution—Although studies have been made of only a few phases of Colombia's agricultural marketing, the lack of an effective integrated marketing and distribution system places serious restraints on agricultural production and on the producer, especially the small farmer, who has no effective marketing facility or organization.

AID has determined also that marketing studies have not been made that are of sufficient breadth and depth to serve as a confident basis for the formation of Colombian marketing policies, the result being that Government marketing programs have not always been effective. In this regard the mission has arranged for a study of the problem, to be initiated in 1968, to determine what aspects of the overall problem should receive priority attention.

Storage facilities.—The lack of sufficient grain storage facilities in Colombia has been identified by AID as a factor contributing to Colombia's stagnant agriculture production. Public agricultural storage capacity in Colombia is about 150,000 tons. At the end of 1966, the capacity of privately owned storage for public use was about 1.2 million tons, according to AID. Public sector storage capacity has been increased by about 80,000 tons during the Alliance. An additional 97,000 tons of public sector storage has been identified as needed.

On the basis of our review of Colombia's overall agricultural progress prior to and during the Alliance, we believe that the effectiveness of AID assistance, in the aggregate, might have been improved by increased Colombian Government efforts.

Recognizing that agriculture accounts for about 30 percent of Colombia's GDP and therefore is of paramount importance to an accelerated rate of Colombian growth—the basic AID objective in Colombia—we believe that AID, prior to formulating future assistance programs, should satisfy itself that (1) Colombia has identified the key policy, political, social, physical, and other factors limiting Colombia's overall agricultural growth and (2) Colombia is attaining

specific improvements in such factors. In addition, we believe AID should get an agreement with the Colombians that commodity financing be based on mutually agreed levels of Colombian inputs into the agricultural sector.

1. Agency comments and our evaluation thereof

AID in its comments dated March 19, 1968, and in additional comments presented on April 19, 1968, acknowledged that there are basic deficiencies in Colombian agriculture but stated that Colombians had made more headway than it appears in the conclusion of this report. In this regard AID indicated that the picture presented by our report is distorted because the report fails to give AID sufficient credit for the headway made (as stated below) in the agricultural sector.

1. The support of a livestock bank and the mobilization of the Government's own resources to capitalize it.

2. The establishment of an effective supervised credit program, which serves approximately 11,570¹ borrowers a year and returns about 2.10 pesos for each peso loaned.

3. The removal of price controls on milk and milk products.

4. The establishment of a long-term training program with the University of Nebraska.

In this regard, we reviewed the aggregate agriculture progress made by Colombia during the Alliance and emphasized the key areas affecting that progress. We agree that there may be a number of individual actions being taken by AID and the Colombian Government affecting, to some degree, Colombia's agriculture development. We found, however, that AID had not developed evidence showing either the individual or collective effect of such actions on Colombia's actual agricultural production or production capacity.

Also, AID stated that it has encouraged the Colombian Government in its current efforts to reorganize the institutional complex responsible for agricultural policy, and that a far more streamlined policymaking apparatus is emerging. The Government is preparing a comprehensive plan for the agricultural sector, which will become the basis for possible future AID assistance to that sector. A sector loan currently being negotiated emphasizes that the plan be completed. The loan also emphasizes increased inputs, especially of fertilizer and pesticides, to the agricultural sector.

C. LAND TENURE SYSTEM

Colombia's progress, during the first 5 years of the Alliance, toward the effective adjustment of its land tenure system has been slow. Colombia recognizes that land reform is a difficult and challenging long-term problem.

The United States has long recognized that the attainment of primary assistance goals regarding human welfare is dependent, in great part, upon immediate and positive steps to adjust unjust land tenure systems, inequitable taxes on farmland, and other economic and social practices that work hardships on rural people. For this reason, land reform in its broadest meaning, including improvement of all social

¹ The Colombian Government agency responsible for administering the agriculture supervised credit program reported that the total number of families receiving agricultural credit in 1964, 1965, and 1966 was 2,556, 7,621, and 11,570, respectively, not 11,570 per year as noted above.

and economic relations among men engaged in agriculture production, is a basic principle for which the United States stands in world affairs.

A specific goal of the Alliance is programs of comprehensive agrarian reform leading to the effective transformation of unjust structures and systems of land tenure and use, with a view toward replacing huge and dwarf holdings by a more balanced system of land tenure. A mission study expressed a belief that land reform is the most important action Colombia can undertake for the development of its rural areas.

When the Alliance began, 3.5 percent of the landholdings in Colombia involved 66 percent of the land and, at the other extreme, 62.5 percent of all landholdings involved 4.5 percent of Colombia's land. The following comparison shows the degree of progress in Colombia's land tenure during the first 5 years of the Alliance:

	1960	1966
Farms over 100 hectares (247 acres):		
Percent of total farms.....	3.5	2.7
Percent of total land.....	66.0	58.9
Farms under 5 hectares (12.4 acres):		
Percent of total farms.....	62.5	71.4
Percent of total land.....	4.5	6.3

Cadastral statistics in Colombia are not sufficiently detailed to determine the portion of the above landholdings that represents economic size family farm units therefore not subject to redistribution. Also, the manager of the Colombian Institute of Agrarian Reform (INCORA) has pointed out that cadastral statistics in Colombia do not timely reflect the growing tendency of colonizers, squatters, and others to acquire legal titles on lands still registered as large holdings. Nor would such statistics reflect additional accumulations of land by large landholders.

With respect to land tenancy in Colombia, the mission director informed us in November 1967 that there were a number of small plots from 2 to 4 hectares (5 to 10 acres) in Colombia having good soil that are planted in intensive crops and represent economic family farm units and that, in certain areas less suitable for economic agriculture, relatively large farms of 100 or more hectares are required to support a family.

Land reform in Colombia is the responsibility of INCORA, which was established in December 1961. AID and the Export-Import Bank allocated about \$33 million for agrarian reform in Colombia prior to the Alliance. Since the beginning of the Alliance, AID has made dollar loans totaling \$18.5 million and has allocated the equivalent of \$20.6 million in pesos for agrarian reform in Colombia. The first dollar loan for \$10 million was made by AID to INCORA in June 1963 for supervised agricultural credit. Prior to making the loan, AID concluded that a program of supervised agricultural credit was a key element of, and crucial to, agrarian reform in Colombia. In March 1966, AID made an \$8.5 million supervised agricultural credit loan to INCORA to support Colombia's agrarian reform program. AID also financed a preliminary survey and a detailed study of INCORA's supervised agricultural credit program.

In response to our request for AID's annual or periodic evaluations of the extent of progress toward the Alliance goal of transforming the land tenure structure in Colombia, senior mission officials informed us that AID's evaluations of INCORA's activities to date have focused on the performance of specific agricultural projects rather than on the overall progress of Colombia in transforming its land tenure structure.

INCORA's program has not been an exclusive program for distributing lands but more of a program to make supervised agricultural credit and other benefits available to existing small landholders in Colombia who have insufficient knowledge or capital to make their land sufficiently productive. In this regard, the mission has determined that the law that created INCORA does not allow it, with certain limited exceptions, to expropriate or take by eminent domain a large farm which is being adequately exploited.

INCORA's activities, since its organization, have included grant of titles for public lands, development of economic use of uncultivated lands, efforts to increase productivity through the use of improved technical methods, programs of supervised agricultural credit, construction of access roads, and irrigation and drainage projects.

INCORA reports show the following achievements as of June 30, 1967:

	Hectares (thousands)
Colonization of public lands-----	1,984
Eminent domain-----	1,886
Gifts received-----	264
Purchases-----	96
Expropriations-----	45
Total-----	4,275

INCORA reports also show that it has distributed titles for about 2 million hectares, which involve about 54,000 families.

As indicated by the facts above, INCORA—the Colombian agency responsible for land reform in Colombia—has achieved a degree of success in its various activities but has not, in the aggregate, achieved any appreciable success in effectively transforming the maldistribution of land in Colombia. In this regard, the mission director informed us in November 1967 that agrarian reform is one of the most sensitive and difficult problems facing the Latin American countries and that the United States, at best, can only advise and encourage continuing action in this area.

1. Agency comments and our evaluation thereof

AID acknowledged the importance of land reform in Colombia and advised us that it will continue to channel a substantial share of its assistance to the agricultural sector through INCORA. AID stated, however, that our report takes insufficient notice of the relevance to land redistribution of supervised credit, irrigation, and access roads, which AID has financed, and does not give sufficient emphasis to the extreme difficulty involved in changing well-entrenched land tenure patterns.

In this regard, we have pointed out that AID during the Alliance has channeled approximately \$39 million, including \$20.6 million in pesos, to INCORA—the Colombian agency responsible for land re-

form in Colombia; that INCORA's activities have included programs of supervised agricultural credit, construction of access roads, and irrigation and drainage projects; that 11,570 families were receiving supervised credit in 1966; and that 429,000 acres of land have been put under irrigation since the beginning of the Alliance. However, sufficient basic data was not available to determine the aggregate effect, if any, that such programs have had on Colombian land tenure adjustments.

With respect to the difficulty involved in changing Colombia's well-entrenched land tenure pattern, we have recognized that difficulty.

D. DISTRIBUTION OF INCOME

During the first 5½ years of the Alliance, little progress was made toward meeting the Alliance's goal of more equality in the distribution of income. Available data indicates that the lower income groups, which are the ones with the greatest needs, have received the least benefit from Colombia's economic development efforts.

A fundamental U.S. and Alliance objective in Colombia is to make the benefits of economic progress available to all citizens of all economic and social groups through a more equitable distribution of national income and thus raise more rapidly the income and standard of living of the needier sectors of the population.

Since 1962 it has been AID's policy in evaluating the progress of social and political measures of a country to answer the key question of whether income distribution is becoming more equitable. Nevertheless, AID has not obtained basic data showing the distribution of income in Colombia prior to or during the Alliance. Nor had AID made any substantive evaluation of this matter prior to 1967.

Assessments made in 1967, however, showed that (1) urban unemployment was rising; (2) the wages of the low-income groups in urban areas were stagnant; (3) the daily per capita caloric intake in Colombia had declined; and (4) the standard of living for the lower income groups in rural areas was constant or falling.

We recognize that the achievement of an equitable distribution of income in a developing country such as Colombia may require more than a few years. We believe, however, that AID should develop, as a minimum, a plan which establishes the steps to be taken each year toward achieving this long-term objective and which provides a basis for a systematic evaluation of progress achieved each year.

E. EDUCATIONAL GOALS

Progress was limited in Colombia during the Alliance in developing educational and training facilities, and in achieving its educational goals. In our opinion, these goals in some cases, were somewhat optimistic under the circumstances. Our review revealed that:

—Colombia increased the percent of its primary school-age children enrolled in primary schools from 60 percent in 1961 to 70 percent in 1966, but it substantially failed to achieve the goal of providing primary education for all primary school-age children in Colombia by July 1965. Of 22,000 primary classrooms estimated as needed and which were to be constructed by July 1965, 5,150 were reported to be complete as of October 1967.

—Enrollment increased in Colombian secondary schools by about 141,000, or 42 percent from 1963 through 1966, which represented small progress toward the AID goal of a 300-percent increase by late 1967.

—Less than 2.7 percent of Colombia's higher school-age youth were enrolled in school in 1966 compared with 1.7 percent in school in 1961.

—Available data indicates that progress has been slow toward eliminating illiteracy during the Alliance.

In our opinion, key factors contributing to Colombia's limited progress in education were insufficient funding and a lack of Colombian educational planning. As early as 1963, the planning function had been identified as being essential to effective assistance for education.

Key Alliance educational objectives include (1) insuring, as a minimum, access to 6 years of primary education for each school-age child by 1970; (2) eliminating adult illiteracy; and (3) modernizing and expanding vocational, secondary, and higher education facilities to provide the human resources required for rapid development.

Both AID and the Colombian Government have long recognized that the degree of progress in education development is a factor which will determine the success or failure of Colombia's development program. In 1962 AID determined that the area of education was an area in which U.S. assistance efforts could be most productively employed to support Colombia's efforts for orderly progress. In this regard AID determined that Colombia's human resource potential had barely been tapped and that the country's economic and social development was being retarded because of an antiquated national curriculum, inadequate facilities, poorly trained teachers, low teaching standards, lack of books and other equipment, inadequate school supervision, and inefficient administrative procedures.

During the Alliance education has been an AID top-priority goal, toward which AID invested about \$22 million, including the equivalent of \$15 million in Colombian pesos. About 150 Colombians were trained through 1965 under AID's participant training program in the area of education. AID has estimated that about 50 percent of these participants have utilized their training to a high degree.

About \$6.6 million of the above assistance was provided for a primary education project to assist the Government in developing the facilities and in training the personnel necessary to provide basic education for all primary school-age children in Colombia by July 1965. The following schedule shows that this goal was not met but that Colombia increased the percent of its primary school-age children enrolled in school, from about 60 percent in 1961, at the beginning of the Alliance, to about 70 percent as of 1966.

[In thousands]

	1961	1962	1963	1964	1965	1966
Primary school-age children (ages 7 to 11).....	2,278	2,376	2,477	2,582	2,689	2,804
Primary school-age children enrolled in school.....	1,364	1,476	1,574	1,667	1,714	1,951
Percent enrolled.....	59.9	62.1	63.5	64.6	63.7	69.6

Also enrolled in Colombia primary schools were children of secondary school age. During the Alliance such children accounted for about 25 percent of the total enrollment in Colombia's primary schools.

In 1966 AID determined that of the 23,000 primary schools in Colombia, only 20 percent offered a full cycle of five grades even though primary education of five grades is obligatory under the Colombian Constitution; 12,500 of the schools, or about 54 percent, offered two grades or less. The shortage of classrooms and qualified teachers is more acute in rural areas, where only about 1 percent of the school-age population completes five grades.

A key problem identified early in the Alliance was the relatively high dropout rate in primary schools. In 1963 AID determined that 90 percent of Colombian primary school enrollees dropped out of school before completing the fifth grade. An AID goal was to reduce the dropout rate to 70 percent by 1968. In 1966 an AID study showed the following dropout rates:

	Dropout rate (percent)
Grade 2 -----	43
Grade 3 -----	79
Grade 4 -----	89
Grade 5 -----	93

Of the 22,000 primary classrooms which were to be constructed by July 1965 under Colombia's development program, 5,150, or about 25 percent of the total, reportedly were complete as of October 1967. In a 1965 review we found that (1) a number of the newly constructed classrooms were being used by Colombia to replace existing classrooms, although its educational program provided for continued use of the existing classrooms, and (2) the newly constructed classrooms were not being adequately maintained and were deteriorating.¹

AID estimated that there was a shortage of 25,000 primary classrooms in Colombia in 1966, and has estimated a shortage of 48,500 primary classrooms in Colombia by 1973.

In the area of secondary education, AID in 1963 established a goal of increasing the enrollment in Colombia's secondary schools by 300 percent by late 1967. From 1963 through 1966, enrollment in Colombia's secondary and vocational schools increased by about 42 percent. The level of such enrollment during the Alliance is shown by the following schedule:

	[In thousands]					
	1961	1962	1963	1964	1965	1966
Secondary school age children (ages 12 to 18)-----	2,415	2,526	2,624	2,710	2,798	2,872
Enrollment in secondary and vocational schools-----	261	291	331	361	405	472
Percent enrolled-----	10.8	11.5	12.6	13.3	14.5	16.4

A large part of Colombia's secondary school students drop out before completion of a secondary education. In 1966 AID estimated that the dropout rate was about 75 percent—a decrease from the 80-percent rate experienced in 1963.

Key problems in Colombia's secondary school system, which has a high private school component, amounting to about 65 percent, in-

¹ GAO report No. B-161882 dated Sept. 21, 1967.

clude (1) a limited enrollment capacity, (2) a scarce supply of teachers with college degrees; in 1966 only about 16 percent of the teachers were college graduates and this percentage was decreasing because secondary school enrollments were increasing faster than college graduates could be supplied, (3) an inefficient use of teacher and plant resources, and (4) curricula not adequately directed toward middle-level manpower requirements for development.

In the area of higher education in Colombia, enrollment is somewhat limited as shown by the following:

[In thousands]

	1961	1962	1963	1964	1965	1966
Higher school age youth (ages 19 to 24).....	1,543	1,592	1,643	1,696	1,751	1,807
Enrollment in schools of higher education.....	27	30	34	37	38	49

Key problems in the area of higher education include (1) a dropout rate of 50 percent, (2) the small number of full-time professors—about 35 percent in 1966, (3) limited facilities, and (4) an unbalanced mixture of disciplines relative to Colombia's manpower needs, there being a heavy emphasis on doctors, lawyers, and engineers, and not enough emphasis on the social and physical sciences and other less traditional professions.

Little data was available with respect to literacy rates in Colombia. The data that was available showed that, in 1951, 43 percent of the population in Colombia was illiterate and that, in 1964, the year of the last census, the rate was 31 percent. AID estimated in May 1967, that about 44 percent of Colombia's population was illiterate. However, no information was available to show whether the basis used to compute each rate was comparable.

Overall factors which, in our opinion, have inhibited Colombia's educational development and progress during the Alliance have been a lack of funding and inadequate educational planning. With respect to funding, the Colombian Government has allocated increased funds for education during the Alliance as shown below:

[Expenditures in millions of constant 1958 pesos]

	1961	1962	1963	1964	1965	1966
Total government expenditures.....	2,811	2,561	2,566	2,483	2,833	3,227
Total educational expenditures.....	213	286	290	366	361	380
Percent allocated to education.....	7.6	11.2	11.3	14.8	12.8	11.8
Pesos per school-age student, per year.....	34.2	44.0	42.9	52.4	50.0	50.7

Colombia's overall performance in the area of development planning during the Alliance is discussed in section VII.A. With respect to education planning at the time of our review in November 1967, it had long been recognized that the Government's ineffective and uncoordinated planning efforts were a key factor inhibiting Colombia's educational development. AID has programed \$566,000 in technical assistance since 1963 to assist Colombians in developing a national education plan.

Neither AID nor the Government of Colombia has developed a comprehensive plan for identifying the human resource requirements necessary for attaining Colombia's future economic and social goals,

but they have developed some basic data toward this end. The mission director informed us in November 1967, however, that during 1967 two surveys concerning manpower requirements in industry, government, and education were made under AID auspices. He informed us that the studies concentrated on procedures by which manpower demands would be more clearly communicated to educational agencies, rather than on theoretical estimates of the number of skilled people required.

The mission director also informed us in November 1967 that a lack of comprehensive planning, insufficient funding, and other problems, such as a complicated educational administrative structure, a school-age population growing at more than 3 percent a year, and the lack of sufficiently trained planners, administrators, and teachers, do exist in Colombian education, although AID has supported numerous studies in the area of education. He advised us that the present Colombian Government has expressed an awareness of the need to deal with these issues and is implementing specific plans in several key areas.

1. Agency comments

AID, in its comments dated March 19, 1968, acknowledged that there are basic deficiencies in the Colombian educational system but stated that the Colombians had made more headway in educational development effort than it appears in our report. In this regard, AID pointed out that our report failed to mention the joint effort of the Colombian Government, IBRD, and AID to reform the basic structure of secondary education, in part through the establishment of 19 comprehensive high schools. This reform, AID stated, represents a significant attack on existing deficiencies in secondary education. AID stated that efforts are continuing to insure that new schools will serve as a nucleus for the revision of the entire Colombian secondary school system.

AID informed us that Colombia now proposes to develop a comprehensive program in the education sector and that AID plans to respond to well-conceived Colombian initiatives with nonproject assistance tailored to sector programs in education.

F. HEALTH AND SANITATION

Available statistics show that Colombia's general level of health and sanitation has improved during the Alliance although only about 60 percent of the planned expenditures on health and sanitation programs were made by Colombia during the period 1962-65. Life expectancy has increased and mortality rates and deaths from communicable diseases have decreased. Contributing to these improvements were an increase in the number of physicians and hospital beds and an increase in the urban population served by sewer systems.

The following schedule contains data from AID records, which indicates the status of Colombia's health and sanitation as of 1957, 1961, and 1966:

Factors measuring health and sanitation	1957	1961	1966	Percent change	
				Pre-Alliance period, 1958-61	Alliance period, 1962-66
1. Number of physicians per 10,000 people.....	3.5	3.9	4.3	11.4	10.3
Nurses trained annually.....	57	79	107	38.6	35.4
Number of hospital beds per 100,000 people.....	1.6	1.6	2.4	-----	50.0
2. Percent of urban population for which potable water is available.....	66.9	72.6	77.6	8.5	6.9
Percent of urban population served by sewerage systems....	52.3	56.6	59.5	8.2	5.1
3. Life expectancy at birth (in years).....	47	51	59.3	8.5	16.3
Death rate per 1,000 population.....	12.4	11.0	9.4	-11.3	-14.6
Infant mortality per 1,000 live births.....	100.0	89.6	79.0	-10.4	-11.8
4. Deaths per 100,000 population for key communicable diseases:					
Diarrhea.....	1,752	2,061	1,647	17.6	-20.1
Influenza.....	2,337	493	442	-78.9	-10.4
Malaria.....	547	163	75	-70.2	-54.0
Measles.....	237	186	119	-21.5	-36.0
Gonorrhea.....	239	344	194	43.9	-43.6
Whooping cough.....	244	132	97	-45.9	-26.5

AID's assistance for Colombian health and sanitation has totaled about \$31.4 million, including three dollar loans totaling \$4.4 million, about \$5.7 million in technical assistance, and the equivalent of about \$21.3 million in U.S. owned and/or controlled Colombian pesos. Of AID's total contribution to this sector, about \$19.9 million has been directed toward water and sewer systems.

Colombia's development program, supported by AID, provided for public investments of about 1.9 billion pesos for water, sewer, and health programs during the period 1962-65. Colombia's actual expenditures during the period were about 1.1 billion pesos, or about 60 percent of the planned expenditures.

A specific goal of Colombia's development program was to provide water supply services to about 6 million urban and 1.6 million rural residents by 1965. AID had not evaluated the extent of progress toward the goal. The mission director informed us in November 1967 that, as of 1966, potable water was available to 77.6 percent of Colombian urban population, or an estimated 7.7 million urban residents.

1. Agency comments

AID, in its comments dated March 19, 1968, and additional comments presented on April 19, 1968, stated that there were basic deficiencies in Colombia's health services but that Colombia had made more headway in the area of health than was apparent in the conclusions in our report. In this regard, AID informed us that an international organization in a report, dated February 1968, on economic development in Colombia during 1967 made the following statement:

The Government has given increased emphasis to the improvement of water supply and sewerage facilities. With rapidly growing urban areas, the inadequacy of facilities multiplies health problems and inhibits economic growth. Although investment planning is adequate in the larger cities—Bogotá, Medellín, etc.—substantial improvement is still necessary in the medium and small cities. Preparations are well advanced for a major expansion of the Bogotá water supply system; the expansion of sewerage facilities is already underway. Preparation of projects and feasibility studies are being accelerated in medium size cities.

G. HOUSING

During the Alliance Colombia's shortage of housing has increased substantially. Our review of the extent of Colombia's housing progress during the Alliance showed that Colombia constructed about

224,000 new housing units from 1962 through 1966, or about 62 percent of the AID goal of 360,000 units. This rate of housing construction was about 5 percent greater than the average annual rate of housing construction achieved during 1960 and 1961¹ prior to the Alliance. A key factor in Colombia's failure to meet its housing needs has been a lack of available credit due, in turn, to (1) Colombia's inflation problem which tends to limit savings and (2) the lack of an effective mechanism for channeling savings into housing for the mass market.

A fundamental AID objective is the improvement of living conditions of people in AID-receiving countries. AID has invested the equivalent of about \$55.9 million in Colombia's housing sector, including 2 dollar loans totaling \$19.5 million, technical assistance valued at about \$3.4 million, and local currency totaling the dollar equivalent of about \$33 million.

The gravity of Colombia's housing problem is increased by its high rate of population growth—about 3 percent a year—and migration from rural to urban areas. At the beginning of the Alliance, there was a shortage of about 277,000 urban housing units. This shortage had increased to about 375,000 units as of 1966. Moreover, it was estimated in 1966 by Colombia's Land Credit Institute that, of the 778,000 available urban housing units in Colombia, about 200,000 or about 25 percent were substandard. In rural areas there was a shortage of an estimated 500,000 housing units as of 1966. Colombia's Agriculture Bank estimated that, in addition, about 400,000 rural housing units in Colombia were substandard.

The AID program in Colombia has been designed to promote establishment of institutions which would be capable of mobilizing resources into a building industry that would provide marked impetus to the national economy and meet the serious housing shortage.

The following comparison shows the extent to which established AID goals for housing construction have been met each year during the Alliance. The mission determined that the record completions in 1962 resulted mainly from a peak in foreign financing available in 1961 and early 1962:

Year	AID goal	Total housing units constructed	Shortfall
1962.....	20,000	64,278	-44,278
1963.....	60,000	44,876	15,124
1964.....	80,000	40,859	39,141
1965.....	100,000	32,501	67,499
1966.....	100,000	41,543	58,457
Total.....	360,000	224,057	135,943

Note: Percent of shortfall, 37.8.

AID determined that Colombia's construction industry and its labor supply was capable of a greater rate of housing construction. AID determined also that a prime factor limiting the expansion of housing construction was a lack of financing.

¹ Data on rural housing construction for earlier years was not available.

The shortage of financing in the private sector was attributable in part to the absence of a savings and loan system, or equivalent, for housing and the difficulty of establishing a mechanism to protect the value of long-term investment in housing against inflation. Although private savings continued to increase in terms of numbers of pesos, practically no increase in the real value of such per capita savings resulted during the period 1956-66 because of inflation.

The Colombian Government, in September 1965, established a savings and loan policy. The policy established did not include the provisions necessary to permit the system to grow or develop. Revision of the policy is essential if sufficient resources are to become available for seed capital.

