# REPORT TO

# THE CONGRESS OF THE UNITED STATES

**REVIEW OF**
**PROJECTS IN COLOMBIA SHOWING NEED FOR**
**IMPROVEMENTS IN PLANNING AND SUPERVISION**

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**
**DEPARTMENT OF STATE**

## BY

## THE COMPTROLLER GENERAL
## OF THE UNITED STATES

**SEPTEMBER 1967**

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has reviewed the Agency for International Development's administration of economic development projects for Colombia As a result, we believe that there is a need for improvement in the planning for, and the supervision of, United States-financed development projects not only in Colombia but also in other countries This report presents our findings and recommendations

We found in our review of the private investment fund project--in which the Agency invested the peso equivalent of $38 million--that at least $24 million had been used for purposes either contrary to United States objectives or of questionable need and priority In our opinion, the primary cause was the Agency's release of project funds without establishing adequate criteria and controls to govern their use

We also found in other projects in which the Agency had invested the equivalent of about $30 million (in dollars and pesos) that progress was so limited, in terms of accomplishing Agency objectives, that the projects had not produced the benefits intended in any significant amount The projects included fertilizer production, agricultural resettlement credit, primary education and a related educational television system, and feasibility studies In our opinion, the primary cause of these difficulties was the Agency's approval of projects without determining that they were feasible or that the Government of Colombia was willing and able to effectively carry them out in a timely manner

In commenting on our review, Agency officials agreed generally with our findings and stated that actions now being taken would strengthen control and supervision over the projects reviewed

Although the actions now being taken by the Agency may correct many of the deficiencies which we identified, we believe that additional steps should be taken by the Agency to prevent similar deficiencies from occurring in projects for Colombia or other countries Therefore, we are

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recommending that the Agency establish criteria which will facilitate determination of recipient country capability for implementing and administering United States-financed projects

This report is being sent to the Congress because of its significance in relation to the continuing congressional interest in the administration of the foreign assistance program. We believe that the steps we are recommending are important to correcting administrative deficiencies in the foreign aid program pointed out in the report

Copies of this report are being sent to the Director, Bureau of the Budget, the Secretary of State, and the Administrator, Agency for International Development

Elmer B. Staats

Comptroller General
of the United States

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REPORT ON REVIEW

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## INTRODUCTION

The General Accounting Office has examined into the administration of economic development projects in Colombia--private investment fund, fertilizer production, primary education and a related educational television system, agricultural resettlement credit, and feasibility studies--which were financed with economic assistance funds advanced by the United States. The United States assistance for these projects was administered by the Agency for International Development (AID) and its predecessor agencies[1]--the International Cooperation Administration and the Development Loan Fund.

Our examination was made as part of our continuing review of activities of the foreign aid program, 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).

On the basis of a preliminary survey that we made of AID-assisted development projects in Colombia, we selected the individual projects described in our report for examination as representative of major projects, the successful accomplishment of which could contribute significantly to the economic development of Colombia and could further United States objectives in that country. Our examination did not include an overall evaluation of the activities of AID in Colombia.

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[1]AID is used throughout this report to identify the present and the predecessor agencies which have administered the aid program for Colombia.

The examination was directed principally to a review of the administration by AID of six selected projects to determine if they were materially contributing to the accomplishment of United States economic assistance objectives in Colombia and were being completed and utilized in a reasonably effective, efficient, and economical manner. Our examination was made at the Washington Office of AID and at the Agency's overseas Mission in Colombia (referred to in this report as the Mission). The scope of our examination is further described on page 36 of this report. The officials primarily responsible for the administration of the economic and technical assistance program for Colombia since 1959 are shown in appendix I.

## BACKGROUND

The basic authority to finance capital activities in foreign countries is found in the Foreign Assistance Act of 1961, as amended This act provides that, under the direction of the President, the Secretary of State shall 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 capital activities may be financed by development loans or grant funds for the purpose of promoting economic development of less developed friendly countries and areas. In determining whether to provide financing for a proposed capital activity, the basic authority requires, and it is AID's policy in accordance therewith, to take into account various economic and technical factors to ensure that the activities are soundly conceived and effectively implemented.

Direct responsibility for the planning and preparation of a capital activity is borne by the prospective borrower or grantee. AID is responsible for ensuring, to the extent possible, that all such technical and financial plans are adequate and feasible. After a loan or grant is extended, the principal role of AID in project implementation is to keep the activity under surveillance to ensure that physical and financial progress is in compliance with all agreements and plans and is proceeding with due diligence and efficiency in conformity with sound engineering, management, and financial practices. AID is also responsible for working directly with the borrower or grantee on any problem affecting the progress of the project.

United States assistance to Colombia began in 1942, in the form of technical assistance, under the administration of the former United States Institute of Inter-American Affairs. An expanded assistance program was initiated in fiscal year 1951 and was further expanded in fiscal year 1963 by a bilateral agreement signed on July 23, 1962. Under this agreement, the United States is committed to assist Colombia in achieving economic and social progress by furnishing such economic, technical, and related assistance as requested by Colombia and approved by AID

An important part of the assistance furnished to Colombia has been in support of specific economic development projects. The foreign exchange requirements of such projects were financed by dollar assistance in the form of loans and grants. The local currency costs were financed with Colombian currency (pesos) generated by

1. United States-financed commodity imports.

2. The sale of surplus agricultural commodities under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U S C 1961), commonly referred to as Public Law 480.

3. Direct dollar loans.

The United States owns or has joint control of, and AID has programming responsibility for, all such generated local currency. These funds constitute an important tool of assistance and are to be used to improve the total pattern of a recipient's resource use.

With respect to projects financed with United States owned or controlled foreign currency, although not a statutory requirement, AID's general policy is to apply the same standards of economic and technical feasibility as outlined above for projects financed with dollars.

Cumulative obligations for project assistance as of June 30, 1965, totaled about $100 million in dollar loans and grants[1] and the equivalent of about $123 million in peso loans and grants.

The following schedule shows the total dollar and peso assistance furnished for the development projects discussed in this report.

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[1]Cumulative obligations for project assistance as of June 30, 1966, totaled $104.4 million.

| Project | Dollars | Pesos (dollar equivalents) | Total |
|---|---|---|---|
| | (millions) | | |
| Private investment fund | $ - | $37.8 | $37.8 |
| Fertilizer production | - | 11.5 | 11.5 |
| Agricultural resettlement credit | 8.0 | - | 8.0 |
| Primary education | 3.5 | 3.1 | 6.6 |
| Educational television | .6 | - | .6 |
| Feasibility studies | 4.0 | - | 4.0 |
| Total | $16.1 | $52.4 | $68.5 |

A draft of this report was submitted to AID for review and comment in August 1966. AID's comments dated March 17, 1967, are included as appendix II and are recognized in the appropriate sections of the report.

## FINDINGS AND RECOMMENDATIONS

### NEED FOR IMPROVEMENT IN MANAGEMENT OF UNITED STATES ASSISTANCE FOR DEVELOPMENT PROJECTS

Our review of the private investment fund project, in which the United States had invested the peso equivalent of $37 8 million, indicated that at least $24 million of the funds were used for purposes contrary to United States objectives or of questionable need and priority. These are summarized below.

About $8.5 million worth of pesos from the private investment fund was loaned to increase the production of sugar for export, contrary to AID policy prohibiting assistance for commodities in excess world supply. Also about $24 million worth of pesos (including a majority of the above-noted $8.5 million) was loaned to large borrowers instead of to more needy small- and medium-sized firms with growth potential to which the Foreign Assistance Act of 1961, as amended, assigns the highest practical emphasis.

We also found, in regard to projects in which the United States had invested the equivalent of $30.7 million--$16.1 million in United States dollars and $14.6 million worth of pesos--for fertilizer production, primary education and a related educational television system, agricultural resettlement credit, and feasibility studies, that progress in terms of intended AID objectives, as related below, was so limited that, in our opinion, these projects to a large and essential degree had not produced the benefits intended as of the time of our review. AID's comments concerning the status of these projects as of early 1967 are included as appendix II.