In April 1967, the Government adopted a plan intended to protect the value of long-term housing investments against inflation. AID stated that the plan constituted only a partial approach, which might make a system for protection of value more difficult to realize. The plan provided that the unknown future situation, which might vary widely with the variable rates of inflation, was to be met by a fixed degree of protection.

AID recently reduced its goal for new housing units, 59,000 for 1968 increasing to 100,000 in 1972, and determined that this rate of construction, if achieved, will not permit any reduction in the cumulative quantitative shortage of housing before 1972.

With respect to planning of urban development in Colombia, AID has identified a number of deficiencies. To assist in the solution of these problems, AID plans to continue its technical assistance for urban development through 1972.

H. TRANSPORTATION DEVELOPMENT

A study by an international organization indicates that Colombia's transportation network has expanded during the Alliance, but on a piecemeal basis. This may not have constituted optimum utilization of available resources due to the lack of an integrated plan for the country, specifying priorities for the various modes of transport. The study points out that the then current transportation system could have satisfied needs if properly managed and maintained.

The length of the road network, the number of commercial airports, the passenger kilometers flown by commercial air and the cargo handled by river transport, seaports, and air and rail lines increased during the Alliance as shown by the following schedules:

TRANSPORTATION FACILITIES

	Kilometers of—						Number of commercial airports
	Paved roads	Gravel roads	Unimproved roads	All roads	Roads per vehicle	Operating rail lines	
1957-----	2,750	4,576	21,877	29,203	0.18	2,960	14
1961-----	5,078	9,837	20,582	35,497	.18	3,437	52
1966-----	6,327	15,254	23,610	45,191	.18	3,437	67
Percent average annual increase, 1958-61-----	21.2	28.7	-1.5	5.4	-----	4	67.9
Percent average annual increase, 1962-66-----	4.9	11.0	2.9	5.5	-----	-----	5.8

TRANSPORTATION MOVEMENTS

Year	Millions of metric tons/kilometer			Cargo handled by seaports (millions of metric tons)	Passengers flown by domestic airlines (millions of passengers/kilometer)
	Cargo hauled by rail	Cargo hauled by river transport	Cargo flown by domestic airlines		
1957	703.5	367.6	56.3	6.2	615.2
1961	768.9	836.2	48.1	6.6	822.8
1966	1113.7	891.0	74.2	9.3	1429.7
Percent average annual increase, 1958-61	2.3	31.9	-3.6	1.6	8.4
Percent average annual increase, 1962-66	9.0	1.3	10.9	8.2	14.8

AID has invested the equivalent of about \$21.6 million in U.S.-owned and/or controlled Colombian pesos into Colombia's transportation sector, \$18.7 million of which has been allocated during the Alliance. The mission has been unable to furnish us any substantive analysis of the extent of progress made by Colombia's transportation sector from the beginning of the Alliance to date. In this regard, the mission has informed us that AID's role with respect to Colombia's transportation development has been supplementary. A problem identified with Colombia's transportation sector has been the low road maintenance standards.

Colombia, from 1962 through 1965, expended about 93 percent of the funds originally planned for in its program for transportation development. The amounts expended represented about 11 percent more, on the average, than two international organizations had recommended. In December 1966 the Government decreed a gasoline tax to finance a national highway fund. The following schedule summarizes the Colombian development program investment goals, the amount recommended by the international organizations, and the actual amount expended by Colombia each year from 1962 through 1965 for its transportation sector:

[In millions of 1961 constant pesos]

Year	Government plan goal	International organizations' recommendation	Government actual expenditures
1962	851	629	727
1963	885	751	828
1964	888	784	797
1965	919	786	935
Total	3,543	2,950	3,287

I. POWER DEVELOPMENT

Colombia's electrical power generation and per capita usage has increased significantly during the Alliance. The increase in power production during the Alliance has been greater than such increases prior to the Alliance.

The AID-supported goal for Colombian electric power generation capacity was 1,800 megawatts by 1965. About 86 percent of this goal was met by 1965. AID informed us that the origin of this goal was

not clear. The capacity goal was not achieved primarily because the planned expenditures for power development, provided for in Colombia's development program, had not been met. However, actual capacity exceeded demand.

The following schedule shows and compares, to the extent of available data, that Colombia's electric power generation capacity, actual power production, capacity utilization, and per capita power usage as of 1957, as of the beginning of the Alliance in 1961, and as of 1966:

Year	Installed capacity (megawatts)	Total electrical power generation (millions of kilowatt-hours)	Percent of capacity utilized	Per capita usage (kilo- watt-hours)
1957.....	861	1,380	18.3	98
1961.....	929	1,973	24.2	124
1966.....	¹ 1,550	5,206	38.3	280
Percent of average annual increase, 1958-61.....	2.0	10.8	-----	6.6
Percent of average annual increase, 1962-66.....	² 16.7	32.8	-----	25.2

¹ 1965 data. Data for 1966 not available.

² Percent of average annual increase 1962-65.

AID assistance to Colombia's power sector has totaled \$12.9 million including a \$1.3 million loan and the allocation of the equivalent of \$11.6 million in local currency.

Colombia's development program provided for public expenditures of about 2.9 billion pesos for power development during the period 1962-65. Actual expenditures during that period amounted to 1.9 billion pesos or about 35 percent less than planned. However, as pointed out above, capacity exceeded demand.

1. Agency comments

AID, in its comments dated March 19, 1968, informed us that:

* * * failure to fulfill a goal (for electric power generation capacity) is not necessarily a bad thing; it would have been folly to meet the goal since, as the report states, demand was being met with less investment. Also, the report fails to note the implication of its own figures, that capacity utilization increased by 43 percent from 1961 to 1965, growing from 2,130 kilowatt-hours produced per kilowatt at installed capacity to 3,050. As AID pointed out to the GAO * * * electrical power generation increased by 11 percent a year from 1960 to 1965.

2. Evaluation of Agency comments

Our report points out that Colombia's electrical power generation and per capita usage has increased significantly during the Alliance. In this regard we show that 86 percent of the goal for electric power generation capacity by 1965 has been achieved but we also point out that Colombia's actual generation capacity has exceeded the demand for electricity. We do not state nor, in our opinion, imply that the failure to meet this goal is a "bad thing."

With respect to AID's comment that we failed to note the relative utilization of available generation capacity, we have now incorporated such data. Our report does note, however, that electric power generation increased an average of 32.8 percent a year during the period 1962-66, a total of 164 percent. The mission, on the other hand, stated that Colombia's electric power generation had increased by 11 percent

a year from 1960 to 1965. However, the mission obtained, directly from the Colombian government, data relative to electric power generation which shows that such generation increased an average of 32.8 percent a year during the period 1962-66.

J. EXTERNAL DEBT SERVICE BURDEN

Our review showed that Colombia's external debt service burden has almost doubled, since the beginning of the alliance, from approximately \$34 million in 1961 to about \$67 million in 1966. As a result, the percent of Colombia's export earnings needed to service its external debt increased from 7.8 percent in 1961 to 13.1 percent in 1966. Colombia's gross foreign assets declined from an annual average of \$191 million during the pre-Alliance period 1958 to 1961 to an annual average of \$142 million during the first 5 years of the Alliance.

One of the significant byproducts of development efforts financed through foreign loans is a rising external debt service burden, which is the payment of principal and interest on outstanding loans. The following schedule shows that (1) Colombia's external debt service burden increased from \$34 million in 1961 to \$67 million in 1966 and (2) the percent of export earnings needed to service this burden increased from 7.8 percent in 1961 to 13.1 percent in 1966.

Year	External debt service burden (in millions of U.S. dollars)	External debt service burden as a percent of exports
1961	\$34	7.8
1962	36	7.8
1963	51	11.4
1964	64	11.7
1965	58	10.8
1966	67	13.1

We were unable to identify established absolute criteria for determining a country's debt-carrying capacity. One member of the consultative group reported in 1967 that servicing the external debt had not been a heavy burden for Colombia's balance of payments. However, a different member of the consultative group had determined earlier that to require the use of 12 percent of export earnings in Colombia to service its external debt would be high and that a ratio of 15 percent would be unsafe.

AID provided dollar loans amounting to about \$264 million to Colombia during the period 1962-66. During this same period, Colombia used about \$276 million of its foreign exchange resources to service its external debt burden.

Debt service payments to AID by Colombia during 1966 were \$2.8 million, or about 4 percent of the Colombian total debt service burden during 1966. The debt service payments to AID, however, will increase significantly after 1972 due to (1) expiration of grace periods for repayment of loan principal and (2) increased interest rates which become effective after the expiration of the grace periods. In this regard, of the \$264 million AID loaned to Colombia during the period 1962-66, the repayment of principal on \$233.6 million is to start in the 1973-77 period. In addition, interest rates on \$147.5 million of the AID loans will more than double after 1973.

Along with a rising external debt service burden during the Alliance, Colombia has also experienced a decline in the average of its foreign assets during the 5-year Alliance period compared to the average during the prior 4-year period. This is a favorable indication that Colombia has used both its own foreign exchange resources and those provided by the United States, less any capital flight, for goods importation and not for reserve accumulation. The following table shows the gross foreign assets of Colombia's Central Bank for the period 1958-66:

Year:	Gross foreign assets of Colombia's Central Bank (in millions of U.S. dollars)
1958-----	\$179
1959-----	231
1960-----	178
1961-----	174
1962-----	121
1963-----	131
1964-----	149
1965-----	155
1966-----	155

In addition to the Government's external debt service burden having almost doubled during the Alliance, the portion of its total expenditures needed for servicing its internal debt compared with the portion needed for the comparable pre-Alliance period has also, on the average, almost doubled during the Alliance.

We believe that increased consideration by AID should be given to Colombia's debt service burden, particularly since the probability exists that its debt burden will become greater within the next 5 to 10 years.

1. Agency comments

AID, in its letter dated March 19, 1968, made the following comments concerning Colombia's increasing external debt burden:

First, a rising debt service burden is not in itself a bad thing, since debt service is expected to rise as countries borrow in order to accelerate development. The important question is whether a country is developing sufficiently to be able to reduce the burden in the long run. Second, falling foreign reserves is merely another aspect of the foreign exchange gap which is, in the case of Colombia and the majority of other developing countries, an integral part of the development process. * * *

VII. COLOMBIA'S SELF-HELP PERFORMANCE

Colombia's self-help performance—the actions taken by Colombia to mobilize and utilize its own development resources—during the first 5 years of the Alliance, revealed problem areas. With respect to Colombia's utilization of its available resources during the Alliance, there has been improved efficiency in the use of available resources and an increased utilization of Government revenue for development purposes; however, Colombia's development planning efforts encountered problems, nonessential commodities were imported, capital flight exceeded minimum acceptable levels, and there was some loss of professional and technical personnel from the country.

With respect to Colombia's mobilization of resources, minimum levels of domestic savings were not attained; tax reforms achieved

only limited success; the degree of inflation increased; little progress was made to solve the increasingly critical unemployment problem; there was a need for improved incentives to attract private foreign investment; and there was a limited expansion of exports.

The Latin American countries, in signing the Charter of Punta del Este, agreed that, to achieve their objective of accelerated economic growth, it would be necessary for national programs of economic and social development to be based on the principle of self-help and on the maximum use of domestic resources.

AID recognizes that the success of a country's economic development effort depends both on the amount of resources the country can mobilize and on the efficiency with which its resources are used. The President of the United States in his 1967 message to the Congress on foreign aid stated that no sustained development progress is possible without self-help, which has been characterized as the lifeblood of economic development, and that assistance provided as a substitute is assistance wasted.

The Foreign Assistance Act of 1961, as amended, requires that the extent to which a recipient country is demonstrating a clear determination to take effective self-help measures must be taken into account when formulating the level of AID's nonproject assistance. AID recognizes that the length of time for which assistance is required depends to a large degree on the vigor of the recipient country's own development efforts. Improved mobilization and use of resources is both a means for and a measure of progress in a developing country. Therefore, it is U.S. policy to relate, whenever possible, the degree of development assistance to the recipient's effectiveness in mobilizing its resources and applying them to priority investments. Insistence on self-help does not mean interference in the internal affairs of another nation. It does mean that developing countries which receive assistance should have sensible programs for mobilizing and utilizing their own resources.

Colombia's performance during the Alliance with respect to the self-help factors, which are generally recognized by AID and other international lending agencies as being of paramount importance to the development process, and AID actions related thereto, are discussed in the following sections.

A. DEVELOPMENT PLANNING EFFORTS

AID criteria provide that the willingness of a country to formulate and implement a workable development plan is, in itself, one of the strongest indications of self-help. Available information indicates that:

- Colombia has not developed a workable, coordinated, and comprehensive development plan to serve as a guide for its economic and social development under the Alliance.
- Periodic assessments during the Alliance identified deficiencies in planning as being of crucial significance and as being a major factor adversely affecting Colombia's development effort.
- During the period of fiscal years 1963-66, AID programed assistance to Colombia totaling about \$218 million in support of Colombia's development plan although that plan was only a statement of statistical goals, it included no strategy or procedures for

achieving the stated goals and it did not constitute a workable development program. The 1966 AID program was subsequently revised to support, along with the fiscal year 1967 and 1968 programs for Colombia, an outline of goals and measures announced by the Colombian Government.

—Since 1961, AID has provided technical assistance to Colombia at a cost of about \$15.9 million, including the equivalent of \$12.4 million in local currency, in support of Colombia's development planning efforts although Colombian efforts continue to be deficient in this area.

—Key factors relating to Colombia's problems in planning efforts during the Alliance, include (1) the lack of political and financial support, (2) attention addressed to immediate rather than long-range problems, (3) a lack of coordination between the department of planning and the planning of sections of the various ministries and public agencies, (4) a lack of sufficient basic data for sound policy formulation and long-range planning—in this regard, it has been generally recognized that the lack of timely, reliable, and sufficient basic data is a deficiency of significant importance in Colombia—and (5) a lack of qualified personnel.

The formulation and implementation of national development plans has long been recognized by AID, and by at least one other international assistance agency, as a prime requirement for effective use of available resources to improve the performance of an economy. AID has determined that a comprehensive development plan (1) serves to clarify a nation's goals and assessment of its willingness to make present sacrifices for future growth, (2) provides a basis for allocating the scarce resources of the economy, (3) supplies an overview of the most desirable future development of the national product and its components, (4) helps to insure that the activities of different government departments and private groups are consistent, and (5) provides a basis for identifying those activities in which assistance may be particularly effective in promoting growth.

It is AID policy to encourage recipient countries to formulate national development plans—in which goals are specified and the policies and action necessary to achieve them defined—and to establish the administrative machinery for their implementation. AID criteria, however, provide that mere paper plans or inadequate planning organizations are no substitute for the sustained effort required to mobilize and direct public and private resources into development activities and that, when development plans are no more than mere paper plans, assistance should not be related to them. AID criteria also provide that nonproject loans for balance-of-payments purposes will normally be made only to countries with a coordinated national development plan.

In Colombia, the lack of adequate Colombian planning has long been a major factor adversely affecting development progress. During the fifties, when a relative abundance of foreign exchange was available due to high coffee prices, there was substantial misdirection of investment and ineffective use of public funds, which had hindered Colombia's development progress, due to a lack of proper planning.

AID found that Colombia's efforts had centered primarily on developing broad objectives and had not concentrated on (1) developing plans for achieving such objectives, (2) developing projects on

which work could begin, and (3) developing basic data required for rational long-term planning. AID, therefore, established goals to assist in the development of an adequate planning mechanism within the Government and to assist in the development of a system within the Government for gathering basic data on which realistic long-term planning is dependent. Colombian legislation in 1958 provided for a Government department of planning.

In December 1960, Colombia published a 4-year public investment plan. AID found that this plan consisted primarily of investment plans submitted by various ministries and other Government agencies with a minimum application of overall national priorities and was thus severely unbalanced.

The Charter of Punta del Este, adopted in August 1961, provided that participating Latin American countries would formulate long-term comprehensive development programs. In December 1961, Colombia published a 10-year general development plan which was to serve as a guide for its social and economic development through 1971. This plan was prepared by Colombia's National Council for Economic Policy and its staff agency, the Department of Planning. A major component of the 10-year plan was the public investment plan discussed above.

AID analysis of the 10-year plan in December 1962 disclosed that it was basically a series of statistical goals which did not include detailed sector plans and lacked specificity regarding concrete proposals on how the stated goals would be attained.

In December 1962, AID made a \$60 million nonproject development loan to Colombia to assist in initiating Colombia's 10-year plan. This loan was the first Alliance for Progress development loan in support of a national development plan. The loan was justified on the basis that the 10-year plan represented the initial stage in Colombia's planning process. AID's understanding, at the time, was that the Government was moving forward with a number of important activities with respect to development planning, including (1) completion of the 10-year plan by developing concrete plans on how the stated goals were to be achieved, by completing detailed plans for each economic sector together with plans for specific priority projects and by annually updating the 4-year public investment plan, (2) improvement of its organization for planning, (3) relation of planning to the budgeting process, and (4) provision of the revenue required to support the development program.

The \$80 million fiscal year 1964 assistance program for Colombia, formulated in late 1962, included \$50 million of nonproject assistance which reflected the initial phase multiyear assistance to Colombia for use in fulfilling the objectives of its 10-year plan. The program was designed to assist Colombia, among other things, to overcome its planning deficiencies.

During 1963 and 1964 the mission found that (1) Colombia's progress in planning had not greatly improved, (2) for various reasons including neglect, neither the overall plan nor the several detailed sector plans had been completed, and (3) the 4-year public investment plan had not been renewed annually.

The \$3.6 million fiscal year 1965 assistance program, formulated in late 1963, and the \$75.4 million (including \$65 million in nonproject

assistance) fiscal year 1966 assistance program, formulated in late 1964, were in support of Colombia's 10-year plan and continued technical assistance to Colombia for development planning.

In early 1965, it was recognized that there was, in fact, no Colombian development plan to support and that therefore, the nonproject loans were not as effective as they might have been. AID nonproject assistance to Colombia during 1965 was withheld until December 1965 when a \$65 million loan was made. This loan, together with the fiscal years 1967 and 1968 assistance programs for Colombia, was not directed toward support of Colombia's 10-year plan but toward a program of goals and measures announced by the Colombian Government.

During 1966 and 1967, the lack of adequate Colombian planning was a major deficiency. In 1967, AID determined that the department of planning was gradually improving in organization and capacity. In 1967, the mission decided to continue the technical assistance to Colombia for development planning and programmed training in the United States of 35 participants, in fields related to development planning.

AID records show that the Colombian Government in 1967 was working on a new 4-year development plan for the public sector. The Government prepared a 1-year plan of very limited scope for 1967 outlining certain planned public sector investments.

We were informed by the mission in November 1967 that, in evaluating the need for more planning in Colombia, it was necessary to distinguish between drawing up long-term plans and developing a usable, current process which would take realistic difficulties of implementation into account and would provide necessary experience for longer term planning. It was stated that, although there was still much to be done, the quality and the realism of Colombian planning had greatly increased, especially after 1966.

On the basis of our review we believe that AID technical assistance in support of Colombia's development planning efforts has been less than effective primarily because of the deficiencies noted above. Also, it seems evident that the attainment of a greater degree of growth by Colombia in the future depends in large measure on more adequate effort and performance. We believe, therefore, that AID, when considering future assistance to Colombia, should give increased emphasis to, and the means of achieving specific performance in, national and sectoral planning, including the systematic identification of key national and sectoral problems hindering development and the establishment of priorities and development of a definitive strategy for attacking such problems.

B. LEVELS OF SAVINGS

We found that Colombia's levels of savings, during 3 of the first 4 years of the Alliance¹ failed to meet AID's minimum marginal savings requirements. Colombia's marginal savings were more than 1.1 billion constant 1958 pesos below the minimum levels required by AID criteria. In addition, Colombia's gross national savings, as a percent

¹ Colombian national income accounts data for 1966—the 5th year of the Alliance—was not available to AID as of November 1967.

of GDP, declined substantially during the first 4 years of the Alliance, compared with the pre-Alliance period of 1957 to 1961.

AID has developed criteria which provide that the best available measure of a country's achievement in improving its domestic capital supply available for investment is the proportion of additions to GNP which it saves; that is, its marginal savings rate. AID criteria provide that a minimum of 20 percent of annual increments to GNP should be saved by a country and that, in serious development efforts, the rate will often exceed 30 percent. Colombia, in accordance with the Charter of Punta del Este, agreed to devote a steadily increasing share of its national product to investment.

The following schedule shows that (1) Colombia met AID's minimum marginal savings rate in only one of the first 4 years of the Alliance and (2) Colombia's average annual marginal savings rate during the first 4 years of the Alliance was a negative 4.7 percent or a very substantial decrease from the average pre-Alliance (1957-61) marginal savings rate of 24.8 percent:

[In millions of constant 1958 pesos]

	Total, 1957-61	1962	1963	1964	1965	Total, 1962-65
Gross national product.....	108,420	24,909	25,785	27,342	28,141	106,177
Increase in GNP.....	4,289	1,120	876	1,557	799	4,352
Gross national savings (GNS) ¹	21,166	4,453	4,422	3,809	4,486	17,170
Increase in gross national savings.....	+1,063	-239	-31	-613	+677	-206
Ratio of increase in GNS to increase in GNP (marginal savings rate).....percent..	+24.8	-21.3	-3.5	-39.4	+84.7	-4.7

¹ GNS is the total savings minus net foreign trade balance (imports over exports) and factor income from abroad. Net factor income consists of the net receipts from the rest of the world of investment income, such as interest, dividends, and branch profits; of earnings of residents working abroad; and of other factor income of normal residents.

The total marginal savings shortfall during the first 4 years of the Alliance was more than 1.1 billion constant 1958 pesos (about \$134 million). The above schedule shows that, in 1965, marginal savings rose substantially—a year when imports were curtailed and a new AID nonproject loan was withheld until the last month of the year. Since Colombia national accounts data, that is, data on the major components of the GNP of a country, for 1966 was not available to AID at the time of completion of our fieldwork in November 1967, we have no basis to evaluate whether the substantial increase in the marginal savings rate in 1965 may have been attributable to AID's suspension of the nonproject loan during most of 1965 or whether the marginal savings trend may have shifted to the positive side.

AID nonproject loans to Colombia have been justified on the basis that they would induce and enable the Government to adopt necessary economic development policies and to permit Colombia to carry out its planned development program. Colombia's development program provided that the level of investments, which are financed to a large extent by savings, would be increased from 20 percent of GDP in 1960 to 26 percent by 1964. The following table shows that investments were 18.2 percent of GDP in 1964 rather than the 26 percent planned and that total investment as a percent of GDP has declined during the Alliance.

[In millions of constant 1958 pesos]

	Average, 1957-61	1962	1963	1964	1965	Average, 1962-65
Gross domestic product.....	22,043	25,400	26,200	27,800	28,700	27,025
Total investment.....	4,479	4,805	4,780	5,058	4,899	4,886
Total investment as a percent of GDP.....	20.3	18.9	18.2	18.2	17.1	18.1

According to Colombia's development program, the increase in investments was predicated on national savings rising from 18 percent of GDP in 1960 to 23 percent by 1964. The schedule below shows that (1) the planned rate of national savings of 23 percent of GDP, which was to have been achieved by 1964, had not been achieved as of 1965, (2) the rate of national savings during the Alliance was less than the average pre-Alliance rates, and (3) during the first 4 years of the Alliance, the average rate of national savings was 15.9 percent of GDP.

	<i>Gross national savings as a percent of GDP</i>
Average 1957-61.....	19.2
1962.....	17.5
1963.....	16.9
1964.....	13.7
1965.....	15.6
Average 1962-65.....	15.9

Some of the more important factors, which apparently contributed to the shortfall in Colombia's gross national savings and the low marginal savings rate, were (1) the relatively low interest rate—4 percent—paid by savings institutions, compared with the 14 to 24 percent charged by lenders, (2) the limited success of tax reforms, which is discussed later in this report, (3) the inflation problem—one of the most pervasive effects of continued inflation is to discourage domestically financed savings while encouraging spending on durable goods, such as automobiles, that tend to increase in value (the value of passenger automobiles imported by Colombia during the Alliance was more than double the value of passenger automobiles imported during the 5-year pre-Alliance period), and (4) the steady increase in private consumption expenditures. In this regard it appears that the Colombians have considered it unfeasible to adopt policies which would restrict consumption expenditures as a means of achieving a higher level of domestic savings. Colombian private expenditures during the Alliance were as follows:

[In millions of 1958 pesos]

	Average, 1957-61	1962	1963	1964	1965	Average, 1962-65
Private consumption expenditures.....	16,190	18,924	19,744	21,706	21,714	20,522
Gross domestic product.....	22,043	25,400	26,200	27,800	28,700	27,025
Private consumption expenditures as a percent of GDP.....	73.4	74.5	75.4	78.1	75.7	75.9

Actions taken by AID in attempting to correct the national savings problems have included (1) the provision in nonproject loans that a specific current account surplus (that is, that the Government's cur-

rent receipts exceed its current operating expenditures) be obtained (the Colombian Government did not fully achieve the current account surplus goal in 1964 but exceeded the goal for 1966), (2) encouraging the Colombian Government to adopt and enforce various tax measures, (3) a provision, in connection with counterpart releases for water and sewerage projects, that the entities benefiting from the loans must raise their tariffs to allow profitable operations, thus making particular entities revenue producing rather than tax burdens, and (4) certain measures regarding inflation which are to be discussed.

In October 1967 the mission director informed us that Colombian Government regulations limited the interest rate which commercial banks and other savings institutions may pay on savings deposits to 4 percent but that the Government was conducting a study of this matter with a view toward eventually raising interest rate levels.

We found no evidence that the mission had considered specifying a certain level of national savings to be achieved in Colombia as a condition precedent to the disbursement of nonproject loan funds. In this regard we noted that AID had used this procedure with apparent success in another country.

1. Agency comments and our evaluation thereof

AID, in its comments dated March 19 and additional comments presented on April 19, 1968, expressed concern over Colombia's performance during the Alliance with respect to savings. AID informed us that Colombia's marginal savings rate for the period 1962 through 1967 was 0.06. This compares with the negative marginal savings rate of 4.7 percent for the period 1962 through 1965 presented above. At the time we completed our fieldwork in November 1967, Colombian national accounts data was not available for 1966 and 1967. After receiving AID's comments, we attempted to obtain the Colombian national savings and investment data supporting the above rate so that it could be included in our report. Our check revealed that Colombia's national accounts data was still not published for 1966 or 1967. AID officials informed us that the Colombian data for 1966 and 1967 was, at least in part, not yet available and that they had used estimates for their computation. Assuming that these estimates—and thus the above 0.06 marginal savings rate—are correct, such rate is still, to a large degree, short of both the 20-percent rate which AID criteria provide as a minimum and the 30-percent rate that is to be achieved in serious development efforts.

AID stated that Colombia's savings data was unreliable and that the savings data included in our report was tenuous. In this regard it should be noted that our computations of savings were made from data furnished by Colombia to the United Nations and classified in accordance with the United Nations national accounts system; that AID guidance provides that United Nations data be used in evaluating the economic activity of an AID recipient country; and that AID was unable to furnish us other data which would serve as a more reliable indicator.

During the 5 years prior to the Alliance (1957-61) Colombian imports averaged \$475 million a year. With this level of imports, Colombia achieved a marginal savings rate of 24.8 percent and a level of investment equal to 20.3 percent of its GDP. Comparatively from 1962

through 1965 Colombian imports averaged \$521 million a year. With this higher level of imports, Colombia's marginal savings rate fell to a negative 4.7 percent and Colombian investment fell to a level equal to 18.1 percent of its GDP.

C. TAX REFORMS

Our review of official records and data regarding taxation in Colombia revealed that:

- Tax revenues, as a percent of gross national product, have not increased during the Alliance and that, on a per capita basis, Colombia ranked ninth in 1961 and dropped to 15th in 1965, in our comparison of the taxation by the central governments of 18 Latin American countries.
- Tax reform measures have been less than successful, although some improvements have been made primarily due to (1) the temporary nature of many of the reforms established during the Alliance, (2) their introduction before the administrative capacity and capability were adequate, and (3) the lack of statistical data.
- Lack of successful tax reform resulted in a Government policy of deficit financing—a key factor contributing to Colombia's problem of inflation.

Although it has long been recognized by many observers that the lack of sufficiently qualified personnel was a key contributing factor to the inadequate tax administration, it was not until 1967 that the Government of Colombia began to create incentives to attract better qualified personnel.

Tax improvement is one of the major goals of the Alliance for Progress, since taxes should be a main source for financing public investments. The alternative is inflationary deficit financing. AID has determined that Colombia's ability to maintain a high level of investment depends on the transfer of purchasing power from the private sector to the public sector through tax revenues in excess of those needed to meet the Government's operating expenses.

It is generally recognized that the success of a country's economic development efforts depends, to a large degree, on the amount of resources it can mobilize. The Act of Bogotá, which preceded the Charter of Punta del Este, sets forth various measures for improving social and economic conditions, in connection with the Alliance for Progress, and provides that one measure for mobilizing domestic resources is to examine, with a view of providing additional revenue, the equity and effectiveness of existing tax schedules, assessment practices, and collection procedures.

The following table shows that, on the average, tax revenues of the Colombian Government was 6.8 percent of gross national product during the 5 years preceding the Alliance as well as the first 5 years of the Alliance, thereby indicating that, in relative terms, the levels of tax revenue have remained unchanged.

Year	Tax revenue	
	Millions of 1958 pesos	As a percent of GNP
1957.....	1,178	6.0
1958.....	1,431	7.1
1959.....	1,519	7.0
1960.....	1,683	7.4
1961.....	1,598	6.7
5-year average.....	1,482	6.8
1962.....	1,450	5.8
1963.....	1,738	6.7
1964.....	1,908	7.0
1965.....	1,829	6.5
1966.....	2,420	18.1
5-year average.....	1,869	6.8

¹ GNP figures estimated by AID.

AID has indicated that the increase in tax revenue in 1966, as indicated in the table above, came from a general increase in import duties, partially attributable to increased importation of automobiles, and from sales taxes and income taxes. The following table shows that the value of the automobiles imported into Colombia in 1966 was about three times greater than for 1965 automobile imports and about four times greater than for 1964 automobile imports:

Year:	Value (in millions of U.S. dollars)
1962.....	9.9
1963.....	4.0
1964.....	6.8
1965.....	8.8
1966.....	25.9

The level of taxation in Colombia is relatively low. The table below comparing per capita taxation by the central governments of 18 Latin American countries shows that (1) Colombia ranked ninth in per capita taxation in 1961 and 15th in 1965, (2) Colombia was one of three countries in which per capita taxation decreased during the Alliance, and (3) the relative portion of Colombia's per capita income absorbed by taxes, while comparing favorably with that of most of the other countries, decreased during the Alliance.

COMPARISON OF PER CAPITA TAXATION BY CENTRAL GOVERNMENTS OF LATIN AMERICAN COUNTRIES
[IN U.S. DOLLARS]

1961			1965 ¹		
Country	Per capita taxation	Percent of per capita income absorbed by taxes	Country	Per capita taxation	Percent of per capita income absorbed by taxes
1. Venezuela.....	\$156.65	27.8	1. Venezuela.....	\$175.89	23.9
2. Uruguay.....	88.64	16.9	2. Chile.....	112.99	23.9
3. Chile.....	² 68.41	24.2	3. Argentina.....	71.85	9.3
4. Argentina.....	² 49.21	10.0	4. Uruguay.....	³ 67.89	15.2
5. Panama.....	42.52	12.6	5. Panama.....	56.58	13.9
6. Costa Rica.....	40.08	13.1	6. Peru.....	55.12	24.0
7. Peru.....	32.98	17.0	7. Costa Rica.....	52.36	14.9
8. Dominican Republic.....	31.52	17.7	8. Ecuador.....	36.79	20.2
9. Colombia.....	29.71	16.6	9. Mexico.....	32.07	7.8
10. Ecuador.....	24.26	18.8	10. Nicaragua.....	31.47	8.9
11. El Salvador.....	22.61	11.3	11. Brazil.....	30.16	29.7
12. Mexico.....	20.96	6.6	12. El Salvador.....	29.38	12.4
13. Brazil.....	² 20.39	16.5	13. Dominican Republic.....	28.67	11.4
14. Guatemala.....	19.97	8.6	14. Guatemala.....	22.95	8.8
15. Nicaragua.....	19.86	8.0	15. Colombia.....	21.66	13.1
16. Paraguay.....	14.56	9.5	16. Paraguay.....	18.00	9.5
17. Honduras.....	² 14.40	8.1	17. Honduras.....	17.22	8.8
18. Bolivia.....	9.89	9.8	18. Bolivia.....	15.95	11.1

¹ Latest year for which data was available.

² Amount is for 1962 since 1961 data was not available.

³ Amount is for 1964 since 1965 data was not available.

Our review indicates that one reason for the relatively low levels of taxation in Colombia is that tax reforms, in several cases, are only temporary measures—a circumstance that we believe may inhibit long-range development growth. According to a responsible mission official, Colombia's Constitution permits the President, under certain conditions, to declare a state of siege, which gives him the power to decree laws which, unless approved by the Colombian Congress as permanent laws, remain in effect only until the state of siege ends. We understand Colombia is presently under a state of siege and that the increase in the sales tax rates, the private automobile tax, and the tax on Colombian nationals traveling abroad are examples of decreed taxes which will expire when the state of siege ends, since, as yet, these taxes have not been approved by the Colombian Congress.

In addition, there have been several tax measures which were specifically designed as temporary taxes, such as the 20-percent surcharge on 1962 and 1963 income-tax payment, the 15-percent surcharge on the 1964 income-tax payment, and the 10-percent surcharge on the 1965 income-tax payment.

These reforms are representative of measures which have been limited in their successfulness since they satisfy only an immediate need and do not lend themselves to solving the long-term problems of sustained economic growth.

Another factor contributing to the limited successfulness of tax reforms, and the loss of tax revenue, has been a shortage in the numbers as well as the training of staff available at the time tax reforms were being implemented. For example, we understand that the sales tax was placed into operation hurriedly so that there was confusion as to the items that were taxable and who was to collect the tax; and there was insufficient dissemination of information regarding registration and filing requirements. Improved tax administration is an

integral part of tax reform, for without it tax laws will not have the desired effect.

As early as 1963, the tax administration system in Colombia suffered from (1) the lack of sufficiently qualified personnel, resulting from the low salaries paid and the civil service restrictions on hiring, and (2) inadequate audit and collection procedures and management controls. The inadequacies resulted in the failure of individuals to pay established tax liabilities, submit declarations of income, and fully report taxable income. Inadequate enforcement had increased tax evasion and the difficulties of raising tax revenues.

Since 1964, financial balance, which includes improved tax administration, has been the mission's first priority activity. The mission has recognized that increased revenue through improved tax administration is necessary to permit the Government to meet its development and investment needs without resorting to inflationary borrowing. Further, increased revenues are needed to permit the Government to finance growing public investments for development, provide essential social services, and improve public administration through better salaries.

AID has provided project grants for improving tax administration each year since 1963. The main objectives of these projects were (1) to convert manually performed operations to electronic data processing (EDP) to the extent feasible, (2) to develop and implement programs for the identification of delinquent accounts and to apply systematic, effective collection procedures, (3) to develop and implement programs for obtaining tax declarations from those who fail to file declarations, (4) to develop and implement programs for establishing correct tax liabilities through analysis and investigation of declarations and records of taxpayers and third parties, and (5) to improve tax administration training programs.

Some of the more significant accomplishments in tax administration have been (1) the installation of EDP equipment, (2) the processing of income tax returns in the Bogotá region on the EDP equipment, (3) the use of EDP equipment for mathematical verification of all computations affecting taxpayers' accounts, (4) the development and initiation of a program for the collection of delinquent accounts, (5) the improvement and expansion of field audits of tax returns, (6) the establishment of new methods for performing office audits, including the use of EDP equipment for cross-checking, and (7) the establishment of a training office and the providing of numerous inservice training courses.

Although it has long been recognized by many observers that the lack of sufficiently qualified personnel was a key contributing factor to the inadequate tax administration, it was not until 1967 that the Government of Colombia began to create incentives to attract better qualified personnel. In this regard we understand that during October 1967, a bill was submitted to the Colombian Congress requesting authority to reinforce fiscal administration and to restructure the public administration.

Another factor contributing to the difficulty of administering the national taxes in Colombia is the complicated income tax law which encompasses taxes on income, wealth, and excess profits. The basic income tax is a unitary progressive tax on certain forms of income. All

property rights that can be used to obtain income are subject to a wealth tax while net income derived from capital is subject to an excess-profit tax.

In 1967 a member of the consultative group concluded that the income taxes in Colombia had not been a success and that, unless reforms were undertaken, income taxes would continue to decline in importance as a source of revenue. The following table shows that the income taxes comprise approximately half of the total Government tax revenue and that they are becoming a less important source of revenue.

[Revenue amounts in millions of 1958 pesos]

Year	Total tax revenues	Income tax revenues	Income tax revenues as a percent of total revenues
1962	1,450	806	55.6
1963	1,738	851	49.0
1964	1,908	993	52.0
1965	1,829	957	52.3
1966	2,420	956	39.5
1967 ¹	1,751	715	40.8

¹ Amounts shown are for the 1st 8 months of 1967.

To achieve the levels of revenue from income taxes, as noted above, it was necessary for the Government to impose certain temporary measures in years 1962 through 1965.

One of the problems associated with income taxes has been the inability of these taxes to insulate Government revenues from the effects of rising price levels. This results from the fact that payments are made from 1 to 2 years after the income has been earned, which tends to invite enforcement difficulties in an inflationary environment.

As a means of alleviating this problem, the Colombian Government stated its intention to introduce a pay-as-you-go income tax system by January 1965, but did not do so. In the meantime, nonproject lending was suspended during most of 1965. The Government introduced the pay-as-you-go system in January 1967, and it is being implemented over a 5-year period.

It has generally been recognized that the statistical services of the Colombian Government are generally considered to be unsatisfactory and that current economic indicators are particularly lacking. In regard to taxation, a member of the consultative group reported in 1967 that very few useful statistics had come out of the tax office and that, before any meaningful analysis of proposed changes in tax reforms or tax administration could be made, these statistics must be forthcoming. As one means of alleviating this problem, the project grants for tax administration discussed earlier, have an objective of increasing the usage of EDP equipment for processing tax statistics. The mission has indicated that this measure should be implemented during fiscal years 1967 and 1968 and should be completed by the end of fiscal year 1968.

1. Agency comments

AID, in its comments dated March 19 and additional comments presented on April 19, 1968, stated that the Colombian tax system had encountered difficulties, but that the Government had performed well

in raising its surplus on current account during the Alliance, and estimated that Government revenues in 1967 had increased by 10.7 percent in current terms over 1966 levels. AID advised us that most of the tax reforms referred to in our report as temporary had been put on a permanent basis. AID stated that the Colombian Government had made it clear that the state of siege would not end until the increased sales tax, the travel tax, and the auto tax were confirmed. It is misleading, AID stated, to compare Colombia with other Latin American countries on the basis of taxes per capita, inasmuch as three of the countries do well because they are able to tax the profits of foreign companies exploiting natural resources and because half of the countries rated above Colombia have substantially higher incomes per capita and should be expected to have higher taxes per capita.

2. Evaluation of Agency comments

AID stated that although the Colombian tax system had encountered difficulties, the Government had performed well in raising its surplus on current account. Colombian tax revenues, on the average, were 6.8 percent of GNP during the first 5 years of the Alliance (1962 through 1966)—the same level as during the 5 years preceding the Alliance. The highest level of taxes achieved by Colombia was in 1966 when taxes were equal to 8.1 percent of its GNP. In this regard AID has determined that tax revenues of less than 10 percent of GNP in Colombia are too low to support a sustained development effort. Comparatively, tax revenues as a percentage of GNP in the principal industrial nations of the world range from 19 percent to 41 percent of GNP.

With respect to AID's comment that it is misleading to compare Colombia's per capita taxation with that of other Latin American countries, because of the relatively higher per capita income levels in such countries, we have incorporated data showing the relative percentage of each country's per capita national income absorbed by taxation, so as to eliminate this possible misleading element.

With respect to AID's comment that three of the countries do well because they are able to tax the profits of foreign companies exploiting natural resources, Colombia, in 1965, obtained \$30 million, equivalent to approximately 8 percent of its tax revenue, through taxes on foreign petroleum companies.

D. UNEMPLOYMENT

Since the beginning of the Alliance unemployment has been a serious problem of paramount importance in Colombia. Estimates of the current rate of unemployment in Colombia range as high as 20 percent of the total labor force. A private Colombian agency in 1966 projected that, by 1971, 36 percent of Colombia's labor force, or almost 20 percent of Colombia's total population, would be unemployed. We understand that unemployment continues to be serious, and there is still a significant lack of economic data regarding unemployment in Colombia.

A prime U.S. interest in developing countries is in countrywide improvement in resource utilization, including improvement in the effectiveness with which manpower resources are utilized. A key goal of the Alliance is to provide productive and remunerative employment for the unemployed.

Throughout the Alliance AID has recognized the increasingly evident unemployment situation in Colombia as being a major economic and social problem. AID recently concluded that this longstanding problem was among the most pressing problems to be solved in Colombia. Estimates of the rate of unemployment in Colombia in early 1967 ranged as high as 20 percent of the total labor force. AID estimated in 1966 that the unemployment rate among manual workers was about 25 percent and among white collar workers about 12 percent.

The Colombian Government has not developed a system for gathering and publishing data showing the rate of unemployment in the country. However, available data indicate that new jobs are being created at a rate of about 50,000 a year while the work force is growing at a rate of 200,000 to 300,000 a year. In 1966 Colombia's National Association of Industrialists made a study of the unemployment situation in Colombia and projected that by 1971, assuming concerted measures were not taken immediately, unemployment would reach 36 percent of the labor force, or almost 20 percent of the total population of Colombia.

Similarly, the Bogotá City Planning Department projected unemployment in the capital city in 1971 at 28 percent of the economically active population in that year. In this regard the level of AID assistance to Colombia since 1964 has been justified on the basis that, among other things, it would permit Colombia to attain a decreased rate of unemployment.

Key factors affecting or contributing to Colombia's unemployment problem during the Alliance are as follows:

1. Overestimating the role of the manufacturing sector as a source of employment. Colombia's development program provided that the manufacturing sector would provide much of the new employment needed in urban areas. Although Colombia's manufacturing sector has achieved an average annual growth rate during the Alliance of 5.8 percent compared with the goal of 7.6 percent, our review showed that jobs were being provided at an insufficient rate in relation to each year's new entrants into Colombia's labor force. In this regard, data were available, prior to the Alliance, showing that Colombian industry, from 1953 through 1959, had generated jobs for less than 5 percent of the yearly increase in the Colombian labor force.

2. Need to establish norms or criteria and to establish policies to promote development of labor-intensive, as contrasted with capital-intensive, industrial operations. In this regard an international agency pointed out in 1962 that, to insure employment for a large portion of the people moving into the cities, it was (1) imperative to reexamine Colombia's planned investments, by sectors, to determine precisely the employment opportunities offered by Colombia's development program and thus balance capital-intensive fields against those involving a substantial use of manpower and (2) necessary to make a full study on the opportunities for employment offered by the development program in general.

3. Policies followed by management and trade unions in Colombia. The tendency has been for the unions to demand, and for

management to grant, high wages in large-scale industry in Colombia, and as a result management compensates for the higher cost by increasing the intensity of the use of equipment and correspondingly restricting employment opportunities.

4. Need for effective efforts to develop work schemes to utilize unemployed or underemployed manpower resources.

5. Need for a system for gathering and publishing data showing, among other things, the overall extent of unemployment together with the areas of greatest unemployment, which would provide a sound basis for effective policy formulation. The only regular survey of unemployment made in Colombia is made by the Center for Economic and Social Studies of the University of Los Andes, and this survey covers only Bogotá.

AID has determined that the undertaxing of land in Colombia and that periods of overvalued exchange rates, due to the pace of inflation and Colombia's pegged exchange system, which encouraged manufacturers to import capital equipment, were factors that may have contributed to unemployment in Colombia. With respect to undertaxed land, AID reasoned that higher taxes on land could lead to more intensive use of the land and thereby reduce rural unemployment provided that capital-intensive methods were not employed.

AID records show that unemployment was a consideration in (1) Colombian plans for the Social Security Institute to invest in housing to stimulate employment in the construction industry; (2) Colombian plans that in the future one factor to be considered by Colombia's Superintendency of Foreign Commerce in licensing foreign capital goods imports, and by Colombia's National Department of Planning in approving applications for new private investments, will be the amount of employment to be provided by the new investments; (3) Colombian plans to raise public investment to levels which will insure a sustained growth rate of 6 percent, in real terms, and will reduce unemployment; and (4) a recent increase in the gasoline tax that was justified as necessary to finance a highway construction program that will generate employment.

AID was unable to furnish us with evidence showing that it had taken any substantial action prior to 1967 to help the Government of Colombia develop a definitive course of action to insure the timely gathering and publishing of data essential to an evaluation of the unemployment problem and to the development of policies and courses of action to alleviate the problem. In this regard we noted that AID identified unemployment as a serious problem in Colombia as early as 1959 and at that time concluded that sufficient data was not available or being gathered to permit effective evaluation of the problem. Although the need to determine precisely the employment opportunities offered by Colombia's development program was identified as early as 1962, AID was also unable to furnish us any evidence that this need was considered and evaluated prior to making the substantial AID nonproject loans to Colombia each year in support of its development program.

AID, in 1967, entered into a contract with the Rand Corp. to conduct a study on urban unemployment in Colombia. One economist under this contract has explored with Colombian agencies, which had produced unemployment estimates, the basis for their estimates

and the definitions used. In addition, the mission, in 1967, requested an industrial economist for its staff to assist in analyzing the unemployment problem and programed a consultant for fiscal year 1968 to advise Colombian labor-related institutions on, among other things, labor statistics, manpower planning, and employment services.

The mission director informed us, in November 1967, that up to the end of 1965 the U.S. Government believed that unemployment in Colombia could be solved only by stimulating a higher rate of overall growth. He stated that Colombia's method of gathering unemployment statistics was admittedly inadequate but that Colombia's National Statistics Department lacks both the resources and the manpower ability to study the question seriously. He also pointed out that the Government:

1. Is undertaking a study of its entire industrialization policy, to determine changes in policy which could contribute to making better use of labor—Colombia's most abundant resource—instead of its scarcest resources.

2. Is making a study of its tariff policy and the effects of various alternatives on utilization of labor capital.

We recognize that substantial alleviation of Colombia's unemployment problem may require a long-term solution. We believe, however, that AID should, in addition to the actions mentioned above, develop a course of action designed to (1) insure the timely gathering and assessment by the Government of Colombia of data necessary for formulation of rational labor policies and (2) focus positive attention and action on developing a definitive strategy for alleviating the unemployment problem in Colombia.

E. INFLATION

Our review of inflation in Colombia revealed that (1) the rate of inflation fluctuated substantially during the period 1957 to 1966, (2) the average rate of inflation during the first 5 years of the Alliance was 15.1 percent compared with 9.8 percent during the 5 years preceding the Alliance, and (3) in 1964 and 1966 the inflation rates were 17.1 percent and 20.1 percent, respectively, substantially exceeding the U.S. goal of a maximum increase of 10 percent established as a condition for maximum assistance.

In the Charter of Punta del Este, Colombia agreed to maintain stable price levels, which would reduce inflation that is basically incompatible with economic development. Latin American countries with substantial rates of inflation tend to have low economic growth rates. Inflation as experienced by Colombia in recent years, tends to suppress the mobilization of resources needed for development by discouraging domestic savings and foreign investments, which are ingredients of paramount importance in any development effort, while encouraging capital flight and spending on durable goods which tend to increase in value.

During the 3-year period from 1964 to 1966, it was the U.S. policy to provide support to Colombia in the framework of Colombia's establishing a monetary and fiscal policy that would contain the inflationary pressures that accelerated growth tends to produce. The following table shows that—

1. The rates of inflation were 17.1 percent in 1964 and 20.1 percent in 1966 which substantially exceeded the 10-percent goal.

2. During the pre-Alliance period from 1957 to 1961, Colombia's rate of increase of inflation ranged from 3.7 percent to 14.9 percent, or an average annual rate of 9.8 percent.

3. During the first 5 years of the Alliance the rate of increase of inflation ranged from 2.5 percent to 32.3 percent, or an average annual rate of 15.1 percent.

4. The rate of inflation during the first 8 months of 1967 averaged 7.5 percent.

Year	Rate of increase (percent)	Year	Rate of increase (percent)
1957.....	14.5	1962.....	2.5
1958.....	14.9	1963.....	32.3
1959.....	7.0	1964.....	17.1
1960.....	3.7	1965.....	3.7
1961.....	9.0	1966.....	20.1
Annual average: 1957-61.....	9.8	1967 (8 months).....	7.5
		Annual average: 1962-66.....	15.1

We recognize that the factors producing inflation are complex and difficult to analyze. However, mission officials informed us that there were special factors in 1963 and 1966 which contributed to the high rates of inflation. We were informed that the high rate of inflation in 1963 was attributable, in part, to the Government's decreeing an across-the-board wage increase of about 40 percent to both the private and the public sectors coupled with the monetary effects of a large Government deficit in 1962. Mission officials indicated that the high rate of inflation in 1966 was due, in part, to:

1. The devaluation of the exchange rate covering imports.
2. A substantial wage increase for the public sector.
3. Heavy borrowing by the National Coffee Federation.
4. Higher tariffs on prices of imported goods.
5. Increase in public utility tariffs.

We understand that other factors contributing to Colombia's inflation have been the extent of central Government deficit financing due, in large part, to the failure to increase Government revenues adequately, by a combination of new taxes and improved tax administration, and to the increase in domestic credit.

The following table shows that (1) the Colombian Government's deficit financing amounted to an average of 1,077 million pesos per year during the Alliance period 1962-66 compared with an average deficit of 301 million pesos per year during the pre-Alliance period 1957-61 and (2) domestic credit has increased an average of 19.2 percent per year during the first 5 years of the Alliance compared with an average increase of 15 percent per year during the 5 years preceding the Alliance.

[In millions of pesos]

Year	Government surplus (+) or deficit (-)	Domestic credit	Annual per- cent of in- crease do- mestic credit
1957	-95	4,139	21.9
1958	-37	4,641	12.1
1959	+83	4,911	5.8
1960	-162	5,461	11.2
1961	-1,296	6,762	23.8
1962	-1,243	8,340	23.3
1963	-940	9,577	14.8
1964	-543	11,181	16.7
1965	-1,397	13,078	17.0
1966	-1,263	16,247	24.2
Annual average, 1957-61	-301	5,183	15.0
Annual average, 1962-66	-1,077	11,685	19.2

The mission director informed us in October 1967 that the Colombian Government had adopted several measures during the Alliance which tended to restrain inflation. We were informed that it adopted new monetary measures which raised the legal reserve requirement of commercial banks and that a new monetary commission was created as the policy body on monetary, credit, and exchange policy. In addition, the mission director informed us that, in negotiating nonproject loans with Colombia, the mission required certain measures which tended to restrain inflation, such as:

1. Limiting the increase in short-term debt liabilities.
2. Establishing limitations on National Coffee Federation borrowing from the central bank to seasonal needs.
3. Establishing realistic public services tariff rates designed to reduce the necessity of Government subsidies.
4. Establishing Government wage policies designed to keep wage increases in line with productivity gains.