The fertilizer production project, which was designed to produce nitrogenous fertilizer, had substantially failed to achieve the intended $5-million-a-year reduction in Colombia fertilizer imports. Adequate facilities were not constructed for mixing the nitrogenous fertilizer elements with other fertilizer elements to produce the types of mixed fertilizer demanded by Colombian farmers.

The agricultural resettlement credit project failed to increase the resources available in Colombia for agricultural resettlement credit--the objective of the project--because the Government of Colombia used the funds provided by the United States for the project to pay off old debts to its Agricultural Credit Bank and did not subsequently provide the resources, from its budget, for agricultural credit purposes as it had agreed

On the primary education project, which was to develop the facilities necessary to provide basic education for all primary age children in Colombia by July 1965, progress had been substantially less than intended inasmuch as (1) only 4,983, or about 23 percent of the 22,000, classrooms which were to have been completed under the project by July 1965, were completed or under construction at that time and (2) almost no progress had been made toward alleviating the serious shortage of qualified primary teachers in Colombia.

On the related educational television project, approximately 650, or 43 percent, of the television sets provided by AID in early 1964 had not been installed as of September 1965 due primarily to the inability of the Government of Colombia to provide the necessary technical personnel.

On the feasibility studies project, more than $3 9 million of a $4 million loan made to Colombia by AID, in June 1963, for feasibility studies remained unutilized as of January 1966 due to the Government of Colombia's (GOC) lack of a structure capable of effectively administering the funds

The primary cause, in our opinion, for the shortcomings on the private investment fund project was AID's release of funds for the project without establishing appropriate criteria and controls over the use of the funds.

We believe that the underlying cause for the limited progress on the fertilizer production, agricultural credit, education, and feasibility studies projects was AID's approval of the projects without obtaining sufficient evidence that the projects were feasible or that the Government of Colombia was willing and able to effectively implement them in a timely manner The relative lack of accomplishment of intended United States objectives on all of these projects, in our opinion, demonstrates a significant need for improvement in the planning for and surveillance of the use of United States assistance on such projects

It was also evident, in our opinion, that the degree of planning for the projects financed entirely with local currency--the private investment fund project and the fertilizer production project--was more limited than for the projects for which dollar financing was provided Further, on the basis of our review of AID records, we believe that there was a lack of vigilant surveillance by AID to ensure proper utilization of United States-furnished assistance on all the projects we reviewed.

Funds for private credit used for purposes contrary to United States objectives or questionable need and priority

During the period March 1963 through August 1965, AID released to the Government of Colombia the equivalent of $37.8 million in pesos for a private investment fund (PIF) project. The objective of this project 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. Our review of the project showed that

Approximately $8.5 million worth of pesos had been made available to private borrowers for the purpose of increasing the production of sugar for export, although sugar was in excess world supply and AID policy prohibits the furnishing of assistance for the production for export of sugar or other commodities in excess world supply. Also AID records showed that at least $4 million of these funds were loaned to firms that had sufficient credit or other resources available to finance the proposed projects.

Approximately $24 million worth of pesos (including a majority of the above-noted $8.5 million), or 67 percent of the pesos which had been loaned to private borrowers as of August 1965, had been loaned to large firms, although a comprehensive study in 1962 by a well-known United States research institute had pointed out that small- and medium-sized firms in Colombia had the greatest need for additional credit resources, as well as a significant potential for growth, for replacing necessary imports of basic goods and for increasing exports Also the Foreign Assistance Act of 1961, as amended, assigns the highest practical emphasis to small firms.

The commercial banks, through which the loans were channeled after being approved by PIF management, were permitted to make interest charges--as high as 6 percent annually for a loan--primarily for guaranteeing the loan, although the banks incurred little risk since they required security from the borrower in excess of the value of the loan.

On the basis of our review, we believe that the principal cause for the situation described above was the release of the funds by AID without first establishing adequate criteria and controls with respect to the utilization and management of the funds.

The PIF was established by the Government of Colombia in February 1963, on the basis of the recommendation of the International Bank for Reconstruction and Development and AID, to provide credit to Colombia's private sector that was unavailable through normal credit channels. AID initially released $6.7 million worth of pesos to the PIF in March 1963 and, as of August 1965, had released a total of $38 million worth of pesos to the PIF. In addition, AID signed a $10 million loan agreement with the Government of Colombia in December 1964 to cover foreign exchange costs of PIF loans. However, at the time of our review, no funds from the $10 million loan had been disbursed.