1. Agency comments

AID, in its comments dated March 19, 1968, and additional comments presented on April 19, 1968, stated that Colombia showed signs of having shaken the "inflationary psychology" inasmuch as gradual devaluation in 1967 had succeeded in avoiding sudden and drastic increases in the cost of living. AID stated also that deficit financing was eliminated completely in 1966 and 1967, and there were excellent prospects for avoiding deficits in the foreseeable future.

2. Evaluation of Agency comments

In the preceding table we show that Colombia incurred a deficit of 1,263 million pesos (about \$77.5 million) in 1966. This data was obtained by AID from the Colombian Government in November 1967 and was furnished to us. Our followup on AID's above comment that deficit financing was completely eliminated in 1966 and 1967 revealed that AID excluded Government expenditures to amortize its national debt, certain bond transactions, and deficits associated with the use of local currencies generated from AID nonproject loans in making its determination that the Government had eliminated deficit financing in 1966 and 1967. Also, the determination for 1967 was based on estimated central Government revenue and expenditure data. Although there was no deficit financing, as defined by AID, in 1966 and 1967, the Agency,

in February 1968, provided data to the Congress showing that the Colombian Government incurred deficits in both 1966 and 1967.

F. PRIVATE FOREIGN INVESTMENT

The overall climate in Colombia for attracting private foreign investment since November 1966 has not been reasonably attractive because of exchange and trade controls and profit remittance limitations imposed by the Colombian Government. This view was drawn from data available at the completion of our review in Colombia in November 1967. Throughout the Alliance the climate for attracting investment in the areas of petroleum and mining has not been favorable. Neither AID nor the Colombians have compiled data on the amounts of, or increases in, foreign investment in Colombia. The U.S. Department of Commerce has compiled data showing that U.S. private investments in Colombia during the Alliance rose from \$425 million in 1961 to \$576 million in 1966.

The expansion of private foreign investment is generally recognized as having an important role in the development process of a developing country since such investment can increase employment opportunities, raise local incomes, and provide additional sources of tax revenue.

Prior to the Alliance AID determined that Colombia was neglecting positive foreign investment proposals and was generally doing little to attract foreign investment. A contract study for AID in 1961 pointed out that the creation of a favorable investment climate in Colombia would attract investors from all parts of the world. Accordingly, AID established goals to encourage Colombia to establish the incentives necessary to attract such investment and to press Colombia to enter into a comprehensive investment guarantee agreement with the United States.

Little information regarding Colombian incentives to attract private foreign investment during the Alliance was available. Our review did indicate, however, that such things as low quality and high costs, all resulting from protectionalism which was keeping away both foreign and domestic competition, were making much of Colombia's industry noncompetitive.

As of August 1967 it appeared that the unsatisfactory environment for attracting foreign private investment was not likely to be improved unless the Government increased profit remittance limitations in meritorious investment proposals.

Our review has shown that, since early in the Alliance, Colombian policies with respect to petroleum investment have acted as a disincentive to, and significantly curtailed, such investment. The Colombian Government, however, in November 1967 took a major step to encourage the petroleum industry by taking action to change the exchange rate for petroleum transactions from 7.67 to 16.25 pesos to the dollar. This matter is commented on in detail later.

With respect to U.S. investment in Colombia, an investment guarantee agreement was reached in principle with the Colombian Government in 1962 and was signed in 1963. The agreement, however, has not yet been ratified by the Colombian Congress. In this regard the Foreign Assistance Act of 1961, as amended, states that it is the sense of the U.S. Congress that the institution of full investment guarantee

programs with recipient countries is to be regarded as a significant measure of self-help by such countries improving the climate for private investment, both domestic and foreign.

1. Agency comments and our evaluation thereof

AID in its comments stated that the investment climate in Colombia is considered quite favorable, as evidenced by a recent speech in Bogotá by David Rockefeller, who urged U.S. investors to consider Colombian opportunities.

Determining investment climate is a matter of judgment. However, the above agency comments contrast with an assessment made in the latter part of 1967. At that time the assessment was that foreign investment in Colombia was not being stimulated and that the establishment of comprehensive exchange and trade controls, the fixing of a 10-percent limitation on profit remittance, and the abolition of the free exchange market also tended to discourage some investment.

G. COLOMBIAN GOALS FOR EXPORTS

Our review revealed that Colombia, during the Alliance, has not achieved its goals for expansion of petroleum and minor exports. However, certain actions taken in 1967 should tend to encourage the expansion of Colombian exports. Minor exports in Colombia are classified as all exports other than coffee and petroleum. The exports of commodities other than coffee for the period 1962 through 1965 was \$220 million, or 26 percent less than the goal established by the Colombian Government and supported by AID. Of 18 Alliance countries, Colombia was one of four that failed to increase its per capita exports during the Alliance.

Our study of three specific commodities indicated that (1) the Government has followed a petroleum policy that has resulted in a significant curtailment of investment in the exploitation of its petroleum resources since the inception of the Alliance for Progress, (2) wood and wood products export potential has been underexploited because of the lack of investment and working capital and because of a restriction on log exports, and (3) Colombia's shrimp and fish export potential has been underexploited because of less than vigorous and effective promotion and lack of investment capital. Detailed discussions of these studies follow.

Significant factors, that have adversely affected Colombia's export development during the Alliance include:

- Establishment of new industries before giving adequate attention to efficiency or export potential and prohibition on exports. Much of Colombia's industry is noncompetitive abroad and a drag on the rest of the economy because of excessive protectionalism and resulting high costs, low quality products, and high profit margins.
- Exchange rates which were frequently and unpredictably changed and which were often too low to promote exports.
- Shortage of available credit because of unpredictably changing credit policies.
- Trade's being subject to many different controls.
- Insufficient incentives for export. In this regard, information was available as early as 1962, which cast doubt on whether Colombia's export system was conducive to the establishment of incentives

for investment in activities oriented to the external market. It was pointed out that the free rate confers a substantial export subsidy, but it is difficult for anyone investing for export to plan on the free rate's continuing. The free rate is subject to many capricious market forces—for example, capital flight and contraband imports—and, by the same token, to unpredictable Government action.

Studies in 1967 concluded that the failure of Colombia to develop exports, other than coffee, in sufficient volume had been a key factor severely limiting the imports available to Colombia, that this had limited the economic growth of Colombia, and that the prospects for improvement in Colombia's balance of payments were slight, unless major changes were made in Colombia's policies and economic structure.

A vitally important aspect of Colombia's development program centers on its heavy dependence on coffee exports and the frequent fluctuations in coffee prices that result in devastating balance-of-payments crises. Consequently, it is incumbent upon the country to diversify and develop other exports—an objective of the Alliance.

Colombia's balance-of-payments problem has long been recognized by AID as one of the most significant factors tending to impede self-sustaining growth of the Colombian economy to a point where there will be no need for continuing sizable external assistance. As early as 1959, AID determined that Colombia must embark on an aggressive export promotion program. In 1963, AID pointed out that program loans were anticipated for an interim period until Colombia sufficiently developed its exports.

U.S. assistance strategy since early 1964 has provided that special emphasis would be placed on establishment of export promotion in Colombia as a national goal. Subsequent U.S. actions in two fields—U.S. implementation in July 1965 of the International Coffee Agreement and the conclusion of a Bilateral Textile Agreement in July 1965 for the increased importation by the United States of Colombian textiles—have, according to the mission, made significant contributions to Colombia's export development program.

In late 1966, the mission reviewed Colombia's performance toward export development under the 1966 nonproject loan and concluded that little had been accomplished. In May 1967 AID again determined that the only long-run answer to Colombia's balance-of-payments gap lies in diversification and expansion of Colombia's exports other than coffee. AID believes that export promotion is of basic importance because of the serious and potentially chronic balance-of-payments problem in Colombia.

A comparison of the actual exports with the goals established under Colombia's development program for each of the calendar years 1962 through 1966 is set forth in the schedule below. Also, the schedule shows that exports have increased to a limited extent during the Alliance but except for 1965, there remains a substantial gap between exports and imports.

[In millions]

	Calendar years ¹									
	1962		1963		1964		1965		1966	
	Goal	Actual	Goal	Actual	Goal	Actual	Goal	Actual	Goal	Actual
Major exports:										
Coffee.....	\$338	\$332	\$346	\$303	\$355	\$394	\$363	\$344	(²)	\$328
Petroleum.....	96	61	111	77	127	75	119	88	(²)	72
Subtotal.....	434	393	457	380	482	469	482	432		400
Minor exports (other than coffee and petroleum).....	72	71	86	66	106	79	127	107	(²)	110
Total exports.....	506	464	543	446	588	548	609	539		510
Total imports.....		540		506		586		453		674
Surplus or deficit (—) of imports over ex- ports.....		-76		-60		-38		86		-164

¹ Data was not available to AID for 1967 at the time of our fieldwork.² Goals not established for 1966.

Our comparison of the per capita exports for 1961 and 1966 for 18 Latin American countries shows that Colombia ranked 14th in 1961 and 16th in 1966, in descending order—\$27.35 and \$27.23 per capita, respectively—and was one of four countries whose per capita exports had not increased since the beginning of the Alliance. The following schedule shows the per capita exports for 1961 and 1966 for the 18 countries.

1961			1966		
Rank	Country	Per capita exports	Rank	Country	Per capita exports
1	Venezuela.....	\$344.58	1	Venezuela.....	\$301.54
2	Costa Rica.....	70.17	2	Costa Rica.....	92.47
3	Uruguay.....	67.19	3	Nicaragua.....	81.00
4	Chile.....	64.10	4	Chile.....	79.67
5	Peru.....	47.98	5	Argentina.....	70.19
6	El Salvador.....	47.64	6	Panama.....	68.77
7	Dominican Republic.....	46.16	7	Uruguay.....	66.36
8	Argentina.....	45.69	8	El Salvador.....	64.27
9	Honduras.....	36.50	9	Peru.....	63.60
10	Nicaragua.....	35.65	10	Honduras.....	60.46
11	Guatemala.....	28.90	11	Guatemala.....	49.48
12	Ecuador.....	28.20	12	Dominican Republic.....	37.14
13	Panama.....	27.55	13	Bolivia.....	36.66
14	Colombia.....	27.35	14	Ecuador.....	29.56
15	Mexico.....	22.14	15	Mexico.....	27.86
16	Bolivia.....	20.94	16	Colombia.....	27.23
17	Brazil.....	19.19	17	Paraguay.....	23.52
18	Paraguay.....	17.06	18	Brazil.....	20.55

Although the Colombian exchange rate program has shown some improvement, the policies affecting international trade have handicapped new export investment. The following schedule shows that, in real terms, the exchange rate received by exporters decreased from 8.06 pesos per dollar in 1962 to 6.42 pesos per dollar as of July 31, 1967.

Year:	Deflated rate (pesos per dollar) ¹
1962	8.06
1963	7.11
1964	6.41
1965	8.09
1966	6.53
July 31, 1967.....	6.42

¹ This rate is the average yearly exchange rate except for a spot rate for July 31, 1967, that is increased by the amount of an export subsidy which is in the form of a tax exemption. This sum is then adjusted by the employees' cost-of-living index (1958=100).

Since 1963 the mission has released the equivalent of approximately \$62.8 million in pesos, and it made a \$10 million loan (December 1964) for a private investment fund (PIF). The objective of the PIF was to provide credit resources, unavailable through normal credit channels, to Colombia's private sector for the purpose of increasing and diversifying exports and replacing necessary imports of basic goods. AID has long recognized that substitution of indigenous production for imported commodities is rarely a sufficient means to effectively accelerate growth in a developing country.

An AID contract report on Colombia's industrial development in August 1961, pointed out that there had been an overemphasis on the importance of import substitution in relation to the importance of development of more products for export. In 1967 AID determined that Colombia's industrial sector has been capital-intensive and has been oriented toward import substitution and that, if it is to again become Colombia's leading sector for economic growth, it must to a larger degree change its orientation toward exports. AID guidance provides that emphasis should be placed on both immediate and long-run policies and measures to promote exports.

In this regard we noted that, through June 30, 1967, the equivalent of approximately \$26 million in pesos, or 46.7 percent of the pesos released for the PIF, were for import substitution projects. The mission director informed us that as of October 19, 1967, approximately \$4.1 million of the \$10 million loan had been disbursed and that 43 percent of the disbursements had been for import substitution projects and 57 percent for export projects. Mission officials also indicated that an additional \$4.3 million of this loan had been committed for sub-loans by the PIF, of which about 73 percent was for export projects.

According to mission records, the Colombian Government recently created an export development fund (EDF) which provides the structural foundation for promoting exports. The EDF, to be financed in large part by a 1½-percent tax on imports, is to provide working capital and export credit, finance feasibility and market studies, and engage in active promotional efforts abroad. In addition, the Government recently (1) permitted a 15-percent tax credit on export shipments, (2) gave priority to imports of capital equipment for export production and to imports of raw materials for processing and export, by exempting them from import licenses, prior deposits, and tariffs, and (3) established an export marketing information center.

The mission informed us, in October 1967, that the structural weaknesses are being dealt with inasmuch as (1) certain Government agencies currently take into account both the efficiency and the export potential of new industries seeking credit or permission to establish new businesses, (2) a new flexible exchange rate system is expected to permit the rate to rise sufficiently, (3) the EDF is a new and important source of credit for export promotion, and (4) more export credit and a certain tax credit provide additional incentives for export. In addition, the mission informed us that, historically, minor export performance has been less than might have been hoped for but past performance was not bad, considering the difficulty of entering new world markets.

We believe that AID's efforts during the Alliance, in connection with Colombia's export development, have not placed sufficient importance

either on the achievement of Alliance objectives or on Colombian development. However, in certain instances, other considerations may have precluded effective AID actions.

1. Agency comments and our evaluation thereof

With respect to Colombian expansion of exports during the Alliance, AID commented as follows:

* * * Colombia's efforts to diversify its export mix by promoting minor exports have been fairly rewarding: these exports have almost doubled in the 4 years since 1963. The GAO properly emphasizes the high priority assigned to promotion of noncoffee exports, but does not sufficiently emphasize the important strides recently taken by the Colombian Government in export promotion. In 1967 it (1) devalued the exchange rate by 17 percent, (2) raised the tax credit on minor exports to 15 percent, and (3) established an export promotion fund to supply credit and technical advice to exporters. AID supported these measures with the 1967 program loan.

With respect to the comment that Colombia's minor exports have almost doubled in the 4 years since 1963 on the basis of estimated data for 1967, a member of the consultative group has pointed out that, if Colombia is to meet its planned growth goals, its minor exports should be increased at an average rate of not less than 30 percent a year.

AID also stated that the comparison of per capita exports for 18 Latin American countries ignores Colombia's dependence for about 60 percent of its export earnings on coffee, a product with little market growth potential under existing world market conditions. We believe this comment must be viewed in the light of the fact that Latin America produces two-thirds of the world's coffee, that many of the Latin American countries depend on coffee as their largest single foreign exchange earner, and that five of the 18 nations depend on coffee for more than 40 percent of their export income.

* * * * *

The results of our study of Colombia's exploitation, during the Alliance, of three of its commodities that have significant export potential are presented in the following sections.

2. Petroleum

Our review indicated that, since the inception of the Alliance, Colombia has followed a petroleum policy which has resulted in a significant curtailment of investment in and exploitation of its petroleum resources. The value of exports failed to meet the 1961-65 goal, established by the Colombian Government and supported by AID, by \$152 million, or about 34 percent. The Colombians, however, in November 1967, took a major step to encourage the petroleum industry by taking action to change the exchange rate for petroleum transactions from 7.67 to 16.25 pesos per dollar. Oil company officials believed that this action would give a real boost to petroleum investments.

Major Colombian policies that tended to curtail investment exploration and production during the Alliance included (1) enactment of a petroleum law in 1961 that seemingly negated a depletion provision already incorporated in executed contracts, (2) the Government's attempt to apply inconsistent foreign exchange rates for investments and for computations affecting profit remittances, which would have increased the petroleum company's taxes, (3) unfavorable petroleum exchange rates, and (4) a requirement that 50 percent of petroleum shipments be on Colombian vessels.

Apparently as a result of Colombia's petroleum policies, the value of exports was significantly less than the export goals established by the Colombian Government. The goals established may have been understated had optimum conditions prevailed. Statistics showing the production of petroleum for the years 1962 through 1966 and the value of exports and goals for 1962 through 1965 are outlined below.

Year	Production (millions of barrels)	Exported (millions of barrels)	Percent exported	Value of exports (millions)	Goal (millions)	Percent goals were missed
1962-----	51.9	24.3	46.8	\$60.6	\$96.0	36.9
1963-----	60.3	31.8	52.7	77.2	111.0	30.5
1964-----	62.2	31.2	50.2	75.0	127.0	40.9
1965-----	73.2	40.7	55.6	88.2	119.0	25.9
1966-----	71.4	35.6	49.9	71.7	(1)	-----

¹ No goal was established.

A significant portion of the gross foreign exchange generated by Colombia's petroleum exports is offset by foreign exchange costs of the producing companies. It has been reported in a reputable periodical that (1) in the early 1960's Colombia was on the threshold of a major petroleum boom which, had it developed, could have obviated the need for all foreign aid in a few years, (2) at that time apparently every international producer was working in the country, pulling oil out of the ground and enthusiastically looking for more, but (3) in 1964 and 1965 the boom almost came to a halt in the wake of Government measures that raised the industries tax rate drastically, and (4) most of the industry apparently decided to wait for a court decision on the tax issue prior to making any further investment in Colombia.

The following schedule shows the net foreign exchange generated from petroleum exports from 1962 through 1966 compared with the taxes and other revenue collected from the petroleum industry each year:

[In millions of U.S. dollars]

	Net foreign exchange generated ¹	Taxes and other revenue collected from the petroleum industry by the Colombian Government ²
1962-----		
1963-----	25.2	20.8
1964-----	30.8	16.5
1965-----	38.5	22.7
1966-----	25.6	21.3
	21.3	30.0

¹ Computed from information provided by Colombia's petroleum industry. The amount of foreign exchange is basically generated from exploration and development investment, royalties, and conversion of dollars for local expenses.

² Computed by Colombia's private petroleum industry.

The policies that tended to curtail the foreign investment for the exploration and exploitation of Colombian's petroleum resources and their current status are discussed below.

First, in August 1964, a major dispute concerning depletion allowances developed between the Colombian Government and the private petroleum industry over the implementation of a 1961 law which

amended the Colombian Petroleum Code. The issue was that the Government seemingly nullified on a retroactive basis a depletion allowance provision, which had been granted in 1955 as an investment incentive and incorporated in many of the concession contracts executed in the 1955-61 period.

We were advised by a mission official that the provisions of the 1961 law were, in the final analysis, made applicable only to contracts executed subsequent to March 1961, which, in effect, was to the general satisfaction of the private petroleum companies. This issue was settled late in calendar year 1965.

A second issue involved the computation of petroleum companies' taxes. The companies were required to purchase all their peso requirements, not met by the proceeds of local internal sales, at the petroleum rate, which was a specially appreciated rate which varied from 7.10 pesos per dollar in late 1962 to 7.67 pesos per dollar in 1965. Their profits, subject to Colombian income taxes, although earned in foreign exchange, were converted into a peso equivalent for assessment of income tax. Profits were assessed for taxation on the basis of conversion at the special petroleum rate until 1963 when the tax authorities decided that assessment should be made on the basis of the more depreciated free exchange rate ranging from 9.99 pesos per dollar in 1963 to 18.29 pesos per dollar in 1965, which would have resulted in increased taxes for the petroleum companies.

This issue was settled in favor of the petroleum industry in October 1965 when the Government set the exchange rate on which to compute profits for tax purposes at the same rate as the petroleum exchange rate.

A third issue, identified by an international organization, was that of a comparatively less favorable exchange rate for the petroleum industry than for the coffee industry.

During 1962-65, the petroleum rate was identical with the coffee export rate. The coffee rate was allowed to depreciate, starting in September 1965, and depreciated to 9.94 pesos per dollar by December 1966, but the petroleum rate remained at the 1965 rate of 7.67 pesos per dollar. As domestic costs continued to increase, this rate acted to reduce the attractiveness of petroleum investment, the result being a loss of potential foreign exchange income from petroleum industry operations.

A fourth issue involved a Colombian action in April 1966, that gave the Government the authority to require that 50 percent of all exports from Colombia be transported on Colombian vessels. Although this action had not been implemented as of November 1967, we were advised by a consultant to the petroleum industry, in September 1967, that, if the decree was implemented, it would be another deterrent to the oil industry because the Colombian fleet was not large enough, the ships were not of the type required for transporting oil, and some oil companies owned their vessels.

Also, a Colombian law dated March 1967, dampened the petroleum climate in Colombia. This law involved, among other things, establishment of domestic petroleum prices by the Government, removal of natural gas operations from the petroleum industry, petroleum exchange rates and other tax issues. The passage of this law resulted in a series of meetings between petroleum industry officials and the

Colombian President in June and July 1967. The industry presented the President with projections of investment and the resulting balance-of-payments position, under a formula recommended by the industry concerning exchange rates, establishment of prices, and tax issues. The results, as presented by the industry, showed that the amount of foreign exchange would increase from an estimated \$28.5 million in 1967 to an estimated \$67.1 million in 1969 because of potential additional exploration and exploitation activities.

In November 1967, the Government changed the exchange rate for petroleum transactions from 7.67 pesos per dollar to the capital market rate of 16.25 pesos per dollar. Various oil company managers commented in private to U.S. officials that they believed the capital market rate would give a real boost to investment projects. In addition, a newspaper article of April 20, 1968, reported that Colombia's Minister of Mines and Petroleum indicated that this rise in exchange rates for petroleum transactions was accompanied by a promise from the private petroleum corporations to drill at least 70 exploratory wells by the end of next year.

(a) *Agency comments*

AID, in its comments dated March 19, 1968, commented on this matter as follows:

* * * exploration during the period under review resulted in discovery of the Putamayo field, which has been the object of large investments, including construction of a major pipeline. This field should come into production in the early 1970's and may increase Colombian production by 50 percent.

3. *Wood and wood products*

Our review indicated that Colombia's exports of wood and wood products, during the Alliance, have been significantly curtailed because of a lack of investment and working capital and because of a restriction on log exports.

Colombia has significant timber resources located in tropical forests that cover 173 million acres, or about 60 percent of its territory. The timber extraction potential of Colombia is estimated to be the second largest in the world because of the locations of forests—near the Pacific Ocean and the Caribbean Sea and along the Amazon and Putumayo Rivers. Only about 2.1 million acres of forest land, or about 1 percent of Colombia's total forest land, is being exploited at present. A majority of the tropical hardwoods are located in the Amazon jungle forest—an inaccessible area having no transportation facilities or resident population, except for primitive Indians. However, as pointed out by an authority on tropical forests, the Pacific coastal regions of Colombia possess the most potential in Latin America.

From 1962 through 1966, Colombia's annual exports of wood and wood products averaged \$3.1 million. Colombia's potential of wood and wood product exports for 1966, as estimated by the Ministry of Finance in 1961, was \$10 million, or about \$7 million more than was actually achieved in 1966. In May 1965, the mission's export development adviser on agricultural products determined that, of minor exports, lumber had the highest dollar volume potential and presented the easiest opportunity for rapid development. The mission estimated in August 1967, that Colombia's exports of wood and wood products in

1970 could reach \$15 million, on the basis of a strong world demand and a new investment in saw mills and wood processing plants.

Our review revealed that, throughout the Alliance, the lack of available credit has been an obstacle to Colombia in the development of its wood and wood products industry and that data showing the potential in this area has been available at least since 1961. We found that, as of June 30, 1967, the PIF had made four loans to the wood and wood products industry for about \$2.4 million, of which \$1.9 million was for the manufacture of wood pulp for import substitution.

Another factor which has limited Colombian wood exports is a restriction on log exports. The restriction was issued as a Government decree in October 1962, to be effective for 10 years, to provide more intensive employment of Colombian workers in local saw mills.

In August 1965, it was found that the restriction had failed to provide more than a slightly improved employment balance. It was also found that (1) Colombia could supply U.S. needs for quality hardwood for the next two decades and that excess production, if achieved, would find a ready world market, (2) the world need for hardwood logs could be partially met by Colombian timber if the restriction could be modified, and (3) if the restriction remained, the timber would come from other sources and development of this industry in Colombia would continue to be retarded.

The mission informed us in October 1967, that it was believed the restriction on log exports needs considerable further investigation to ascertain the degree of its effect both on unemployment and log exports. It also informed us that Colombia now has an individual who will specialize in the export promotion of this industry.

AID records show that since 1961, in addition to providing technical assistance on export promotion, AID has provided technical assistance of \$88,000 and peso funds equivalent to \$1.3 million specifically for lumber development in Colombia. However, we found no evidence that the mission had made any real effort to effectively alleviate or help solve the problems, identified above, that have restricted Colombia's exports of wood and wood products during the Alliance.

4. Shrimp and fish

Our review indicated that Colombia's exports of shrimp and fish, during the Alliance, have been underexploited because of less than vigorous and effective promotion and the lack of investment capital, even though the United States recognized the importance of this industry.

Fish and shrimp abound off the Colombian Pacific coast and indications are that there is a strong demand for shrimp by the international markets, particularly the United States.

From 1964 to 1966, Colombia's annual exports of shrimp and fish averaged \$1.3 million. Data on the potential of Colombia's shrimp industry has been available since 1961. A mission export development adviser estimated, that, with 100 modern boats, Colombia could export about 6 million pounds of shrimp, representing a potential of \$6 million annually. Colombia's fishing fleet consisted of about 54 boats in 1966, most of which were under repair during the year.

Our review revealed that the lack of available credit for capital financing for boats and equipment had been a deterrent to Colombia's development of its fish and shrimp industry. In this regard, AID

files show that, in September 1963, a Colombian fishing firm's boat loan application was not considered by the PIF even though the firm was one of the first to make an application based on a formal study of the industry.

Our examination of PIF loan application reports at the mission did not show that fish and shrimp boat applications had ever been considered by the PIF. In an earlier review¹ in Colombia, we found that the PIF had made available the equivalent of approximately \$8.5 million for the production of sugar for export, although AID policy prohibited the furnishing of assistance for the production for export of sugar or other commodities in excess world supply. AID's comments concerning this matter included information on actions taken to insure that AID-controlled funds will not be used in the future for increasing the production of commodities in excess world supply.

We found no evidence that consideration had been given to including the required boats on the positive list of items eligible for AID nonproject loan financing.

In October 1967, the mission director informed us that the responsibility for administering the AID funds was delegated to the PIF and such banks and other financial institutions that select subborrowers of these funds, in accordance with the export and import substitution criteria that governs PIF's operations.

In addition, the mission director stated that the mission had taken positive steps of including on the list of items eligible for AID nonproject loan financing such items as diesel engines for marine use, refrigeration units other than for home use, electric motors, radio-telephone equipment, and food processing equipment, all of which can be used in the shrimp and fish industry. He stated that one of the reasons that shrimp boats were not on this list was that the mission believed that Colombia had the capacity for building the basic structure of the required boats by using local labor and materials and would possibly outfit the boats with the foreign equipment needed.

The mission director also informed us that the Colombian Government has been negotiating a \$2 million, 4-year project agreement with the United Nations Food and Agriculture Organization to provide a feasibility study and technical assistance for the development of Colombia's shrimp and fish industry, which might well lead to increased development of this export potential.

H. EXPENDITURES FOR DEVELOPMENT PURPOSES

On the average, the percent of GNP in relation to Colombian Government expenditures has risen slightly during the Alliance, although the 1961 percentage was not again attained through 1966. In addition, during the Alliance the Government has spent a larger proportion of its available funds for development purposes. We also noted that at least 6 percent of the 1966 expenditures represented subsidies to various public and private organizations.

The following schedule shows the relationship of the Central Government expenditures to the GNP for each year from 1957 through 1966:

¹ GAO Report B-161882, dated Sept. 21, 1967.

[GNP and expenditures in millions of constant 1958 pesos]

	1957	1958	1959	1960	1961	5-year average
GNP.....	19,786	20,267	21,791	22,787	23,789	21,684
Total Central Government expenditures.....	1,498	1,673	1,728	2,001	2,811	1,942
As a percent of GNP.....	7.6	8.3	7.9	8.8	11.8	8.9
	1962	1963	1964	1965	1966	5-year average
GNP.....	24,909	25,785	27,342	28,141	¹ 30,096	27,255
Total Central Government expenditures.....	2,561	2,566	2,483	2,833	3,227	2,734
As a percent of GNP.....	10.3	10.0	9.1	10.1	10.7	10.0

¹ Estimated by AID.

During the Alliance period, there has been a greater percent of Government expenditures in several areas, including agriculture, education, social welfare and public health, and public debt service and there has been a smaller percent in other areas, including local and national defense, transportation and communication, and general administrative expenses.

The following schedule shows, by functional distribution, the total Central Government expenditures for the 1957-61 and 1962-66 periods, the percent of total expenditure for various programs, and the percent of increase or decrease of the latter in relation to the former period. Complete and reliable data was not available to AID on the functional distribution of Colombia's municipal and departmental Government expenditures.

[Amounts in millions of constant 1958 pesos]

Function	Expenditures				Percent of increase or decrease (—) during 1962-66
	Amount, period, 1957-61	Percent of total	Amount, period 1962-66	Percent of total	
Local and national defense.....	2,545	26.2	3,277	24.0	—2.2
Transportation and communication.....	1,667	17.2	1,903	13.9	—3.3
General administrative expenses.....	1,583	16.3	1,344	9.8	—6.5
Public debt service.....	911	9.4	2,230	16.3	6.9
Social welfare and public health.....	755	7.8	1,224	9.0	1.2
Education and cultural.....	721	7.4	1,683	12.3	4.9
Water, sewer, and other community services.....	343	3.5	318	2.3	—1.2
Other economic development.....	339	3.5	231	1.7	—1.8
Mining and energy.....	328	3.4	494	3.6	.2
Agriculture and forestry.....	311	3.2	648	4.7	1.5
Housing.....	169	1.7	240	1.8	.1
Industry.....	40	.4	77	.6	.2
Total.....	9,712	100.0	13,669	100.0	

We were unable to find any in-depth studies concerning Government subsidies. However, at our request, the mission prepared a paper which showed that in 1966 the Government provided at least 200.1 million constant 1958 pesos for subsidies as shown below.

Millions of
constant
1958 pesos

Subsidies to Government enterprises performing quasi-commercial func- tions	131.7
Direct subsidies to the private sector.....	62.6
Tax concessions to private business.....	5.8
Total	200.1

The mission stated that the information provided above was not complete and that other subsidies existed in the form of tax subsidies for exporters and tariff protection and license concessions to importers.

I. EFFECTIVENESS OF USE OF AVAILABLE RESOURCES

AID criteria provides that an aggregate index of the effectiveness with which resources are used in a developing country is the ratio of the increase in output to total investment in the economy. This ratio indicator, which takes account of better use of existing capital and labor as well as additional investments, increased from an average of 19.2 percent during the pre-Alliance period of 1957-61 to 22.2 percent during the Alliance period of 1962-65, as shown by the following table:

[In millions of constant 1958 pesos]

	Average, 1957-61	1962	1963	1964	1965	Average, 1962-65
Gross national product.....	21,684	24,909	25,785	27,342	28,141	26,544
Annual increase in GNP.....	858	1,120	876	1,557	799	1,088
Total investments.....	4,479	4,805	4,780	5,058	4,899	4,886
Ratio of total investment to increase in GNP (percent).....	19.2	23.3	18.3	30.8	16.3	22.2

J. IMPORTS OF NONESSENTIAL COMMODITIES

For the period January 1962 through July 1966, Colombia utilized about \$78 million of its foreign exchange for the import of commodities categorized as being nonessential. AID's estimate of the maximum amount of nonessential imports represented an amount equal to 38 percent of the \$205 million which AID has provided Colombia in nonproject loans for the import of essential commodities from April 1962 through the third quarter of 1966.

AID implied that Colombia was utilizing its own foreign exchange resources for the production and purchase of essential commodities. In this regard AID informed Congress that nonproject loans to Colombia were for the express purpose of helping Colombia carry out its development program through assisting in the financing of essential commodities. It is U.S. policy that only the additional imports economically required to sustain the agreed increases in investment be provided and that any decision for extensive use of the nonproject assistance approach should rest in a careful analysis of needs and a clear agreement of the purpose of the nonproject support.

Outlined below is a schedule showing the maximum amount of commodities categorized by AID as being nonessential and imported by Colombia during the period January 1962 through July 1966:

<i>Category</i>	<i>Amount in thousands</i>
1. Cacao and cacao products, tobacco-----	\$27, 289
2. Oils, perfume, cosmetics, toiletries, explosives, fireworks, matches, photo, and cinema goods-----	25, 600
3. Arms, ammunition, parts-----	9, 554
4. Clocks, watches and parts, musical instruments, sound equipment, TV, and accessories-----	4, 636
5. Edible vegetables, roots and tubers, edible fruits, nuts, fruit peels----	3, 178
6. Ceramic products-----	3, 019
7. Carved or molded articles, brooms, brushes, powder puffs, sieves, toys, games, sports equipment-----	2, 533
8. Leather goods—saddles, harnesses, luggage, handbags—furs and fur products -----	840
9. Precious stones and metals, jewelry, coins-----	803
10. Wood and wood articles, charcoal, straw, basketware, wicker articles -----	744
11. Footwear, headgear, umbrellas, whips, feathers, art flowers, hair, fans -----	100
12. Carpets, mats, tapestries, trimmings, net, lace, embroidery, knitted and crocheted goods, textile apparel and accessories, other textile articles, old clothing, rags-----	92
13. Passenger autos valued at over \$3,000-----	60
14. Works of art, collector's items, antiques-----	43
Total -----	78, 491

The mission director informed us in October 1967, after we brought this matter to his attention, that the above amounts were maximum amounts of nonessential imports which may have entered Colombia, because the data had been prepared in connection with nonproject loan negotiation, and that in each category the maximum possible amount was shown. He also pointed out that these imports represented only 3.7 percent of Colombia's total imports during the period, and he provided the following analysis concerning the list of nonessential commodities.

1. The \$26 million of category 1 was for cacao which has represented a staple in the Colombian diet for years.

2. The \$25 million for category 2 was further categorized as \$8 million for oils and perfumes, which include oils and essences for industry, food products, soap, and other essential items; \$5 million in explosives which includes fireworks and explosives for mining and construction; and \$12 million in photographic products which includes consumer goods, scientific and educational films, and X-ray plates.

3. Category 3 was included by the mission because it could include arms for consumer use although it could be assumed that the majority would have been for military use.

As early as 1959 AID had established the goal of gradually eliminating the importation of those products that could be produced within Colombia, including cacao and edible oils. Prior to the Alliance, the AID technical assistance program for cacao had surveyed most of Colombia to find the most desirable regions for this crop and AID determined that the importation of cacao could be eliminated by 1966. The volume of cacao and edible oil imports increased 75 and 56 percent, respectively, during the 5 years of the Alliance as compared with such imports in the 1957-61 period, although population increased only 17 percent.

1. *Agency comments*

AID, in comments dated March 19, 1968 and additional comments presented on April 19, 1968, stated that, although we included the mission's comment that Colombia's nonessential imports represented less than 2 percent of total Colombian imports over the period, we had failed to modify an original statement that "nonessential commodities were imported." AID also stated that Colombia's record had been quite good and pointed out that it would have been surprising if Colombia had not imported some nonessential commodities.

2. *Evaluation of Agency comments*

It should be noted that the mission stated that the \$78 million of Colombian imports it had categorized as nonessential represented 3.7 percent of Colombian-financed total imports during the period, not less than 2 percent as AID stated.

We have not deleted this factual data from our report, however, because we believe that it educes a basic question of whether AID does, or should, condition its assistance on agreed limits of such imports in recipient countries such as Colombia where such imports, although representing only a small percent of total imports financed by the country, do represent an amount equal to a significant proportion of the AID commodity assistance provided to the country. In Colombia the maximum of such imports from January 1962 through July 1966 represented an amount equal to 38 percent of the \$205 million of AID non-project or commodity assistance provided to Colombia during the period April 1962 through September 1966.

K. CAPITAL FLIGHT

Since the beginning of the Alliance, Colombia's financial policies, coupled with other factors, have been such that they have not held estimated capital flight, which is the flow of private capital from developing countries to developed countries, to acceptable levels.

Capital flight, which generally is inevitable to some extent in a developing country, represents poor utilization of resources, in that the private capital outflow has the effect of offsetting an equal amount of external assistance and thereby reduces the resources available for a country's development effort. AID has established that United States financing the replacement of capital flight on a large-scale basis over a significant term is not acceptable.

A staff report prepared by a member of the consultative group, regarding capital flight in developing countries, concluded that, in the field of international payments, the magnitude of capital flight was most difficult to determine and that, generally, statisticians were unable to produce exact figures on capital flight.

An acceptable level of capital flight from Colombia would approximate \$15 million to \$25 million annually. AID evaluated the problem and estimated the amount of capital flight in 2 of the first 5 years of the Alliance. The AID-estimated capital flight from Colombia in 1962 amounted to about \$35 million and in 1963 amounted to about \$82 million. AID made no estimate of the amount of capital flight in 1964; but the growing capital flight problem caused the Colombian Government to stop supporting the capital market and the exchange rate serving it. No estimate of the amount of capital flight was made

by AID for 1965 or 1966. A member of the consultative group reviewed the problem in 1965 and estimated that the bulk of an estimated \$47 million decline during the first half of 1965 in Colombia's international reserves was accounted for by capital flight.

AID has indicated that the imposition of strict exchange controls by Colombia—such as (1) providing for continued vigilance in scrutinizing import registrations as a means of controlling any over-invoicing, (2) maintaining administrative control over the transfer of capital with the objective of obtaining a better utilization of the nation's foreign exchange resources, and (3) establishing definite and stable norms that govern remittance of profits and principal of foreign capital investment—may curb capital flight to a major extent but that these controls will also restrict foreign investment which is needed for accelerated economic development.

The mission director informed us in October 1967 that exchange controls may be deemed necessary as an interim measure for controlling capital flight but that the only feasible answer in Colombia is the achievement of the political, economic, and social stability required to keep private capital within the country and this stability can be achieved only through long-term development efforts.

L. HUMAN FLIGHT

In addition to flights of monetary capital, Colombia has experienced flights of human capital. A member of the consultative group reviewed the situation and found, using U.S. Department of Justice information, that over 800 professionals from Colombia entered the United States in 1965 with immigrant visas. These professionals included physicians, engineers, professors, nurses, and others who were capable of contributing to Colombia's economic and social development efforts. In addition, there could have been losses of professionals to countries other than the United States as well as some influx of professionals into Colombia. However, it appears reasonable that the factors which would cause professionals to leave Colombia would also tend to prevent professionals from entering Colombia.

VIII. PROGRAM MANAGEMENT

A. U.S. EXPORTS TO COLOMBIA

Information furnished to the Congress by AID may cause the reader to believe that the funds appropriated for AID's commodity import programs in Colombia result nearly 100 percent in additional U.S. exports to Colombia and that, therefore, these programs have little or no negative effect on the U.S. balance-of-payments position. Our analysis of AID data indicates that this is not the case, inasmuch as the relative share of Colombian imports from the United States has been decreasing since the beginning of the Alliance despite the substantial infusion of AID assistance for commodity imports.

A prime U.S. goal with respect to AID commodity import programs in Colombia is to insure "additionality." Additionality means that AID financing is to be used for U.S. goods and services which would not have been exported in the absence of AID. The policy of relating AID programs to the U.S. balance-of-payments problem was

adopted by AID in 1959. The following aggregate analysis shows that the average U.S. market share of Colombian imports not financed with U.S. assistance (1) has steadily decreased since the beginning of the Alliance, and (2) has decreased from an average of 53.9 percent for the 5 years prior to the Alliance to an average of 42.4 percent for the 5 years since the beginning of the Alliance:

[Dollar amounts in millions]

	1957	1958	1959	1960	1961	Average, 1957-61
1. Total Colombian imports	\$483	\$400	\$416	\$519	\$557	\$475
2. Total Colombian imports not financed with U.S. assistance	473	354	368	504	491	438
3. Imports from U.S. not financed with U.S. assistance	279	192	201	281	227	236
4. U.S. market share of 2 above (percent)	59	54.2	54.6	55.8	46	53.9

	1962	1963	1964	1965	1966	Average, 1962-66
1. Total Colombian imports	\$540	\$506	\$586	\$453	\$674	\$552
2. Total Colombian imports not financed with U.S. assistance	488	424	511	400	591	483
3. Imports from U.S. not financed with U.S. assistance	232	181	208	164	241	205
4. U.S. market share of 2 above (percent)	47.5	42.7	40.7	41	40.8	42.4

This analysis does not include an estimate of the positive effect, if any, on the U.S. balance-of-payment position resulting from the use of AID dollars by Colombia through trade channels to third countries which may, in turn, use them to purchase goods in the United States. Such an estimate is not included because neither the mission nor AID has developed any direct evidence showing the effect, if any, that this "feedback" has on the U.S. balance-of-payments position.

The following schedule shows that the United States would have realized \$276 million in additional exports to Colombia during the first 5 years of the Alliance, had the U.S. average pre-Alliance market share been maintained and had 100-percent additionality been achieved from AID-financed commodities. This amount represents a failure to maintain the U.S. pre-Alliance market share to the extent of \$40 million and a failure to achieve additionality with the \$236 million of AID commodity assistance during the period.

[In millions of dollars]

	1962	1963	1964	1965	1966	Total, 1962-66
Amount of imports from United States if average pre-Alliance share had been maintained (53.9 percent of line 2 of above schedule)	263	229	275	216	319	1,302
AID-financed Colombian imports	38	60	56	23	59	236
Total imports from United States if average pre-Alliance share had been maintained and 100-percent additionality had been realized	301	289	331	239	378	1,538
Actual Colombian, non-U.S. assistance, imports from United States plus AID-financed imports	270	241	264	187	300	1,262
Extent to which additionality was not achieved	31	48	67	52	78	276

As shown above, the average U.S. market share decreased from 53.9 percent during the 5 years prior to the Alliance to 42.4 percent during the first 5 years of the Alliance. The 11.5-percent average U.S. market share loss identified above has been offset by increased market shares by other countries as shown below:

[In percent]

	1957-61	1962-66	Decrease	Increase
United States.....	53.9	42.4	11.5	
Western Europe and Japan.....	35.5	41.5		6.0
South America.....	2.2	5.9		3.7
Communist bloc countries.....	.7	1.8		1.1
Central America.....	3.7	4.5		.8
All others.....	4.0	3.9	.1	
Total.....	100.0	100.0		

As shown above Colombia is obtaining a greater percentage of its imports from Western Europe and Japan, from the Latin American Free Trade Association (LAFTA), and from Communist bloc countries with which it has entered into compensation agreements (for example, agreements which provide for balancing the trade account between the participating countries in commodities rather than in foreign exchange). The mission has endorsed the pursuits of LAFTA. However, in this regard the mission plans to continue discussions with the Colombian Government concerning the several disadvantages of nonproductive compensation agreements.

Actions taken by AID through August 1967 in attempting to achieve additionality have included:

- Specifying commodities to which AID financing is limited and publicizing the commodities on nonproject loan positive lists—lists that outline commodities that can be purchased with nonproject loan funds. Commodities to be listed are determined, almost without exception, on the basis of the possibility of increasing the U.S. percentage of total Colombian imports.
- Cooperating with the export promotion activities of other branches of the U.S. Government.
- Seeking to help the Colombian Government realize that the U.S. Government intends to make available funds for financing products which will contribute to Colombia's development while, at the same time, taking into consideration the U.S. balance-of-payments problem.

In addition to the above, the mission has recently arranged with the Colombian Government to obtain current information regarding all licensing by the Colombian Superintendency of Foreign Trade so that the U.S. market share, the extent of additionality, and other related factors can be evaluated on a more timely basis than in the past.

AID reported to the Congress in March 1967 that one step taken to insure additionality in AID-financed commodities had been to refuse to finance items, such as spare parts or goods in which the United States is strongly competitive, which a recipient would buy in the United States in any event because they were available at reasonable cost only in the United States. In this regard we noted that as of June 30, 1967, the mission had permitted the use of \$39.7 million, or

about 19 percent, of nonproject loan funds for motor vehicle spare parts. However, motor vehicle spare parts were not included as an eligible item for AID financing under the May 1967 nonproject loan.

We found no evidence that AID had considered specifying normal import levels for commodities to be purchased from the United States before AID financing could be drawn upon or had considered the political costs of this or other similar control measures. However, AID had included a provision, in its May 1967 \$100 million nonproject loan to Colombia, that during the period of the loan, June 1967 through March 1968, the U.S. market share of Colombia's non-U.S.-financed imports would not be substantially less than the recent historic ratio. This provision may be subject to rather broad interpretation since neither the term "substantially less" nor the term "recent historic ratio" is further defined.

In commenting on the matter of additionality, the mission noted that the U.S. market share of Colombian non-U.S.-financed imports was rapidly declining prior to the Alliance. We were also informed that, after the goal of achieving additionality was adopted by AID, some time elapsed before this goal was given priority over other objectives sought in AID lending. In this regard it was pointed out that it has been only since 1964-65 that AID has begun to give the achievement of additionality priority over other desirable objectives in its program in Colombia.

B. MANAGEMENT REVIEWS OF OVERALL AID STRATEGY AND EFFECTIVENESS IN COLOMBIA HAVE NOT BEEN MADE

No independent overall reviews of the adequacy and effectiveness of AID strategy have been made by AID or the Department of State during the Alliance for achieving U.S. developmental objectives in Colombia. Although three units of AID—the AID/Washington internal audit staff, the Inspections and Investigations Staff (IIS), and the Operations Evaluation Staff (OES)—and the Inspector General of Foreign Assistance (IGA) in the Department of State do not have responsibility for administering AID country-assistance programs, they do have responsibilities for reviews in connection with AID programs.

Our review of data on work performed during the Alliance in connection with the AID program in Colombia, made available to us by these units, showed that such work involved examination of individual projects or other special matters. The AID/Washington internal audit staff has performed work concerned with numerous individual project loans and the financial and administrative operations of the mission. We found that the work performed by the IIS pertained to investigating allegations of illegal activities involving AID resources. We were informed by officials of the OES that their staff had not performed any work pertaining to Colombia. The IGA examined into a number of individual AID projects and matters.

We believe that the magnitude of the program and the relative importance of U.S. developmental objectives in Colombia indicate a need for independent overall reviews of the adequacy and effectiveness of AID strategy at appropriate intervals by knowledgeable internal or external officials having no direct responsibility for management of the program in Colombia.

C. INADEQUATE ARRIVAL ACCOUNTING SYSTEM

The procedures established by AID to meet its responsibility for monitoring the receipt of AID-financed commodities in Colombia were, in our opinion, not adequate to insure that all commodities had been actually received because the mission was not obtaining the information needed to identify those commodities which should have been received in Colombia.

The mission has established an arrival accounting system to determine the arrival of AID-financed commodities and their movement from customs warehouses into Colombia's trade channels. Our review showed that the system was seriously weakened through the failure of the mission to receive, as required by AID regulation, (1) copies of bills of lading for commodities financed by nonproject loans; and (2) monthly reports from the Government of Colombia of arrivals and paid shipments.

In October 1967, we reviewed mission records to determine the extent that suppliers had submitted the required bills of lading to the mission representing paid shipments under nonproject loans for the periods January through March 1966 and March 1967. We found that U.S. suppliers had failed to submit the required documentation for commodities amounting to about \$350,000 and \$160,000, representing 36 and 40 percent of the total paid shipments for the periods stated above, respectively. The mission files did not show that the mission had made any followup attempts through October 1967 to obtain the required information from suppliers. In addition, mission personnel informed us that the Colombian Government did not submit a report to the mission showing arrivals and paid shipments nor did mission files show that such a report had ever been requested.

The mission contracted with a public accounting firm in January 1967 to establish files of shipping documents and to check the shipping documents against the AID list of paid shipments. Since to a large degree the required bills of lading had not been received by the mission, the value of this exercise was limited in terms of insuring that commodities financed by AID were actually received by Colombia.

AID informed us in August 1966 that it was concerned with arrival accounting in all countries and had attempted to make U.S. suppliers more responsive to the requirement for submitting bills of lading and invoices. In addition, AID informed us that it was stressing the responsibility of the borrower to perform the arrival accounting function to the extent possible, to make reports to the mission on commodity arrival, and to identify those items which had not arrived after an appropriate period of time.

After we brought these matters to the mission's attention, the mission director informed us that the mission was establishing a procedure to notify noncomplying U.S. suppliers to submit the required shipping documents and was working out arrangements with the Government of Colombia to receive monthly transaction statements evidencing arrival of commodities financed with nonproject loan funds.

1. Agency comments

AID informed us, in its comments dated March 19, 1968, that our report did not reflect the mission's end-use audits and considerable testing of import procedures, and AID also pointed out that such audits

and tests had revealed no instance of mismanagement but had indicated that AID-financed goods were properly arriving in Colombia and entering the economy.

2. Evaluation of Agency comments

As discussed earlier, the mission was not obtaining information needed to identify a large percent of shipments of AID-financed commodities which were to have been delivered to Colombia. Our test check for the periods January through March 1966 and March 1967 revealed that documentation was not available for commodities amounting to about \$350,000 and \$160,000, representing 36 and 40 percent of total AID-financed commodities for these periods, respectively. Without this documentation showing what AID-financed commodities were to arrive in Colombia, mission auditors could not determine whether such commodities had or had not arrived. The mission director informed us in November 1967 that the mission was working out arrangements to obtain the necessary data.

D. NEED FOR IMPROVEMENT IN AID MANAGEMENT OF GENERATED LOCAL CURRENCY RESOURCES

Our review of AID management of the approximately \$244 million worth of Colombian currency generated by U.S. nonproject assistance to Colombia, during the period 1962 through mid-1967, revealed that:

- The allocation of these funds to the various economic and social sectors, to a large degree, did not follow the AID-established priorities—in this regard, we believe that the allocations should more closely parallel priorities—and
- A system had not been established to monitor and periodically evaluate the progress of certain projects, or activities for which local currency was released.

AID has the responsibility for programing the use of all local currency generated by U.S. nonproject assistance. These currencies do not represent additional resources; only the dollar-financed imports that generate them are additional. They do, however, represent a claim against Colombia's domestically available resources and, as such, constitute an important tool of assistance to be used by AID to improve the total pattern of Colombia's resource use. In this regard AID guidance provides that the subject local currency is to be allocated to established AID priority activities.

The following schedule shows the extent to which AID allocated available Colombian currency to AID priority activities during the period 1962 through September 1967.