Colombia's Bank of the Republic was given the responsibility for administering the PIF, and the PIF was made an integral part of the Bank of the Republic. The Bank of the Republic established certain policies and procedures under which the PIF was to be operated, including payment to the bank by the ultimate borrower of an annual fee of 4 percent to cover its interest and administrative expenses. These policies and procedures also provided, among other things, that PIF funds would be channeled through commercial banks to approved applicants and that a maximum of 3 million pesos (equivalent to approximately $330,000) could be loaned for a complete project, other than for exceptional projects. The commercial banks were permitted to charge an additional 4 to 6 percent annual fee depending on the duration of each loan.

Our review showed that, of the equivalent of $36 million in loans made by the PIF as of August 31, 1965, about $8.5 million was to firms in the sugar industry for the purpose of export expansion, although sugar is a surplus agricultural commodity. AID's policy, which was in effect when these loans were made, prohibits the furnishing of assistance for the purpose of producing agricultural commodities for export which are in world or United States surplus, sugar had been determined by AID to be a surplus agricultural commodity. AID officials found, as early as March 1964, that generally sugar industry firms in Colombia had no real need for loans from the PIF, because they had ample resources and lines of credit from other lending institutions.

The Director of the AID Mission in Colombia expressed the opinion in January 1966 that these firms obtained loans from the PIF possibly because the funds were available at less than market prices. The interest rates on loans obtained from PIF were from 8 to 10 percent a year compared with market rates which were from 14 to 15 percent a year. He also informed us in January 1966 that an understanding had been reached with the PIF management that no additional loans, beyond those committed, would be made to the sugar industry until the question of future investment in sugar could be resolved.

Our review showed also that 43 of 99 loans approved by the PIF through August 31, 1965, were for loans which were in excess of the established maximum limit of 3 million pesos ($330,000) referred to above. Of the 43 loans, 23 were for amounts in excess of 9 million pesos ($1 million).

Approximately $24 million in loans were made to large firms. AID had not developed or established any definitive criteria regarding the sizes of firms in Colombia which had the greatest need for credit. However, a comprehensive study of Colombia's small- and medium-sized industry development requirements made in 1962 by a well-known United States research institute pointed out that small firms (gross assets below $55,000) and medium-sized firms (gross assets from $55,000 to $220,000) in Colombia had the greatest need for additional credit, as well as a significant potential for growth, for replacing necessary imports of basic goods and for increasing exports. In this respect the Foreign Assistance Act of 1961, as amended, states that the highest practical emphasis should be given to establishing, equipping, and strengthening small independent business concerns.

Colombia's commercial banks, through which the loans were channeled, were permitted to charge an additional 4 to 6 percent annual interest fee, depending on the duration of each loan, primarily for guaranteeing the loan although the banks had some responsibility for analyzing and monitoring each loan. The responsible AID project technician stated that the commercial banks were requiring the borrower to provide security for each loan in excess of the loan value. Thus, the commercial banks were in a position to receive substantial fees, as much as 6 percent or the equivalent of $165,000 annually on the larger loans, although incurring little risk according to the responsible AID official.

We called this matter to the attention of the AID Director in Colombia and he informed us in January 1966 that the Mission was attempting to effect a redistribution of interest rates between the commercial banks and the Bank of the Republic, the Bank of the Republic to receive a higher percentage of the total interest fee paid by the borrower. The Bank of the Republic agreed that any funds received as interest fees, in excess of its annual fee of 4 percent, would be returned to the PIF.

On balance, we recognize that AID assistance for the purpose of providing credit for a country's private sector is a relatively new assistance activity. In this respect AID documents show that a significant portion of AID resources for Latin America are currently being programmed for private credit projects and that the PIF project in Colombia may be used as a model for establishing similar financial institutions in a number of other countries in Latin America. Although AID has developed criteria and controls for "private credit" type projects financed with dollars, it has developed no such criteria and controls over "private credit" projects financed with local currency, such as here involved. For these reasons, we believe that it is important that appropriate criteria and controls be established with respect to this and similar projects.