Year	Total local currency releases (millions of U.S. dollar equivalents)	Percent of total releases for activities assigned AID priority							No AID priority (percent)
		1	2	3	4	5	6	7	
1962	\$29.9	4.1		71.2		24.7			
1963	50.9	8.5	13.2	45.9		5.3			27.1
1964	13.8	40.3			43.6				16.1
1965	52.6	51.1	28.4	3.2	3.6				13.7
1966	36.1	14.4	1.0	36.9	18.1	8.2	3.0	18.4	
1967	59.8	13.0	16.0	48.4	12.4	10.2			
1962-67	243.1	20.9	13.0	35.8	8.9	8.7	.4	2.8	9.5

The priorities assigned to basic AID goals in Colombia have varied from year to year during the Alliance. The following schedule shows AID's allocations of local currencies with the goals ranked in accordance with the relative priorities assigned from 1962 through September 1967.

Primary goals by rank	Total local currency allocations, 1962-67 (millions of U.S. dollars equivalents)	Percent of total allocation
Financial balance/export development.....	\$90.1	37.1
Education.....	15.0	6.2
Agriculture.....	42.2	17.3
Amelioration of social unrest.....	53.9	22.2
Industrial development.....	6.3	2.6
Planning.....	¹ 12.4	5.1
Transportation/electric power.....	¹ 23.2	9.5
Total.....	243.1	100.0

¹ Included in these figures is a total of over \$23,000,000 representing allocations of local currencies into these 2 areas prior to their being assigned an AID priority goal.

As can be seen from the above, during the Alliance AID has made about as much local currency available for its fourth most important goal as it has for the total of its second and third priority goals. In fact, local currency releases for AID's second most important goal were less than for its least important goal. In this regard the mission director has informed us that (1) the major responsibility for establishing appropriate allocations of the subject local currency in Colombia has rested with the Government of Colombia and (2) AID believes that its priority objectives in Colombia and the allocation of local currency are not necessarily correlated, due to frequent bottlenecks that have imposed restraints on the efficient use of such resources.

Education has been an AID top-priority goal in Colombia since 1962, ranging from priority 1 in 1962 to priority 4 in 1967. As pointed out earlier in this report, a major factor contributing to Colombia's lack of real progress in education during the Alliance has been a lack of funds. Since 1962 AID has released the equivalent of \$15 million in Colombian currency, or about 6 percent of the total releases, for education purposes in Colombia. This compares, for example, with the equivalent of \$42 million, or about 17 percent of the total releases since 1962, released for activities with no assigned priority or for the lowest three AID priority activities. Of special significance is the fact that both AID and the Colombian Government have long recognized that education is one of the areas which will determine the success or failure of Colombia's development program. The mission informed us that a principal reason why more local currency was not jointly allocated to Colombian education during the Alliance was Colombia's need for a comprehensive educational plan.

After allocations of local currency resources are made, the mission has the continuing responsibility for monitoring and evaluating the progress of each project or activity supported. We reviewed allocations for 10 different projects totaling the equivalent of \$29 million, or 12 percent of total allocations during the Alliance. We found that the mission had not monitored the progress of five of the 10 projects. In this regard AID policy provides that releases of local currency are to be made only after satisfactory certification of progress.

In a 1965 examination of AID projects in Colombia,¹ we reviewed the Colombian Private Investment Fund (PIF) project for which AID had released the equivalent of \$37.8 million in local currency. Our examination showed, among other things, that significant amounts of funds were—

1. Used for the purpose of increasing the production of sugar for export contrary to U.S. policy and legislative intent.
2. Loaned to firms that already had sufficient credit or other resources available to finance their proposed projects.
3. Loaned to large enterprises although professional studies had pointed out that small- and medium-sized firms which had a significant potential for growth and for replacing necessary imports had the greatest need for credit.
4. Channeled through private commercial banks that were permitted to charge substantial fees relative to the degree of effort and risk involved.

We concluded that the principal cause of these situations was the release of funds by AID without first establishing adequate criteria and controls with respect to the utilization and management of the funds.

E. INADEQUATE CONTROLS TO INSURE USE OF AVAILABLE EXCESS PROPERTY AS A FIRST SOURCE OF SUPPLY

Our review showed that the mission had made no efforts to insure that excess personal property, owned by AID or available from other Federal agencies, was used as the first source of supply for public sector commodities purchased with AID nonproject assistance loan funds. Our review was a followup to our 1964 multicountry review² in which we pointed out that positive steps by AID were required to achieve effective utilization of excess property in the foreign assistance program.

AID policy is to promote the optimum utilization of excess property in the implementation of AID projects and programs. This policy is in accordance with the Foreign Assistance Act of 1961, as amended, and the Federal Property and Administrative Services Act of 1949, as amended, which provide, in effect, that AID shall, as far as practicable, utilize excess property as the first source of supply. Optimum utilization of excess property serves to complement the accomplishment of AID programs, either through dollar savings by substituting excess property for new material or through dollar stretching by complementing the material assistance programed.³

The mission did not have information showing specifically what had been or was to be imported by Colombia with AID nonproject loan funds or the extent to which such imports were for Colombia's public sector. We believe that without this information it was not possible for the mission to insure that excess property was used to the maximum extent possible as the first source of supply. In this regard the mission's excess property officer informed us that no excess property had been used in connection with AID nonproject assistance in Colombia.

In our above-mentioned April 1965 report, we pointed out that posi-

¹ GAO report, B-161882, dated Sept. 21, 1967.

² GAO report, B-146995, dated Apr. 12, 1965.

³ AID policy prohibits the provision of excess property for use within the private sector in order to minimize private enrichment and adverse effects on established commercial relationships.

tive steps by AID were required to achieve effective utilization of excess property in the foreign assistance program. We recommended that the Administrator, Agency for International Development—

1. Require aid-recipient countries to furnish more complete information on proposed U.S.-financed property purchases.

2. Direct those individuals responsible for procurement activities to diligently screen proposed new procurements against excess property listings with the view of substituting available excess property in lieu of new procurement.

3. Require a written certification from responsible individuals that, for each purchase of new property, either no suitable excess property was available or available excess property was not used for a stated reason.

4. Require appropriate review and policing of excess property utilization in the aid program.

After the release of our report AID informed us that procedures were being devised to insure that missions review foreign government procurement specifications financed with AID funds and that missions were being required to make and document screenings, in advance of procurement, for the purpose of substituting excess property for proposed purchases. AID informed us also that periodic reviews would be made regarding the adherence to the excess property screening requirements of AID procurement policy.

As pointed out above, the AID mission in Colombia had not obtained information showing specifically what had been or was to be imported by Colombia with AID nonproject loan funds or the extent to which such imports were for Colombia's private sector. Also we were unable to find evidence that periodic reviews had been made by AID/Washington of the mission's adherence to AID excess property utilization requirements.

We brought this matter to the attention of the mission in September 1967. In November 1967 the mission director informed us that the mission and the Colombian Government had discussed and worked out a practical procedure to insure optimum utilization of excess property in connection with AID nonproject loans. He informed us also that the procedure would attempt to insure that a maximum amount of Government procurement outside nonproject loan assistance take the availability of U.S. excess property into consideration. In this regard the Colombian Government furnished the mission information showing that about \$50 million in new procurement had been made by governmental entities in Colombia during the first 8 months of calendar year 1967, of which \$1.9 million was financed with AID nonproject assistance loan funds.

F. NEED FOR OTHER IMPROVEMENTS IN AID MANAGEMENT

Our review indicated certain weaknesses in AID management in other areas. These weaknesses, which are discussed in detail below, include the application of a disproportionately small amount of audit effort to nonproject activities, the delay in collecting reimbursement for ineligible procurement, and the relative lack of success during the Alliance of AID strategy for securing other bilateral assistance donors to Colombia.

1. Limited audit effort on nonproject assistance activities to be increased

During fiscal years 1963 through 1967 the mission applied a disproportionately small amount of its available internal audit effort on nonproject type of assistance. The mission director informed us, after we brought this matter to his attention, that the amount of audit effort to be used for nonproject assistance matters in 1968 will be substantially increased.

AID records, as summarized in the following schedule, show that, for fiscal years 1963 through 1967, only about 12.4 percent of the total mission audit effort was expended on AID nonproject assistance, although such assistance constituted more than one-half of the total assistance for which the mission had audit responsibility.

Type of assistance	Man-months of audit effort applied	Percent of audit effort	Amount of assistance (millions)	Percent of assistance
Nonproject.....	27.8	12.4	¹ \$205.0	51.5
Project.....	85.6	38.3	58.7	14.7
Public Law 480.....	72.3	32.4	80.4	20.2
Other.....	37.8	16.9	54.2	13.6
Total.....	223.5	100.0	\$398.3	100.0

¹ Does not include the \$100,000,000 nonproject loan signed in fiscal year 1967 for which there were no disbursements in fiscal year 1967.

AID records show also that the AID/Washington audit staff has not audited the AID nonproject assistance program in Colombia since September 1964. In November 1966 the Inspector General of Foreign Assistance made checks at four Colombian ports and found no distressed cargo; that is, commodities which have not entered Colombia's trade channels within 90 days after arrival in Colombia.

Mission audit effort expended on nonproject assistance during the above period was directed principally toward reviewing Colombia's system for getting AID-financed commodities out of port warehouses, Colombia's complying with AID loan agreements, and assuring that appropriate amounts of local currency were deposited. Consideration was not given to such matters as (1) the relative priority or essentiality of Colombian imports, (2) the degree to which specific commodities were stockpiled as a hedge against inflation, (3) the adequacy of mission controls to insure optimum utilization of available excess property in lieu of new procurement, and (4) the overall adequacy of the mission's arrival accounting system.

In response to our inquiry the mission director pointed out that the mission audit program represented only one aspect of the mission's attention to nonproject assistance activities, and the AID project and Public Law 480 food program activities required more audit effort for adequate coverage than did the more homogeneous nonproject programs. He also informed us that the mission planned to use over one-half of its 76.5 man-months of audit effort in 1968 on the AID nonproject assistance program.

(a) *Agency comments*

AID, in its comments dated March 19, 1968, informed us that it was currently conducting a comprehensive survey of audit activities in connection with AID-financed program assistance worldwide and that the Colombia program was being thoroughly reviewed as a part of this survey.

2. *Delay in collecting reimbursement for ineligible procurement*

We found that AID had not initiated action to collect about \$161,077 from the Colombian Government for ineligible procurement under the \$60 million fiscal year 1963 AID nonproject loan. However, after we brought this matter to AID's attention, a bill of collection was presented to the Government for the subject amount.

In reviewing the evidence of procurement submitted by the Government of Colombia between December 1962 and April 1963, in connection with a \$13 million cash advance under the \$60 million nonproject loan made to Colombia in December 1962, we found that AID had determined that documentation representing procurement totaling \$161,077 was ineligible under the terms of the loan. However, a bill of collection for this amount had not been issued by AID. We brought this matter to AID's attention in August 1967 so that AID could issue an appropriate bill of collection and could check its procedures to ascertain whether this delay was an isolated oversight or represented a weakness in its procedures. AID presented a bill of collection to the Government on January 17, 1968—a few days prior to the expiration of the statute of limitation for the filing of a refund claim.

Agency officials informed us on March 27, 1968, that the Colombians agreed to reimburse AID the \$161,077 by June 16, 1968.

3. *Limited AID success in securing other bilateral assistance donors to Colombia*

Available data shows that relatively little assistance has been provided to Colombia by other donor countries during the Alliance-for-Progress period, although a major U.S. objective has been improvement in the amounts and terms of such assistance.

U.S. policy is to work with other free-world aid-donor countries to encourage increased amounts of aid to developing countries with appropriate terms consistent with the debt-servicing capacity of individual recipients. AID is to act as a catalyst to stimulate others to provide assistance to the developing nations.

Information provided by AID shows that only three loans have been made by foreign governments to Colombian governmental entities during the Alliance-for-Progress period, amounting to the equivalent of \$7.4 million, as outlined below:

Lender	Borrower	Year	Amount (millions)
Netherlands.....	Central government.....	1964	\$1.4
Germany.....	do.....	1966	5.0
Do.....	Local government.....	1966	1.0
Total.....			7.4

In addition, according to a special study by AID, nine European na-

tions and Israel during 1965 provided Colombia with a total of about \$1.5 million in technical assistance. Data was not available on the amount of technical assistance, if any, provided to Colombia by these or other country donors in other years.

An AID \$10 million project loan for a Colombian private investment fund was justified, in part, on the basis that it would constitute powerful pressure on other potential lenders, such as the European countries and Japan, to make funds available on suitable terms to the PIF for foreign exchange. In this regard the \$5 million loan from Germany in 1966 was for Colombia's PIF.

AID has determined that participation by other governments in assistance to Colombia has been small mainly because of unfavorable terms and the lack of planned projects in Colombia. In this regard the mission informed us, in November 1967, that smaller aid-giving countries frequently prefer to extend assistance to the developing countries by means of the international lending agencies in the form of quota subscriptions, purchase of bonds issued by these agencies, and creation of trust funds. We were also informed that European countries, during the period 1964-67, were reluctant to proceed with increased development assistance for Colombia because of the IBRD's reluctance to endorse Colombia's development program due to inadequacies in Colombian financial policies and the lack of sufficient projects for financing.

IX. GENERAL AGENCY COMMENTS AND OUR EVALUATION THEREOF

In its comments dated March 19, 1968, and in additional comments presented on April 19, 1968, AID made the following statements concerning accomplishments of the Colombian Government during 1967:

It is unfortunate that the GAO investigation was not begun several months later, because the timing made it difficult to take into consideration the exceptional performance of President Lleras Restrepo's administration during 1967. * * *

A leading international agency indicated that the principal conclusion to be drawn from its review of Colombia's economic performance in 1967 is that after a year and a half in office, the present Government is fulfilling the high expectations held in Colombia and abroad for much needed improvements in economic policy design and implementation. This institution found that Colombia's record, together with the improved balance of payments management fiscal achievements and rapidly rising investment expenditures, give promise of a high rate of growth.

The review of a leading regional organization complimented the Government of Colombia on its good use of fiscal, monetary, and exchange policy during the year. The organization's recommendations included continued new external financing in 1968 with an important portion of this amount required in the form of nonproject lending.

Also, AID stated that our report detailed areas in which the performance of both the Colombian and AID programs can be improved and stated that this contribution is not to be minimized. AID, however, commented that shortcomings in the basic approach and the style of presentation resulted in an unnecessarily negative appraisal. AID's specific comments concerning each of these matters are outlined and evaluated below:

AID comments.—Regarding our basic approach, AID, in effect, stated that:

—AID nonproject assistance to Colombia should not be measured

against Alliance and AID-established or AID-supported goals but instead should be evaluated against the validity and success in achieving certain central aims. AID identified these central aims as a relatively few but central Colombian policy and performance measures relating to monetary and fiscal actions, investment programs, and balance-of-payment policies.

—Increased emphasis should be given to the impressive performance of the current Colombian administration, which has been in office since August 1966.

—Most of the four proposals made to the AID Administrator have been AID practice for some time.

Evaluation.—AID's first comment above raises the basic question: What is the best or most appropriate method for measuring the success of AID's nonproject assistance program in Colombia? AID contends that the success of its assistance should be evaluated against the validity and success of securing Colombian performance with respect to a relatively few but central development policies and practices. We do not agree. AID's nonproject assistance to Colombia during the Alliance has been directed toward the economy as a whole. The basic purpose of, and justification for, this assistance was to permit Colombia to attain an increased level of economic and social development and specific Alliance and AID goals.

To consider the success of AID's assistance to Colombia as AID suggests, exclusively in terms of whether Colombian performance has been achieved with respect to a relatively few central policy actions and measures, without considering or assessing the extent to which such performance has resulted in improvement in Colombia's economic or social progress, is not only contrary to the implication of AID's public pronouncements but is tantamount, in our opinion, to attempting to assess the effectiveness of a strategy without evaluating the success in attaining stated objectives achieved by that strategy.

The ultimate AID purpose of securing Colombian performance with respect to its development policies and practices is to correct causes that have been determined by AID to be adversely affecting Colombia's attainment of a greater degree of economic and social progress—the joint and overall Colombian, Alliance, and AID goal. Thus, in our opinion, the validity of, and AID's success in attempting to achieve, such policy changes are innate to and reflected in the degree to which Colombia's economic and social progress has met established goals.

As a means of assessing the relative improvement in Colombia's economic and social progress during the Alliance, we utilized a trinal approach—as outlined in AID guidance—which involved analyzing both Colombia's aggregate and sectorial progress against its past progress, against self-established goals, and against the comparative progress of other countries in somewhat similar circumstances. The extent to which each measure was used depended, in large part, on the reliability and comparability of available data. As a part of such analyses we identified, and measured the progress made during the Alliance toward, specific Alliance and AID goals.

With respect to AID's comment that sufficient emphasis is not given in our report to the impressive performance of the current Colombian administration, we have incorporated into our report additional data made available to us by AID in March 1968, with respect to

this performance. It should be noted, however, that our report contains information on a number of specific Colombian Government actions taken during 1967 favorable to Colombian development. For example, we discussed several actions taken by the Government for the purpose of increasing exports and we pointed out that in March 1967, Colombia eliminated the artificial petroleum exchange rate and that industry officials reported that this action would give a real boost to petroleum investment in Colombia. We believe the real test of these and other actions taken by the current Colombian administration will be in terms of the future results that they produce.

AID's final comment above points out that most of the four proposals that we made to the AID Administrator have been AID practice for some time. We have included an evaluation of AID's specific comments, with respect to each of our proposals in section X.B.

AID comment.—With respect to the style of our presentation, AID stated that, although we included its views on most of the matters discussed in our report, certain of our conclusions remain unaltered in the face of modifying explanations by AID. In support of this statement, AID cited that its explanation relating to Colombia's nonessential imports—to the effect that such imports represented less than 3.7 percent of total Colombian-financed imports—was included in our report but that, nevertheless, we failed to modify an original statement on the matter.

Evaluation.—First, it should be noted that our report contains no conclusions with respect to this matter. Our report does, however, include data showing the extent to which Colombian-financed imports during the Alliance have been classified by AID as being nonessential. Our report includes also AID's explanation that such imports represented only a small percent of total Colombian-financed imports. We did not delete this factual data from our report, because we believe it educes a basic question of whether AID does or should condition its assistance on agreed-to limits of such imports in recipient countries such as Colombia, where such imports, although they represent only a small percent of total imports financed by the country, do represent an amount equal to a significant proportion of the AID commodity assistance provided to the country. In Colombia such imports from January 1962 through July 1966 represented an amount equal to 38 percent of the \$205 million of AID nonproject or commodity assistance provided to Colombia during April 1962 through September 1966.

Aid comment.—AID requested that we publish a condensed version of mission responses to 31 of the different matters raised during our review and included in this report. AID also requested that we include the Agency's letter of December 21, 1967, to the Comptroller General, which contained AID's comments on an earlier GAO report on AID development projects in Colombia.¹

Evaluation.—We do not believe that the inclusion of the subject mission responses would serve any practicable or useful purpose, since we have taken these responses into account, where appropriate, in preparing this report. After analyzing the Agency letter of December 21, 1967, we concluded that, because of the combined length of the subject letter and of our analysis of the letter it would be more practicable

¹ GAO report, B-161882, dated Sept. 21, 1967.

to make these documents available upon request to the committee or other interested parties as separate documents.

X. CONCLUSIONS AND PROPOSALS

A. CONCLUSIONS

Colombia's unusual potential for growth and development has long been recognized by AID and other international lending agencies. Nevertheless, as shown by the preceding sections of this report, Colombia's economic growth and social progress during the Alliance has been substantially less than planned because of, in large part, problems encountered in Colombia's own self-help performance.

It should be noted, however, that the failures and shortfalls of the Alliance in Colombia tend to be specific and conspicuous, although the successes may be diffused and less tangible. The very fact that technical assistance has been provided at a cost of about \$30 million and about 2,000 Colombians have received training under AID auspices during the Alliance is certain to have improved, to some degree, Colombia's structural capacity for economic development.

Economic growth, to a large extent, is a function of investment, and the most important ingredient in investment is capital. There are, of course, other essential ingredients involving human and institutional factors, such as honest administration, managerial and technical skills, and entrepreneurial initiative. Foreign assistance performs dual economic functions. It adds to the total resources available for development and, at the same time, provides additional financing for imports. In its first aspect, aid is a supplement to taxation and private savings. In its second aspect, aid is an alternative to increased exports or reduced imports.

A developing nation may obtain capital for development, internally through increased domestic savings and expanded trade surpluses or externally through loans and grants or private investment from other countries. In a developing country, the external debt service burden's becoming too large in relation to the nation's export earnings limits the amount of external debt the nation can incur and thus may severely hamper its development efforts, since the impact of a progressively larger proportion of external development loans to a developing nation, even those on concessionary terms, will in effect be offset by external debt servicing payments. This, therefore, necessitates that AID development loans be judiciously managed so as to promote maximum economic development and social progress.

The objective of AID's nonproject assistance to Colombia has been to have a constructive effect upon Colombia's development policies and practices and facilitate Colombia's own self-help measures. There is little question that AID has done so to some degree during the Alliance. The real question is whether AID actions have had sufficient effect and whether, under the circumstances, AID actions have been directed toward proper and priority matters.

The emphasis on a country's own self-help performance is not only an expression of the mutuality concept but also a recognition of the necessity that U.S. assistance be implemented in such fashion as to call forth optimum contribution by the cooperating country to the

development process. This difficult objective requires great clarity in the statement of AID objectives and agreements, firmness in the establishment of conditions for assistance, and resoluteness in rewarding achievement rather than failure.

We observed, during our review, that—

1. In a number of key areas, AID had not made systematic, substantive evaluations of Colombia's performance and progress affecting Colombia's economic and social development.

2. There is a serious lack of basic data in Colombia, and no substantial progress has been made during the Alliance toward developing a system for gathering and assessing such data in a timely manner.

3. AID has not developed an effective means of accumulating and storing its development experience in Colombia for application and use in developing its future assistance strategy.

4. AID goals and targets in certain areas lacked specificity.

5. AID has not generally tailored the level of its assistance to specific levels of Colombian performance.

6. No management reviews have been made, by knowledgeable internal or external officials having no direct responsibility for administering the AID program in Colombia, of the overall adequacy and effectiveness of AID strategy for achieving United States and Alliance developmental objectives in Colombia.

1. Agency comments and our evaluation thereof

AID, in its comments dated March 19, 1968, and additional comments presented on April 19, 1968, informed us that its nonproject assistance approach in Colombia was soundly conceived; that AID nonproject lending from the beginning of the Alliance in Colombia had progressively concentrated attention on attainment of relatively few but central objectives related to monetary and fiscal actions, investment programs, and balance-of-payments policies, and that, as a result of this concentration, there then existed a better basis for Colombia's achieving a higher rate of economic growth which would enable Colombia to give complementary attention to agricultural development, educational reform, and other needed institutional changes.

AID pointed out that it, as well as certain prominent international agencies, had found Colombia's performance during 1967 to be impressive enough to merit support of Colombia's plan to obtain substantial external loan commitments in 1968. In this regard AID stated that it was unfortunate that the GAO review had not begun several months later because the timing made it difficult to take into consideration the exceptional performance of President Lleras Restrepo's administration during 1967.

We believe that AID's current assessment—that its nonproject assistance strategy, which during the Alliance has concentrated attention on a few central country performance and policy objectives, has resulted in creating a better basis for Colombia's achieving a higher rate of economic growth and social progress in the future—must be evaluated in light of strikingly similar assessments made by the Agency each year since 1963. Notwithstanding these earlier assessments, Colombia's economic growth and social progress each year was both considerably less than had been planned and substantially less than had been determined by AID as being within Colombia's capa-

bility of achieving under the circumstances. Moreover, available AID experience and criteria show that the achievement of the AID objective of a greater degree of Colombian economic growth and social progress depends, in large part, on broad and complex factors.

Since the beginning of the Alliance, AID's actions, or the effectiveness of such actions, with respect to many of these factors have been minimal. A case in point—one of a number which are discussed in section VII in this report—is the factor of domestic savings. AID criteria provide the concept that the success of a country's economic development effort depends on, among other things, the amount of resources it can mobilize; that self-help measures may be required to increase the supply of scarce factors such as capital; and that a country desiring to increase its supply of capital must save for development purposes as much as it can of its national income by instituting measures to increase savings and limit consumption.

As early as 1963 AID determined that Colombia's success in meeting Alliance goals was dependent on her ability to mobilize increasing amounts of domestic resources for development. As shown in section VII.B, Colombia's average annual marginal savings during the first 4 years of the Alliance (data for 1966, the fifth year of the Alliance, was not available to AID at the completion of our review in November 1967) was a negative 4.7 percent, a very substantial decrease from the average pre-Alliance (1957-61) marginal savings rate of 24.8 percent and far short of the AID minimum goal of 20 percent. Nevertheless, AID, since the beginning of the Alliance, has not reached a mutual agreement with the Government of Colombia on annual savings goals or on a set of policies and a strategy directed toward attaining such goals.

Since Colombia's economic growth and social progress—and thus the attainment of AID objectives in Colombia—is dependent on a broad range of self-help factors, we believe that AID's strategy of concentrating its attention on a relatively few such factors is questionable and deserves reassessment. The fact that Colombia's performance during the first 5 years of the Alliance has reflected problems with respect to a number of such factors reinforces this belief.

It is for precisely these reasons that we have proposed that the AID Administrator require the overall effectiveness of AID assistance strategy in Colombia to be reviewed, at appropriate intervals, by knowledgeable internal or external officials who have no responsibility for management of the program. AID advised us that it supports this recommendation with the proviso that any reports issued as a consequence of such reviews fully reflect the views of AID, present a balanced picture of the program in Colombia, and employ a framework of analysis capable of reflecting the complexity of the development process.

AID, in its comments, has noted that it has a small operations evaluation staff attached to the Administrator's office, whose function has been to carry out the kind of objective review recommended. AID advised us, however, that the number of country reviews which this staff can conduct in any particular year is limited by the staff available. As pointed out earlier, the AID Operations Evaluation Staff informed us that it had never performed any reviews of the AID program in Colombia.