Agency comments

In its comments on these matters, dated March 1967, AID generally agreed with the findings as stated but pointed out that, despite the problems involved, the project had served valid developmental objectives. With respect to the loan funds made available for the purpose of increasing the production of sugar for export contrary to United States policy and legislative intent, AID indicated that its policy on this matter had been interpreted by its Mission in Colombia to not apply to jointly controlled local currency funds provided to intermediate credit institutions which sub sequently used the funds through subloans.

AID informed us that it had revised its policy guidance to make it clear that the subject policy was applicable in such cases. AID informed us also that an agreement had been signed covering the use of all jointly controlled local currency funds provided to the PIF project.

AID stated that the PIF loans to the sugar industry had not injured United States interests since (1) Colombia had not filled its sugar quota to the United States and (2) the production capacity created with the PIF loan would be used to satisfy some of the domestic demand which otherwise would result in further imports.

With respect to the relatively high interest charges which the commercial banks were permitted to make, AID stated that the maximum amount these banks would be allowed to charge in the future would be 3 percent per annum. In this regard, AID informed us that the interest to ultimate borrowers had been increased from 12 to 14.5 percent per annum so that the PIF interest rates would be equivalent to going market rates.

Regarding the size of companies receiving loans, AID stated that most small- and medium-sized firms had neither the manufacturing base nor the capital to launch an export drive in highly competitive world markets.

Also, AID pointed out that AID's policy was to place maximum possible responsibility with domestic institutions and that, in line with this policy, one of the strongest and most competent institutions in Colombia was selected and given responsibility for the PIF. AID stated that once implementation was in the hands of a local entity there would be definite practical limits on the influence AID could exert. AID stated further that it believed that it should not become involved in evaluating or approving the subject subloan proposals.

<u>Evaluation of Agency comments</u>

AID's comments included information on actions taken to ensure that AID-controlled funds will not be used in the future for increasing the production of commodities in excess world supply and to correct the problem of the relatively high interest charges being made by the commercial banks. AID's comments also include the reasons why a majority of the funds had been available to larger firms rather than to the small- and medium-sized firms. AID did not comment on the loans made to firms which had sufficient credit or other resources available to finance their proposed projects.

AID's rationale that small- and medium-sized firms did not have the capacity to launch an export drive in highly competitive world markets fails to take into account (1) the fact that an equally important additional objective of the PIF project was to develop Colombian capacity for replacing necessary imports of basic goods, (2) the fact that a well-known United States research institute had determined that small- and medium-sized firms in Colombia had the greatest need for credit and significant potential for replacing necessary imports, and (3) the fact that the Foreign Assistance Act of 1961, as amended, requires that the highest practical emphasis be assigned to small firms.

With respect to AID's comment that one of the strongest and most competent institutions in Colombia--the Bank of the Republic--was selected to implement this project, we believe that it is not only rather fundamental but also essential to the development process to select the best and most capable talent or institutions available to implement any AID development project or activity. To do so, however, without mutually agreeing, prior to releasing funds, on criteria and controls over the utilization resources made available seems to us less than prudent and leads to situations such as reported in this finding whereby significant amounts of funds were

1. Used for the purpose of increasing the production of sugar for export contrary to United States 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 recognize that, once all jointly controlled funds--such as those here involved--are released for a project or activity and implementation is in the hands of a local institution, there may be definite limits on the influence that AID can exert. It is for precisely this reason that we believe it is essential, if situations such as those described in this finding are to be obviated, that, prior to approving the release of funds, mutually agreed upon criteria be established and a practice of incremental funding be followed thereafter.

The management practice of incremental funding would permit AID to evaluate overall implementation prior to approving the release of each additional increment of project funds. By so doing AID could ensure that such funds are used in accordance with United States policy and in the best interest of the recipient country.

Regarding AID's statement that it believed that it should not become involved in evaluating the approving individual subloan proposals, we did not suggest, nor do we now suggest, that they do so.