In addition to the proposal discussed above, we made three other proposals to the AID Administrator. AID's comments concerning these additional proposals are outlined and discussed below.

For ready reference, all four proposals are outlined below.

B. PROPOSALS

Accordingly, we propose that the Administrator, Agency for International Development, take the actions necessary to—

1. Insure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development.

2. Develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance.

3. Develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to, specific improvements in Colombian performance.

4. Require that the overall effectiveness of AID assistance strategy in Colombia be reviewed at appropriate intervals by knowledgeable internal or external officials who have no responsibility for management of the program.

1. *Agency comments and our evaluation thereof*

Our first proposal to the Administrator was that he take the action necessary to insure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development. AID, in its comments, stated that such evaluations had already been carried out as an essential part of its annual program reviews, its nonproject loan negotiations, and its periodic reviews held before each tranche release. AID stated also that the records of these reviews are extensive and detailed.

On the basis of our review of the records evidencing not only the above-mentioned reviews and negotiations but also all other related and supporting documentation made available to us, we cannot agree that AID has made systematic and/or substantive evaluations of Colombia's performance and progress in each key area affecting its economic and social development.

In connection with a number of the matters presented in this report, we have discussed areas where AID has not made systematic and/or substantive evaluations. For example, in the area of land reform AID has been unable to find or furnish us any evaluations made during the Alliance of the overall progress being made to transform Colombia's inequitable land tenure structure, although land reform is a basic and specific goal of both AID and the Alliance in Colombia, toward which AID has invested many millions of dollars.

As pointed out earlier, responsible AID officials, in response to our request for AID's annual or periodic evaluations of the extent of progress toward the AID and Alliance goal of land reform, informed us that AID evaluations regarding land reform had focused on the progress of specific agriculture related projects rather than on the overall progress of land reform in Colombia. Other similar examples have been discussed.

Intrinsic to this problem is the serious lack of basic data in Colombia. Such data is necessary for evaluating Colombia's developmental progress, for evaluating the effectiveness of Colombian performance, and for developing a basis for formulation by both AID and the Colombian Government of rational policy decisions and strategy regarding Colombia's development. It was our observation that no substantial progress had been made during the Alliance toward gathering such data or toward developing a method for systematically gathering and assessing such data on a timely basis. The problem of insufficient basic data, as it relates to specific matters presented in this report, has also been discussed.

Our second proposal to the Administrator was that he take the action necessary to develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance.

In response to this proposal AID stated that it does closely tailor its level of assistance to the performance of recipient Governments. In this regard AID stated that in 1965 it did not release the tranche of a non-project loan.

We are unable to agree that AID has tailored its level of assistance to Colombia to the level of Colombian self-help performance. We found no evidence that AID had either developed or implemented alternative annual levels of assistance for Colombia tailored to specified levels of Colombia's self-help performance. We did find that AID had not established specific self-help performance goals with respect to a number of matters generally recognized by AID as being of paramount importance to Colombia's development.

With respect to AID's comment that in 1965, it did not release the tranche of a nonproject loan, we believe that this comment must be considered together with the following facts.

The subject tranche which AID did not release to Colombia involved the last \$10 million of a \$45 million nonproject loan made to Colombia on July 13, 1964. This \$45 million loan was the second of two loans totaling \$60 million made to Colombia during 1964. The release of the final \$10 million was scheduled to follow certain general Government announced self-help measures. The measures were not accomplished. AID informed the Colombian Government on December 15, 1965, that this \$10 million tranche would not be released and the \$45 million loan was subsequently reduced to \$35 million. This resoluteness, however, was nullified to some extent, in our opinion, because of the concurrent provision by AID of a \$65 million nonproject loan to Colombia on December 22, 1965, \$10 million of which was made available on January 13, 1966.

Relevant to the above proposal, AID has stated that the object of its assistance to Colombia is to provide resources additional to those available to Colombia in order to accelerate the process of development. In this regard AID has pointed out that the level of U.S. assistance to Colombia is based on long-term projections of Colombia's balance-of-payments situation and is intended to fill a gap between foreign exchange expenditures and receipts which exists as a direct consequence of development efforts. AID has stated also that Colombia's self-help performance is manifest in a higher growth rate, which may, but does not necessarily, imply a larger foreign exchange gap.

Our third proposal to the Administrator was that he take the action

necessary to develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to, specific improvements in Colombian performance.

AID informed us that it would be difficult to develop and negotiate a method of proportional funding but stated that the proposal had sufficient merit to warrant further consideration. AID also pointed out that its practice had been to release nonproject loans in increments or tranches, releasing all of a tranche if indicators were generally satisfactory, none if they were not.

XI. MATTERS FOR COMMITTEE CONSIDERATION

AID did not agree with our proposals that substantive evaluations are needed in many areas and that AID should develop alternative annual levels of assistance for Colombia tailored to specific levels of Colombian performance. AID took the position that substantive evaluations were already carried out. We have not agreed that they have been, and we have pointed out a great number of areas where they were not.

Furthermore, we do not believe AID has developed an annual level of assistance for Colombia tailored to specific levels of Colombian performance as previously discussed. The failure to do so, in our opinion, is contrary not only to its own stated policy and public pronouncements but also to prudent management and, thus, deserves reappraisal.

Because of the fundamental importance of these two matters to the effectiveness of the AID program in Colombia, we are highlighting these matters for the committee's further consideration.

XII. SCOPE OF REVIEW

Our examination consisted principally of a review of the financial and related management practices followed by AID in developing and administering its nonproject assistance program for Colombia, with particular regard to their consistency with basic United States and Alliance for Progress objectives. Our examination included analysis of Colombia's economic growth, social progress, and self-help performance and analysis of the extent to which AID identified, and developed a strategy to effectively alleviate, key factors hindering Colombia's development during the Alliance.

Although we have been concerned primarily with the administration afforded nonproject programs during the Alliance for Progress, or since 1961, our examination necessarily, in some instances, has included a review of AID project-type assistance, and has extended into prior periods, due to the nature of certain identified Colombian structural problems.

We reviewed policy papers, strategy statements, program documents, reports, correspondence, and other pertinent records available at AID and the Department of State headquarters in Washington, D.C., and at AID's overseas mission and the U.S. Embassy in Colombia. We also reviewed consultative group, international agency, and special private industry evaluations and reports dealing with Colombian development. We discussed relevant matters with responsible AID, Department of State, and other U.S. Government officials; with representatives of certain agencies of the Government of Colombia; and

with representatives of the Colombian business community. In addition, we visited Colombian port facilities, industrial centers, and selected projects implemented with local currency resources generated by AID nonproject programs.

Our field work was substantially completed in November 1967.

XIII. APPENDIXES

APPENDIX A

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
June 6, 1967.

Hon. ELMER B. STAATS,
Comptroller General, General Accounting Office,
Washington, D.C.

DEAR MR. STAATS: Since 1962 a substantial amount of U.S. assistance has been furnished to Colombia by the Agency for International Development under the program lending technique for nonproject purposes. In connection with a study of the Alliance for Progress which we are undertaking, we request that you review and report to us on the administration and management of this program in Colombia. We understand that you have recently reviewed the project-type assistance in Colombia and have a report in process which will be submitted to the Congress shortly. For this reason we are requesting that you currently review only the nonproject-type assistance to Colombia. Colombia was selected because it is fairly representative of the Alliance nations.

We understand that under the concept of nonproject assistance the program objectives are normally generalized and indirect and that the achievement of stated objectives and goals frequently depends on a broad and complex range of circumstances in which the rate of use and specific content of the U.S. assistance may play a relatively minor role. Therefore, since the program in Colombia may involve many value judgments, we suggest that you direct your review toward developing an exposition of how the program was conceived and implemented with whatever special analyses you believe useful and appropriate under the circumstances.

It will be most helpful if you can furnish us your report on this matter before the end of the year.

The Administrator of AID is being notified of this request.

Sincerely yours,

J. W. FOLBRIGHT, *Chairman.*

APPENDIX B

DEPARTMENT OF STATE,
AGENCY FOR INTERNATIONAL DEVELOPMENT,
Washington, D.C., March 19, 1968.

Mr. OYE V. STOVALL,
Director, International Division,
U.S. General Accounting Office,
Washington, D.C.

DEAR MR. STOVALL: As requested in your letter of January 19, 1968, we have reviewed the General Accounting Office draft report entitled "The Administration and Management of Nonproject Assistance to Colombia." Our detailed comments on the report are included as attachment A to this letter.

We disagree with the General Accounting Office's analysis of the conception and implementation of nonproject assistance in Colombia.

We believe the program assistance approach in Colombia was soundly conceived to address Colombia's primary immediate constraint on growth; namely, economic policies needed for internal development and balance-of-payments viability. AID program lending operates in a multilateral framework and alongside substantial financial assistance by international agencies. There has been good progress in selected Colombian policy areas which have been central to our purpose. These policies include monetary and fiscal policy, investment expenditures, and balance-of-payments management.

The report of the General Accounting Office has pointed out areas in which the performance of the AID program can be improved. This contribution is not to be minimized. However, shortcomings in the basic approach and in the style of presentation both contribute to the unnecessarily negative appraisal.

First, AID's nonproject assistance in Colombia should be evaluated against the validity of and success in achieving its central objectives, rather than measurement against a diffusion of aspirations, goals, and targets that may have been considered desirable for Colombia in 1962-67, but could hardly have been entirely satisfied.

Second, the history of program assistance in Colombia indicates a U.S. awareness of serious political, economic, and institutional difficulties and a sensitivity to opportunities for major steps toward Colombian stability and growth. Since the General Accounting Office review was begun in mid-1967 there should be clear recognition that the Lleras administration has in its 18 months in office made highly impressive progress in achieving objectives the Colombians and we agree to be central to nonproject assistance.

Third, the General Accounting Office advances four major recommendations relating to country performance evaluation, tailoring levels of assistance to country performance, incremental funding, and the review of program effectiveness by officials not directly responsible for program management in the country concerned. The draft report fails to note, however, that most of these recommendations have, in fact, been AID practice for some time, as is established in our detailed comments enclosed.

Finally, the style of presentation is such that initially negative conclusions remain unaltered by the face of modifying explanation by AID. Although AID comments are frequently (not always) included, summary and concluding statements take little or no note of them.

We hope that the views expressed in our response will be helpful in presenting as complete a picture as possible of the concept and implementation of nonproject assistance in Colombia. We shall be looking forward to receiving a copy of your final report to Senator Fulbright.

Sincerely yours,

H. REX LEE.

[Attachment A]

AGENCY FOR INTERNATIONAL DEVELOPMENT COMMENTS ON THE GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT, ENTITLED "THE ADMINISTRATION AND MANAGEMENT OF NONPROJECT ASSISTANCE TO COLOMBIA"

The program assistance approach in Colombia was soundly conceived to address Colombia's primary immediate constraint on growth; namely, economic policies needed for internal development and balance-of-payments viability. AID program lending, in policy and financial cooperation with the World Bank and the International Monetary Fund (IMF), has made good progress toward achieving those objectives which are central in Colombia to program assistance.

Senator Fulbright in his letter of June 6 to Mr. Staats recognizes relationships among program objectives, complex surrounding circumstances, and U.S. assistance. Because of these same considerations, AID program lending in Colombia has progressively concentrated attention on attainment of objectives related to monetary and fiscal actions, investment programs, and balance-of-payments policies. As a result of this concentration and the policy measures taken and implemented by the Colombians, all geared toward growth with progressive financial stabilization of the economy, there exists a better basis for achieving a higher rate of growth. This basis now enables Colombia to give complementary attention to agricultural development, educational reform, and other needed institutional changes. In the light of its impressive performances during 1967, Colombia continues to merit support in its plan to obtain the substantial external loan commitments in 1968. [AID shares the foregoing evaluation and outlook with prominent international agencies; the January 1968 review of a leading regional organization was similarly complimentary of Colombia's fiscal monetary and exchange performance in 1967 and is encouraging for the future.¹]

¹ Changes made as a result of Agency comments which were presented to GAO on Apr. 19, 1968.

The multilateral effort in Colombia deserves recognition and emphasis. AID assistance is within the framework of a consultative group on Colombia to coordinate the views and activities of sources of assistance, under International Bank for Reconstruction and Development (IBRD) leadership. AID is guided by the CIAP review of Colombia and its recommendations. In brief, Colombia's problems and programs receive careful multilateral attention and the assistance provided Colombia by AID and others reflects international judgments on priority needs.

The report of the GAO has detailed areas in which the performance of the AID program can be improved. This contribution is not to be minimized. However, shortcomings in the basic approach and in the style of presentation both contribute to the unnecessarily negative appraisal.

First, AID's nonproject assistance in Colombia should be evaluated against the validity of, and success in achieving its central objectives, rather than measurement against a diffusion of aspirations, goals and targets that may have been considered desirable for Colombia in 1962-1967 but could hardly have been entirely satisfied.

Second, the history of program assistance in Colombia indicates a U.S. awareness of serious political, economic and institutional difficulties and a sensitivity to opportunities for major steps toward Colombian stability and growth. Since the GAO review was begun in mid-1967 there should be clear recognition that the Lleras administration has in its 18 months in office made highly impressive progress in achieving objectives the Colombians and we agree to be central to nonproject assistance.

Third, the General Accounting Office advances four major recommendations relating to country performance evaluation, tailoring levels of assistance to country performance, incremental funding, and the review of program effectiveness by officials not directly responsible for program management in the country concerned. The draft report fails to note, however, that most of these recommendations have in fact been AID practice for some time, as is established in our detailed comments enclosed.

Finally, the style of presentation is such that initially negative conclusions remain unaltered in the face of modifying explanation by AID. Although AID comments are frequently (not always) included, summary and concluding statements take no note of them.

The balance of this statement deals with these four points as concisely as possible and illustrates the last one with detailed comments on the GAO findings.

1. OBJECTIVES OF AID'S NONPROJECT ASSISTANCE

The GAO analysis compares Colombian performance, sector by sector, against previously set goals. This approach accepts uncritically numerous quantitative targets of various origin—hemispheric, Colombian and other—and seems to assign the achievement in Colombia of each goal roughly equal weight. During the years 1962-67 Colombia's political and economic circumstances dictated otherwise. In practice, Colombian authorities and AID have learned, in part through trial and error, that not all of the serious Colombian problems could or should be undertaken with the same intensity of effort and that success in selected areas was critical to social and economic progress in the entire society. It has for some time been evident that neither the Colombians, nor we, could hope to resolve all problems simultaneously.

The development of U.S. nonproject assistance to Colombia in the past 5 years, as the record will attest, has as its central feature increasing responsiveness to Colombian self-help policies and performance. These policies and actions form Colombia's program; Colombia's performance on its program is the basis for AID support. While the program-centered approach has continuously been selective among the very wide array of problems confronting developing countries like Colombia, experience has indicated the desirability of reaching firm understandings on relatively few but central objectives. Thus the record will show a process of deliberate choice and, year by year, a reduction in the diffusion of purpose and means. The record will also show that the standards of performance applied to Colombian programs for action have become increasingly practical and intensive.

AID's nonproject assistance during the period under GAO review was related most directly to Colombian monetary and fiscal actions, investment programs, and balance-of-payments policies. Adequate performance in this closely connected group of policy areas can in our judgment yield the means for achieving the

sustained growth Colombia needs, the environment in which basic institutional and social reform can be achieved, and an eventual viability without assistance on concessional terms. It is significant that international financial institutions active in Colombia such as the IBRD and IMF have concentrated attention on these areas as well. There is, accordingly, close cooperation among the principal sources of assistance to Colombia and a consultative group on Colombia is active under leadership of the International Bank.

We believe that there has been significant Colombian progress in the policy areas AID has selected for primary attention in program assistance. Inflationary pressures represent substantially reduced burdens to wage earners, investors, and exporters. As expressed by an international agency, the Colombian fiscal, wage, coffee, and monetary policies have been designed to reduce the rate of inflation and thereby support the policy of continuing exchange rate flexibility; this implementation during the past year has already resulted in reducing the rate of price increase in 1967 (about 7 percent) to less than half of that in 1966 (about 16 percent); the 1963 increase was about 33 percent. Public and private investment has increased by about 20 percent since 1963. Government revenues in 1967 were up to 16.3 percent over 1966 levels [in current terms¹], despite a strong decline in collections from customs duties. While coffee is still the predominating export, expanding noncoffee exports now add about \$120 million to foreign exchange earnings annually.²

Colombian and other authorities have pointed out deficiencies in Colombian agriculture, the educational system, the nation's health services, and other areas. The Colombians have made some headway in these fields, more than appears in the conclusions of the GAO report. Given the overall economic progress and a favorable political leadership, Colombia now proposes a comprehensive program in the agricultural sector and is developing a similar approach in education. AID plans to respond to well-conceived Colombian initiatives with nonproject assistance tailored to sector programs in agriculture and, subsequently, in education. As in previous program assistance, we would wish to be responsive to Colombian programs for fundamental changes in policy, to look to carefully identified Colombian performance, and to support such performance as it occurs.³

2. HISTORY OF PROGRAM LENDING AND ACCOMPLISHMENTS OF LLERAS ADMINISTRATION

Ten years of political violence in Colombia ended with the formation by the Liberal and Conservative Parties of the National Front in 1957-58. The first President under the National Front, Alberto Lleras Camargo, who took office in August 1958, was development minded. Reorganized extensively into a more effective instrument for economic and social change, the Lleras Camargo government had completed, by the beginning of the Alliance for Progress in 1961, a development plan considered by the international agencies and by the U.S. Government to be an acceptable basis for expanded economic assistance.

Structural reforms, undertaken by Lleras Camargo, both in the Government and in the country as a whole, included such measures as the establishment of the Agrarian Reform Institute, the establishment of a National Planning Department and planning bodies in various governmental ministries, the establishment of a series of new agencies to handle such questions as agricultural research, extension, and education, and the first really substantial increase in Government investment expenditures.

However, coffee prices had already begun in 1965 what proved to be a long-term downward trend. At the same time, the relatively successful first stages of import-substitution oriented industrialization were creating an ever-rising demand for imports of raw materials and semimanufactures for further processing. Hence, by the time President Lleras Camargo took office in 1958, the country already was beginning to face serious balance-of-payments problems. Colombia subsequently faced a series of devaluations, each of which tended to result in large domestic price increases.

Early in 1962, the Lleras Camargo government requested balance-of-payments assistance from the United States. On April 12, 1962, the first AID nonproject loan to Colombia was signed. Since a shortage of foreign exchange to pay for the

¹ Changes made as a result of Agency comments which were presented to GAO on Apr. 19, 1968.

² See app. C for additional Agency comments which were presented to GAO on Apr. 19, 1968.

imports the Colombian economy needed for continued growth has continued to represent the primary immediate constraint on growth, five ensuing nonproject and program loans have constituted the principal U.S. form of economic assistance toward attaining self-sustaining growth in Colombia.

Accomplishments of the Lleras Restrepo administration

It is unfortunate that the GAO investigation was not begun several months later, because the timing made it difficult to take into consideration the exceptional performance of President Lleras Restrepo's administration during 1967.

A leading international agency indicated that the principal conclusion to be drawn from its review of Colombia's economic performance in 1967 is that after a year and a half in office, the present Government is fulfilling the high expectations held in Colombia and abroad for much needed improvements in economic policy design and implementation. This institution found that Colombia's record, together with the improved balance-of-payments management fiscal achievements and rapidly rising investment expenditures, give promise of a high rate of growth.

[The January review of a leading regional organization complimented the Government of Colombia on its good use of fiscal, monetary, and exchange policy during the year. The organization's recommendations included continued new external financing in 1968 with an important portion of this amount required in the form of nonproject lending.¹]

The GOC recovered from a foreign exchange crisis in November 1966, caused largely by an unexpected fall in coffee prices, by instituting basic reforms in the management of its balance of payments and undertaking stringent fiscal and monetary policies designed to control inflation. It released the certificate rate, under which most goods were imported, from its pegged rate of 13.50 pesos per dollar with the result that it depreciated 17 percent to 15.80; the rate is now used as the basis for export transactions as well. Although imports have been strictly controlled, monthly registrations are being increased in a deliberate effort to provide increasing inputs for development. Exports other than coffee and petroleum were encouraged, not only by the devalued exchange rate, but by a 15-percent tax credit and the establishment of an export promotion fund which provides technical and financial assistance to exporters. As a consequence, minor exports increased by about 20 percent in 1967. Finally, net reserves increased by \$95 million from April 1 to December 31, which was \$70 million more than the IMF had set as a target for the stabilization program.

The fiscal program was equally successful. In 1967, central government revenues increased by over 10 percent in real terms, a substantial accomplishment in the face of sharply lower customs revenues as a consequence of reduced imports. Direct taxes rose by about one-quarter in real terms, moving the GOC toward a more elastic and equitable fiscal system. A larger current account surplus allowed capital outlays to increase by 38 percent in real terms, with no recourse to deficit financing. As a consequence of this strong fiscal performance and a restrained monetary policy, the cost-of-living index rose only about 7 percent, well below the average for recent years.¹

In 1967 gross national product (GNP) is estimated to have grown by 4.6 percent, in spite of sharply reduced imports and monetary-fiscal restraint. It is anticipated that Colombian GNP may increase by 6 percent or more in 1968, above the Alliance target of 5.5 percent, and that growth should continue at a high level in the next few years.²

3. GAO RECOMMENDATIONS

The report concludes with four recommendations which are restated below and followed by Agency comments.

1. "Insure that substantive evaluations are made on a systematic basis of Colombia's performance and progress in each key area affecting its economic and social development."

The evaluations envisaged by GAO are already carried out as essential parts of (1) the annual country analysis and strategy paper and AID program reviews and

¹ Changes made as a result of Agency comments which were presented to GAO on Apr. 19, 1968.

² See app. C for additional Agency comments which were presented to GAO on Apr. 19, 1968.

(2) the negotiations leading to program loans and the periodic reviews held before each tranche release. The records of these reviews are extensive and detailed, and were available to the GAO.

2. "Develop annual levels of assistance for Colombia tailored to specific levels of GOC performance."

AID does closely tailor its aid levels to the performance of recipient governments. Loan agreements are only signed with governments which undertake satisfactory self-help programs, while poor performance often forces the Agency to withhold either new loans or even disbursements under existing ones.

3. "Develop a method of incremental funding whereby the release of AID assistance is conditioned on, and proportionate to, specific improvements in GOC performance."

The purpose of AID's practice of releasing program and sector loans in tranches is—and has been—precisely to effect incremental funding: Tranches are released only if an extensive joint review shows satisfactory performance of several criteria. However, in Colombia we have not developed a method of proportional fundings.

4. "Require that the overall effectiveness of AID assistance to Colombia be reviewed at appropriate intervals by officials who have no responsibility for management of the program."

The Agency supports this recommendation, with the proviso that any reports issued as a consequence of such reviews fully reflect the views of AID, present a balanced picture of the program in Colombia, and employ a framework of analysis capable of reflecting the complexity of the development process.

Actually, AID has had for some time a small operations evaluation staff, attached to the Administrator's office, whose function has been to carry out the kind of objective review recommended by the GAO report. The number of country reviews which this staff can conduct in any particular year is, of course, limited by the staff available for such purposes.

4. DETAILED COMMENTS

In preparing its report, the GAO followed a procedure which inevitably emphasizes the negative aspects of Colombian development and AID's part in it. A generally unfavorable discussion of each issue by the GAO is followed by comments of the mission. The tone of the GAO portion is authoritative, while the mission's rebuttal is presented as mere opinion. Moreover, the summary and concluding pages reflect nothing of the more favorable aspects pointed out by the mission. And in many cases the mission's views were omitted altogether from the text. Had the authors of the report incorporated the mission's view in their own presentation and reflected these in their conclusions, the result would have been a more balanced picture of the Colombian program.

What follows is an attempt to illustrate the ways in which the GAO has distorted the picture. It has not been possible to do an exhaustive treatment in the time available and the Agency would prefer that the GAO publish a condensed version of all 31 mission replies to the original 31 GAO memorandums. However, examples cited below cover a number of key instances in which unbalanced analysis contributed markedly to the negative tone of the report.

A. Agriculture

"* * * we believe that it is incumbent on AID, prior to formulating future assistance programs, to (a) specifically identify, mutually with the GOC, the key policy, political, social, physical, and other factors limiting Colombia's overall agricultural growth; and (b) devise a program strategy conditioning AID assistance on specific improvements in such factors and conditioning AID commodity financing on the GOC's securing mutually agreed on levels of inputs into the agricultural sector."

AID has encouraged the Colombian Government in its current efforts to reorganize the institutional complex responsible for agricultural policy. A far more streamlined policymaking apparatus is emerging. The Government is preparing a comprehensive plan for the agricultural sector, which will become the basis for possible future AID assistance to that sector. The loan also emphasizes increased inputs, especially of fertilizer and pesticides, to the agricultural sector, a point discussed by the GAO. Further, the report does not give sufficient credit to the U.S. AID/Colombia for the following accomplishments in the agricultural sector:

(1) The support of a livestock bank (Banco Ganadero) and the mobilization of the GOC's own resources to capitalize it.

(2) The establishment of an effective supervised credit program which serves approximately 11,570 borrowers a year and returns about 2.10 pesos for each peso loaned.¹

(3) The establishment of a long-term training program with the University of Nebraska.

"As indicated by the facts above, INCORA—the Colombian agency responsible for land reform in Colombia—has achieved a degree of success in its various activities but has not, in the aggregate achieved any appreciable success in effectively transforming the maldistribution of land in Colombia."

The Agency agrees with the GAO on the importance of land reform and will continue to channel a substantial share of its assistance to the agricultural sector through INCORA. However, the report fails to give sufficient emphasis to the extreme difficulty involved in changing well-entrenched land tenure patterns. The GAO also takes insufficient notice of the relevance to land redistribution of supervised credit, irrigation, and access roads, which AID has financed.

B. Education

In discussing secondary education, the report fails to mention the joint effort of the GOC, IBRD, and AID to reform the basic structure of secondary education, in part through the establishment of 19 comprehensive high schools. This reform represents a significant attack on existing deficiencies in secondary education. Efforts are continuing to insure that the new schools will serve as a nucleus for the revision of the entire Colombian secondary school system.

C. Balance of payments

"Along with a rising external debt service burden, Colombia has experienced a decline in its foreign assets."

First, a rising debt service burden is not in itself a bad thing, since debt service is expected to rise as countries borrow in order to accelerate development. The important question is whether a country is developing sufficiently to be able to reduce the burden in the long run. Second, falling foreign reserves is merely another aspect of the foreign exchange gap which is, in the case of Colombia and the majority of other developing countries, an integral part of the development process. Would the GAO have been more satisfied with rising reserves, implying that U.S. assistance is financing reserve accumulation rather than goods importation?

"Our review has shown that the Colombian Government has followed a petroleum policy which has resulted in a significant curtailment of investment in, and exploitation of, its petroleum resources since the inception of the Alliance for Progress."

As the report itself notes below, the Colombian Government recently took a major step to encourage petroleum production, by increasing the exchange rate for petroleum transactions from 7.67 to 16.25 pesos per dollar. Moreover, exploration during the period under review resulted in discovery of the Putamayo field, which has been the object of large investments, including construction of a major pipeline. This field should come into production in the early 1970's and may increase Colombian production by 50 percent.

D. Savings

"* * * Columbia's average annual marginal savings rate during its first 4 years of the Alliance was a negative 4.7 percent, or a very substantial decrease from the average pre-Alliance (1957-61) marginal savings rate of 24.8 percent."

* * * The marginal savings rate for [1962-67²] is [0.06²] which, although very low, is not negative. Although AID explained to the GAO the unreliability of savings data for Colombia, the GAO made no mention of the tenuous statistical base for their conclusions.

E. Fiscal performance

"* * * Colombia's ability to maintain a high level of investments depends on the transfer of purchasing power from the private sector to the public sector through tax revenues in excess of that needed to meet the Government of Colombia's operating expenses."

¹ See app. C for additional Agency comments which were presented to GAO on Apr. 19, 1968.

² Changes made as a result of Agency comments which were presented to GAO on Apr. 19, 1968.

The Government of Colombia has performed well in raising its surplus on current account from \$113 million in 1961 to \$179 million in 1966 (in 1965 prices). Central Government revenues remained about the same proportion of GNP in 1966 as in 1961, but admittedly started from a low level and should be increased.

Moreover, import duties fell by a third in 1967, in spite of which total revenues increased.

"* * * The table below comparing per capita taxation by the central governments of 18 Latin American countries shows that Colombia ranked eighth in per capita taxation in 1961 and 15th in 1965."

Most of the tax reforms mentioned by the GAO have been put on a permanent basis and are not temporary, as stated.¹

"The following table shows that (1) Colombia's deficit financing amounted to an average of 1,077 million pesos per year during the Alliance period of 1962 to 1966 compared to an average deficit of 301 million pesos per year during the pre-Alliance period of 1957 to 1961, and (2) domestic credit has increased an average of 19.2 percent per year during the first 5 years of the Alliance compared to an average increase of 15 percent per year during the 5 years preceding the Alliance."

Deficit financing was eliminated completely in 1966 and 1967, with excellent prospects for avoiding deficits in the foreseeable future.¹

F. Private investment

"The overall climate in Colombia for attracting private foreign investment since November 1966 has not been reasonably attractive because of exchange and trade controls and profit remittance limitation imposed by the Government. Throughout the Alliance the climate for attracting investment in the areas of petroleum and mining has not been favorable."

The investment climate in Colombia is considered quite favorable, as evidenced by a recent speech in Bogotá by David Rockefeller, who urged U.S. investors to consider Colombian opportunities. The recent devaluation of the exchange rate applicable to petroleum transaction from 7.67 to 16.25 pesos per dollar has markedly improved the climate for petroleum companies, as they have acknowledged to President Lleras.

G. Power

"The goal for electrical power production capacity of 1,800 megawatts by 1965 was short of being met by 13.9 percent, but actual capacity exceeded demand."

First of all, failure to fulfill a goal is not necessarily a bad thing; it would have been folly to meet the goal since, as the report states, demand was being met with less investment. Also, the report fails to note the implication of its own figures, that capacity utilization increased by 43 percent from 1961 to 1965, growing from 2,130 kilowatt hours produced per kilowatt at installed capacity to 3,050. As AID pointed out to the GAO in its comment on memorandum No. 14, electrical power generation increased by 11 percent a year from 1960 to 1965.

H. Aid design, management, and accounting

(In addition to the points noted below, see further discussion of GAO recommendations, earlier in this appendix.)

"AID goals and targets, in many instances, lacked specificity."

Specific, quantitative targets as set by the Colombians themselves have become an integral part of program loans to Colombia.

"AID records show that for the period January 1962 through July 1966, the Government has utilized over \$78 million of its foreign exchange for the import of commodities categorized by AID as being nonessential." GAO has also included the mission's refutation of this statement, which shows that such nonessential imports represented less than 2 percent of total Colombian imports over the period, hardly scandalous behavior. However, the report fails to modify its original statement on the matter and even includes the statement, in its "highlights," that "nonessential commodities were imported." It would have been surprising if they had not been; the record has been quite good.^{1a}

"During fiscal years 1963 through 1967 the mission applied a disproportionately small amount of its available audit effort on non-project-type assistance."

This and other statements on audit procedures and effort fail to reflect the

¹ See app. C for additional Agency comments which were presented to GAO on Apr. 19, 1968.

^{1a} See app. C for additional Agency comments which were presented to GAO on Apr. 19, 1968.

mission's end-sue audits and considerable testing of import procedures, which have revealed no instance of mismanagement to date and have indicated that AID-financed goods were properly arriving in Colombia and entering the economy. Currently AID/W is conducting a comprehensive survey of AID-financed program assistance worldwide. The Colombian program is being thoroughly reviewed as a part of this survey.

In addition to comments on nonproject assistance, the GAO report includes criticism of management of local currency projects referring to its published report dated September 1967.

If negative comments referring to the September published report, which concerned six selected projects chiefly involving Colombian-owned counterpart pesos, are to be included in the final report on nonproject assistance, it is requested that there be included also the AID comments which indicated important points of disagreement with the earlier project report. Perhaps the best way to achieve full consideration of aspects discussed concerning local currency project assistance would be to include in its entirety the Agency's letter of December 21, 1967, to the Comptroller General which contained AID's comments on the published report along with its attachment.

APPENDIX C

U.S. GOVERNMENT MEMORANDUM

APRIL 8, 1968.¹

To: Louis W. Hunter, Assistant Director, General Accounting Office.

From: AA/LA—James R. Fowler.

Subject: GAO draft report entitled "The Administration and Management of Non-project Assistance to Colombia."

As discussed by members of our staffs, there are certain minor revisions and clarifications which are noted with regard to the Agency's response dated March 14, 1968, to the subject draft report. These are set forth below in response to a request from your staff and are of two categories: (1) adjustments as to a wording; and (2) supplementary and explanatory comment.

1. Wording

On page 190, the figure of 16.3 percent is from an international agency report. More recent and more conservative figures from the AID mission in Bogotá give an increase of 10.7 percent in current terms but these were not available when the reply was written.

On page 193, the years are 1962 through 1967 using 1967 estimates. The figures refer to gross national savings and are taken from information developed by AID and presented to the Congress for the program for fiscal year 1969.

2. Comment

(a) (Re page 190.) Figures are all through 1967, using estimates for 1967. Note that in all cases these estimates are subject to change, but represent the best data available at the time of writing.

(b) (Re page 190.) Regarding steps in the field of health, an international organization in a February 4, 1968, report on economic development in Colombia during 1967 made the following statement:

"The Government has given increased emphasis to the improvement of water supply and sewerage facilities. With rapidly growing urban areas, the inadequacy of facilities multiplies health problems and inhibits economic growth. Although investment planning is adequate in the larger cities—Bogotá, Medellín, etc.—substantial improvement is still necessary in the medium and small cities. Preparations are well advanced for a major expansion of the Bogotá water supply system; the expansion of sewerage facilities is already underway. Preparation of projects and feasibility studies are being accelerated in medium size cities."

(c) (Re page 191.) To show evidence of the favorable trend in reducing inflation with resultant impact on public attitudes, we include the following tabulation which shows: (1) the monthly worker's cost of living index for 1967 and (2) the monthly exchange rate for the peso in 1967. This comparison demonstrates how gradual devaluation in 1967 has succeeded in avoiding sudden and drastic increases in the cost of living. Treatment of exchange rate matters in the press is much more restrained than was the case 2 or 3 years ago.

¹ These comments were presented to GAO on Apr. 19, 1968.

WORKERS' COST OF LIVING INCREASE VERSUS EXCHANGE RATE CHANGE

1967	Cost of living index (1954-55=100) ¹	Exchange rate	Cumulative percent increase	
			Cost of living index	Exchange rate ²
January.....	354.9	13.50	0.5	0
February.....	356.4	13.50	.9	0
March.....	360.4	13.51	2.0	0
April.....	361.8	13.95	2.4	3.3
May.....	364.1	14.19	3.1	5.1
June.....	370.8	14.50	5.0	7.4
July.....	370.8	14.72	5.0	9.0
August.....	369.9	15.31	5.0	13.4
September.....	370.9	15.31	5.0	13.4
October.....	373.8	15.53	5.8	15.0
November.....	376.2	15.72	6.5	16.4
December.....	378.0	15.81	7.0	17.1

¹ Source: National Indices of Consumer Prices.

² Cumulative from December 1966.

(d) (Re page 194.) Fiscal operations of the Government of Colombia 1967 (enclosure to Embassy A-572 of February 23, 1968) line V shows Government cash surplus of 54.2 in 1966 (254.2 adjusted for INCORA bonds), and cash deficit of 243.1 in 1967. Lines VIII and IX show no net central Government borrowing from BOR in 1967 or 1966. Lines VI-C and VII-B show no net borrowing from internal private sector in 1967, and 1966 when adjusted for INCORA bonds (because bonds, though shown in Government accounting as receipts from borrowing, were not sold, rather they were delivered to INCORA). Also lines VI-A and VII-A show no net external borrowing in 1966. Net borrowing in 1967 reflects use of Colombian owned counterpart arising from disbursement of AID program loans, which permitted higher investment budget. Hence there was no central Government deficit in 1966-67 except that associated with counterpart use. This remains the exact position taken in Mission reply to the GAO memo on the subject. In this regard, we again express our preference that the GAO publish a condensed version of all 31 mission replies to the original 31 GAO memoranda.

(e) (Re page 193.) The English version of INCORA's 1966 annual report lists the number of families participating in the loan plan in 1966 as 11,570. The Spanish version of this report, which is unavailable in Washington lists the gross rate of return as 2.10 pesos for each peso loaned. The 1967 annual report, which is available in Washington, lists the 1965 rate of return as 1.80 pesos for each peso loaned. The rate of return refers to production not interest on loan.

(f) (Re page 191.) The figures on Government revenues and expenditures are consistent with international agency estimates which were available at the time of writing. However, more recent information from U.S. AID shows the following, somewhat more conservative, estimates: (1) central Government revenues increased by 10.7 percent in current prices; (2) direct taxes (i.e., income taxes) increased by 24 percent in current prices; (3) capital outlays increased by 42 percent in current prices.

(g) (Re page 191.) The anticipated increase in GNP of 6 percent is a prediction made by the mission, largely on the basis of an increased flow of imports during 1968, made possible by Colombian Government policies to promote exports and capital inflow by foreign assistance. The estimate is based on past performance; a leading regional organization shares this favorable outlook.

(h) (Re page 194.) The figure of "less than 2 percent" for nonessential imports was derived entirely from information in the GAO report. From the figure of \$78 million were subtracted the following items, listed by the mission as being essential imports, although included in the nonessential categories used to build up the \$78 million figure: Cacao, \$26 million; explosives, \$5 million; essential oils, \$8 million. These add up to \$39 million, reducing the stated estimate of 3.7 percent by half. Our exclusion of those three items is meant to be indicative only and is not the result of precise estimates. However, all such calculations are arbitrary and this is only meant to question the use of any apparently precise estimate of "nonessential" imports as 3.7 percent without a critical appraisal of its meaning.

APPENDIX D

OFFICIALS PRIMARILY RESPONSIBLE FOR ADMINISTRATION OF THE ECONOMIC AND
TECHNICAL ASSISTANCE PROGRAM FOR COLOMBIA SINCE 1961

	Tenure of office	
	From—	To—
DEPARTMENT OF STATE		
Secretary of State:		
Christian A. Herter.....	April 1959.....	January 1961.
Dean Rusk.....	January 1961.....	Present.
Under Secretary of State:		
C. Douglas Dillon.....	February 1959.....	January 1961.
George W. Ball.....	November 1961.....	October 1966
Nicholas deB. Katzenbach.....	October 1966.....	Present.
Assistant Secretary of State for Inter-American Affairs and U.S. coordinator, Alliance for Progress:		
Edwin M. Martin.....	May 1962.....	January 1964.
Thomas C. Mann.....	January 1964.....	February 1965.
Jack H. Vaughn.....	March 1965.....	March 1966.
Lincoln Gordon.....	March 1966.....	June 1967.
Robert M. Sayre (acting).....	June 1967.....	July 1967.
Covey T. Oliver.....	July 1967.....	Present.
Ambassador to Colombia:		
Dempster McIntosh.....	June 1959.....	February 1961.
Fulton Freeman.....	May 1961.....	March 1964.
Covey T. Oliver.....	May 1964.....	October 1966.
Reynold E. Carlson.....	October 1966.....	Present.
AGENCY FOR INTERNATIONAL DEVELOPMENT		
Administrator:		
James W. Riddleberger.....	March 1959.....	February 1961.
Henry R. Labouisse.....	February 1961.....	November 1961.
Fowler Hamilton.....	September 1961.....	December 1962.
David E. Bell.....	December 1962.....	July 1966.
William S. Gaud.....	August 1966.....	Present.
Assistant Administrator, Bureau for Latin America: Teodoro Moscoso ¹	November 1961.....	May 1964.
Director, mission to Colombia:		
Charles P. Fossum.....	February 1960.....	June 1964.
James R. Fowler.....	June 1964.....	July 1967.
Marvin Weissman.....	August 1967.....	Present.

¹ In addition, Mr. Moscoso was appointed U.S. coordinator for the Alliance for Progress in February 1962. The position of Assistant Administrator, Bureau for Latin America, was abolished in January 1964.

APPENDIX E

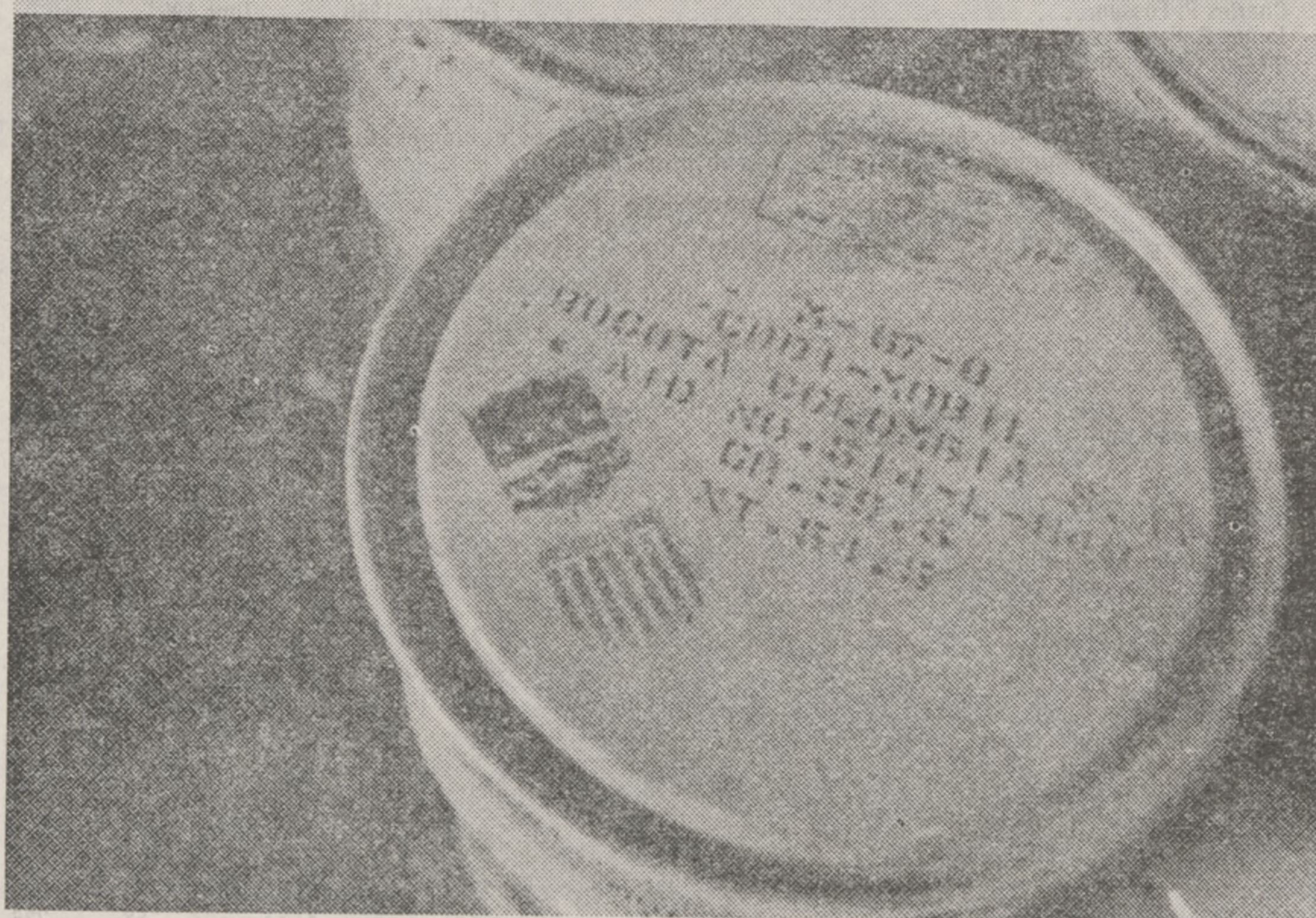
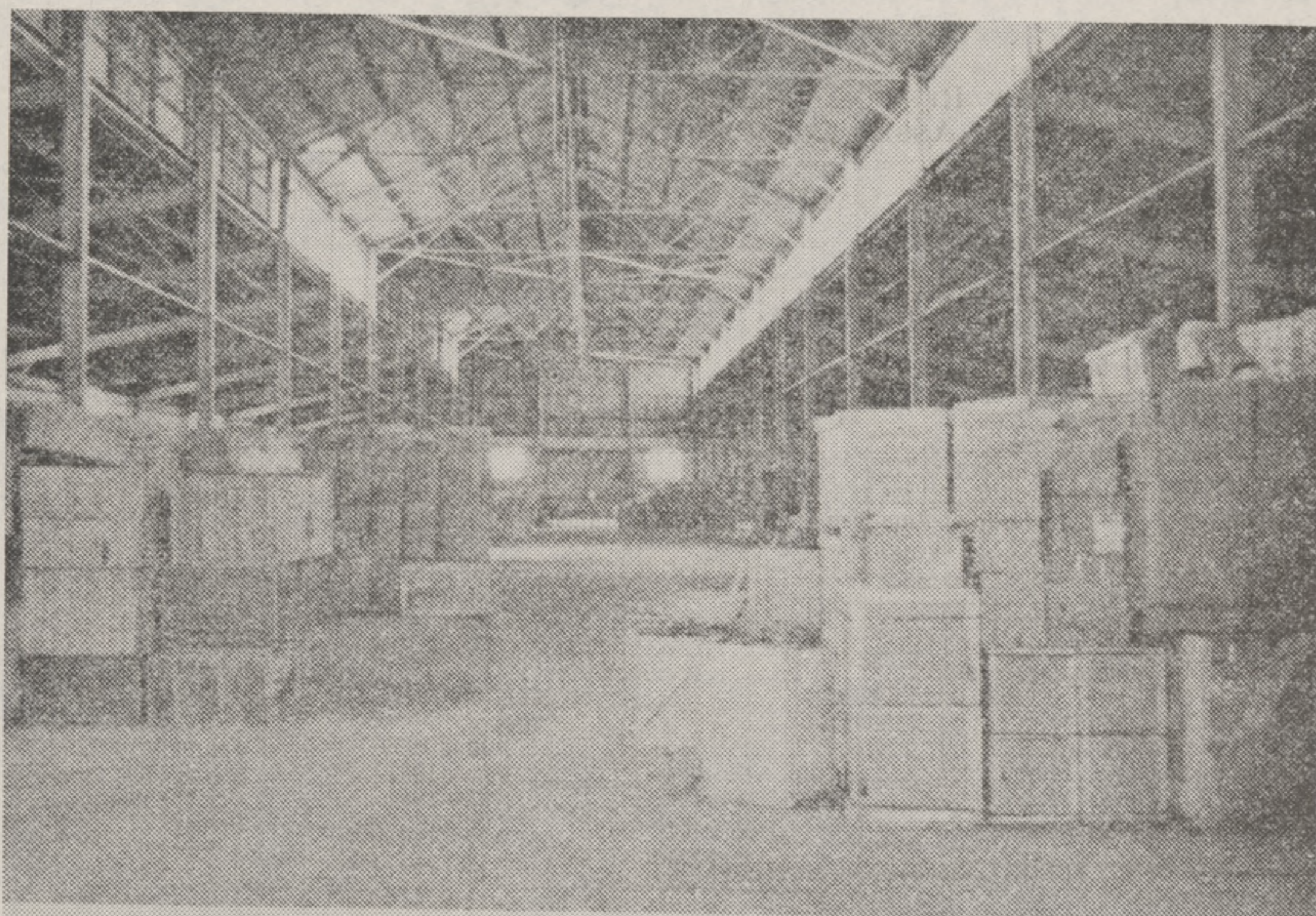
SCHEDULE OF AID-FINANCED NONPROJECT COMMODITIES TO COLOMBIA AS OF
JUNE 30, 1967 ¹

[In thousands]

Commodity	April 1962, \$30,000,000 loan	December 1962, \$60,000,000 loan	March 1964, \$15,000,000 loan	July 1964, \$35,000,000 loan	December 1965, \$65,000,000 loan	Total
Motor vehicles and parts.....	\$4,334	\$14,057	\$5,598	\$10,224	\$17,813	\$52,026
Industrial machinery and parts.....	9,594	12,796	4,480	8,643	10,437	45,950
Chemical products.....	2,926	10,996	1,574	5,926	21,701	43,123
Mineral and metal products.....	3,007	5,922	1,077	2,223	1,491	13,720
Paper products.....	708	2,427	358	2,837	4,004	10,334
Coal and petroleum products.....	1,949	2,123	157	1,544	1,742	7,515
Leather and textile products.....	1,079	2,556	746	946	2,184	7,511
Rubber and rubber products.....	1,068	2,468	431	606	581	5,154
Edible commodities.....	384	1,065	8	580	2,151	4,188
Aircraft and parts.....	230	2,498	349	762	9	3,848
Instruments and laboratory equipment.....	154	950	69	437	124	1,734
Inedible plant and animal products.....	70	476	27	61	455	1,089
Lumber products.....	30	75	32	31	68	236
Railroad equipment and parts.....	22	41	9	7	30	109
Sea vessels and parts.....	29	5	6		7	47
Miscellaneous commodities and services.....	78	1,092	45	128	292	1,635
Unidentified disbursements.....	4,338	405	30	4	612	5,389
Total.....	30,000	² 59,952	² 14,996	34,959	63,701	203,608

¹ Most recent data available. Commodities have not yet been imported under loan dated May 27, 1967.

² Actual loan total. No further disbursements anticipated.



2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000</
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APPENDIX F

COMPARATIVE SUMMARY OF AID ASSISTANCE TO ALLIANCE COUNTRIES
THROUGH DEC. 31, 1967

[In millions of U.S. dollars]

<i>Country</i>		<i>Country</i>	
1. Brazil -----	\$1,092.6	11. Mexico -----	\$76.4
2. Chile -----	573.4	12. Nicaragua -----	73.1
3. Colombia -----	430.3	13. Honduras -----	67.3
4. Bolivia -----	329.1	14. Venezuela -----	66.9
5. Dominican Republic -----	259.0	15. Haiti -----	61.6
6. Peru -----	157.3	16. Costa Rica -----	60.0
7. Argentina -----	144.4	17. Paraguay -----	59.7
8. Ecuador -----	124.3	18. El Salvador -----	53.6
9. Guatemala -----	122.0	19. Uruguay -----	32.5
10. Panama -----	115.7		

COMPARATIVE SUMMARY OF AID ASSISTANCE TO AMERICAN COUNTRIES
THROUGH JAN. 31, 1964

(In millions of U.S. dollars)

Country		Total	
1. Brazil	21,002.5	11. Mexico	2,701.4
2. Chile	17,034.4	12. Nicaragua	1,733.4
3. Colombia	14,883.3	13. Honduras	1,488.3
4. Ecuador	12,001.1	14. Venezuela	1,200.1
5. Dominican Republic	9,500.0	15. Haiti	950.0
6. Costa Rica	1,717.3	16. Cuba	1,717.3
7. Peru	1,414.4	17. Paraguay	1,414.4
8. Panama	1,213.3	18. El Salvador	1,213.3
9. Guatemala	1,120.0	19. Uruguay	1,120.0
10. Total	145.1		