Limited benefits achieved from fertilizer production project

During the period 1957 through 1962, AID made available to the Government of Colombia approximately $11.5 million worth of pesos for a fertilizer production project. The objective of the project was to construct facilities capable of producing sufficient fertilizer annually to enable Colombia to reduce its imports of fertilizer by about $5 million each year. Our review of the project revealed that:

Production was initiated in 1963, but, during 1963, 1964, and the first 6 months of 1965, the facilities were operated at only 36, 35, and 56 percent, respectively, of the nitrogenous fertilizer capacity the project was designed to produce. Substantial operating losses were incurred in both 1963 and 1964. Project officials attributed the losses to (1) lack of demand in Colombia for nitrogenous fertilizers and (2) loss of production time caused by a changeover process required to alternate between production of nitrogenous and mixed fertilizers. Evidence was available, at the time AID provided the initial financing for the project, showing that the principal demand in Colombia, because of soil conditions and the custom of Colombian farmers, was for mixed fertilizers.

The project failed to reduce Colombia's imports to the extent anticipated and therefore had a direct relationship to the amount of assistance needed by Colombia from AID to support its commodity import program. The project, originally scheduled for completion in April 1960, was completed in 1962.

The $11.5 million worth of pesos that AID had loaned the Government of Colombia was generated by the sale of surplus agricultural commodities to Colombia under authority of title I, section 104(g) of Public Law 480, to assist the Government of Colombia in developing fertilizer production facilities. The project--the largest undertaken in Colombia with Public Law 480 funds--received approximately one third of the total Public Law 480 funds available to AID during the period 1957 through 1962 in which the loans were made.

The AID funds were administered for Colombia by its Agricultural Credit Bank (ACB) The ACB selected a fertilizer company, in which it was the major stockholder, to develop the necessary fertilizer production facilities. The company selected had been organized in 1952, and in 1955 it had started construction of a plant to produce nitrogenous fertilizer. However, the company had suspended all construction in 1956 because of financial difficulties resulting from delays and consequent administrative and financing expenses and expenses of maintaining stored equipment.

During 1958 the ACB loaned the company the peso equivalent of approximately $4.4 million of AID funds to permit the company to resume construction of the project In 1959 the project was again suspended by the company due to a lack of funds, and United States Export-Import Bank officials expressed uncertainty concerning the feasibility of the project. However, in 1959 and 1960 the ACB loaned the equivalent of $2.4 million more of AID funds for the project.

In 1961, because of the lack of demand for nitrogenous fertilizer, the company requested an engineering study and subsequent modification of the plant facilities to permit mixing of the nitrogen being produced with other nonnitrogen elements, which had to be imported, to produce the mixed fertilizer. In 1961 and 1962 the ACB loaned the equivalent of $4.7 million more of AID funds for the project.

In October 1958 the company requested a $7.5 million loan directly from AID for the project, but this request was not approved.

In 1962 the project was completed, including a modification which was to permit mixing the plant's nitrogen production with nonnitrogenous materials, to produce mixed fertilizer. As designed, the plant was to produce about 50,000 tons of nitrogenous fertilizer annually. In early 1963 fertilizer production was started. During 1963 and 1964 and the first 6 months of 1965, the facilities were operated at only 36, 35, and 56 percent, respectively, of nitrogenous fertilizer production capacity. AID informed us that production was suspended from September 1965 through early 1967 because of a plant breakdown. The company incurred substantial operating losses in both 1963 and 1964. Company officials attributed the losses to the limited production and attributed the limited production to (1) lack of demand in Colombia for nitrogenous fertilizer and (2) loss of production time caused by the changeover process involved in alternating production of nitrogenous fertilizer and mixed fertilizer.

As a result of these problems, the intended $5-million-a-year reduction of fertilizer imports--the objective of the project--was not realized. Prior to the plant's operation, Colombia imported, on the average, about $11 million worth of fertilizer annually. During 1963 and 1964--the plant was put into operation in March 1963--Colombia's average annual imports of fertilizer decreased slightly to $9 8 million.

The failure of the project to achieve the planned reduction in Colombia's imports of fertilizer had a direct effect on Colombia's need for foreign exchange and thus on the amount of assistance, shown below, furnished by AID to Colombia from 1962 through 1965 for the purpose of providing the foreign exchange necessary to assist Colombia to import essential commodities.

| Date of loan agreement | Loan amount (million) |
|---|---|
| April 1962 | $ 30 |
| December 1962 | 60 |
| March 1964 | 15 |
| July 1964 | 35 |
| December 1965 | 65 |
| May 1967 | 100 |
| Total | $305 |

If the intended additional fertilizer production had been realized, Colombia's imports of fertilizer could have been curtailed to the extent that the increased production would have been used to replace imports.

In July 1965 the Government of Colombia announced a plan to salvage the fertilizer project and estimated that its implementation would cost the equivalent of $2.8 million. Information furnished to us by the company indicates that the plan involved the construction of an additional mixed fertilizer granulation plant which would have the capacity to utilize about 85 percent of the project's nitrogenous production capacity The Mission was unable to find any evidence, as of January 1966, that funds had been obtained for implementing the salvage plan.

We were unable to find any evidence that the Mission, prior to making either the initial or the subsequent release of funds for this project, made any substantive analysis of the project's economic or technical feasibility.

Evidence was available to the Mission in 1958 showing that the requirements of Colombia agriculture, as well as the demands of Colombian farmers, were essentially for mixed fertilizer However, despite exhaustive efforts, we were unable to find evidence to show whether the Mission attempted to have the Government of Colombia use the first two ACB loans from AID funds, totaling $6.8 million, to develop mixed fertilizer production facilities. Also, there was no evidence made available to us that the Mission had monitored or evaluated the project during its implementation. In this regard the Mission Director informed us in January 1966 that no current information relating to this project was available at the Mission.

Agency comments

AID, in commenting on our findings in March 1967, stated that the report "accurately describes the facts concerning this project" and agreed that "this project has long been a disappointment " AID characterized the future outlook for the project as "greatly improved" and in this respect has pointed out that

1. Fertilizer production has been suspended since September 1965 due to a plant breakdown.

2 The company responsible for the project had paid in capital of 105 million pesos ($7.8 million) and accumulated losses totaling 83 million pesos ($6 1 million) as of June 30, 1966, but was in the process of liquidating and reorganizing with the hopes of acquiring additional capital to put the plant into operation again by June or July 1967 with a capacity of 140,000 tons of mixed fertilizer annually

3. The Government of Colombia is current with its repayments on the loans made for this project.

Funds channeled to private investors to purchase shares of capital stock

In connection with the fertilizer project discussed above, the Mission permitted the equivalent of about $5.8 million of the $11.5 million provided for the project to be loaned to private investors to buy shares of the fertilizer company's capital stock during a period when company officials anticipated that the operations of the company would be profitable. The equivalent of about $11 5 million provided for this project was released to the ACB which made subloans as follows.

| | Approximate amount of loans (dollar equivalent in millions) | Interest rate (percent) |
|---|---|---|
| Direct to fertilizer company | $2.8 | 7 |
| To semiofficial entities | 2.9[a] | 4-1/2 |
| To private investors | 5.8[a] | 4-1/2 |

[a]Includes loans orginally made directly to the fertilizer industry but subsequently canceled and converted into loans to investors who received shares of stock.

The loans to private investors were 15-year loans made at relatively minimum interest rates with a 3-year grace period on repayment of principal and with no collateral required except the shares themselves. The interest rates charged by the ACB for other subloans made from Public Law 480 proceeds were as high as 10 percent and the normal commercial interest rates during the period in which these loans were made ranged from 10 to 12 percent.

The project agreement covering the funds provided by AID for this project stipulated that the funds would not be diverted to purposes other than the purpose for which the loan was made In September 1963 a Mission official reported to the Mission Director that the ACB had used funds to make loans to beer companies and questioned whether this was in accordance with the project agreement. These funds were used to buy shares in the fertilizer company. However, we found no evidence that there was ever any further inquiry into the matter.

In that the fertilizer company received all funds either directly or indirectly, there was no diversion of funds from the project as such However, we question the advisability of permitting AID funds to be channeled through private investors for anticipated personal gain Such channeling of funds contributes little, if anything, toward the fundamental purpose of the United States assistance program and could lead to abuses, or the appearance of abuses, which would tend to discredit the program

Agency comments

AID in its comments on this matter stated that the United States was interested not only in development *per se* but also in the kind of development and the manner in which it takes place and that emphasis on the role of the private sector, as opposed to State ownership and management of economic enterprises, had long been part of United States development philosophy.

Evaluation of Agency comments

We did not question placing emphasis on the role of a recipient country's private sector or giving a private company responsibility for implementing an AID-financed project Our concern is with permitting selected private investors to use AID funds, at relatively low rates of interest, and with the potential for abuse and favoritism inherent in any such arrangement Continuation of this practice could lead to charges that United States assistance is being administered in a fashion which unduly benefits a favored few

Aid loan for agricultural credit not used to expand agricultural credit resources

Our review of an $8 million AID loan made to Colombia in August 1961 to assist the Government of Colombia in increasing the resources available for agricultural credit in Colombia for resettlement purposes revealed that

1. The loan proceeds were used by the Government of Colombia to liquidate an equal amount of debts which it owed to its Agricultural Credit Bank, thus, in effect, not increasing the total resources available for agricultural credit in Colombia, and

2. The Government of Colombia did not subsequently provide additional resources from its own budget for agricultural credit purposes although the loan agreement stipulated and the Government of Colombia agreed that this would be done.

AID loaned the GOC $8 million to be used, together with increased Colombian resources, to increase the peso resources available to Colombia's Agriculture Credit Bank. The loan agreement entered into on August 2, 1961, provided that these resources be used to assist the bank in carrying out a program of making loans to individual settlers to facilitate the development of new settlements and the expansion of existing settlements on family-sized farms or ranches as part of the land reform program in Colombia. AID had determined that this program would be the most important action which could be undertaken by Colombia to develop its rural areas

Shortly after the loan agreement was signed, the Government of Colombia entered into a contract with its Agricultural Credit Bank which provided that various obligations of the Government of Colombia to the Agricultural Credit Bank be canceled The terms of this contract stipulated that the ACB would apply the funds received under the AID loan in accordance with the requirements of the loan agreement; that is, the ACB would assume the responsibility of making subloans under the program but would not be required to reimburse the GOC for the loan proceeds received, these proceeds would be applied to liquidate certain GOC obligations to the bank Accordingly, the bank upon receipt of the proceeds from the AID loan reduced the amount owed to it by the Government of Colombia by $8 million.

AID officials informed us that, because the Agricultural Credit Bank received immediate liquid resources to make loans to individual settlers in place of long-term accounts receivable from the Government of Colombia, they were of the opinion that no abuse was involved We agree that the Agricultural Credit Bank received cash for immediate lending purposes However, its accounts receivable from the GOC were reduced in an equivalent amount and thus, in effect, did not increase the total resources available for agricultural credit for resettlement purposes--the objective of the AID loan In this regard, Agricultural Credit Bank officials stated that they could obtain cash at any time by rediscounting their accounts receivable at the Bank of the Republic

A condition precedent to disbursement of this loan was that the Government of Colombia would submit evidence that increased Colombian financial resources would be made available to the Agricultural Credit Bank for this program. In September 1961, AID accepted the Government of Colombia's statement that it intended to expand financial support for this program as fulfilling this condition. In December 1961 the Colombian Institute of Agrarian Reform (INCORA) was organized and given the responsibility for financing and administering all types of agrarian reform programs, including the agricultural resettlement

AID records showed that, as of December 1965, INCORA had not received any funds from the Government of Colombia for lending to farmers for purposes of resettlement, because all subloans of the approximately $10 8 million made by INCORA to that date were made with funds from a $10 million AID loan made directly to INCORA in June 1963 or from subloan repayments

In this regard a top Mission official reported to the Mission in May 1965 that the Government of Colombia should be required to provide the funds for this program, as originally intended, since the program could not prosper if it depended wholly on foreign financing. As shown above, no Government of Colombia funds had been provided as of December 1965. However, in March 1966 AID provided an additional $8.5 million loan to INCORA.

Agency comments

In its comments on this matter, dated March 1967, AID contended that it did not intend that its $8 million loan increase the resources available to the ACB for Colombia's agricultural resettlement program AID contended also that the net effect of the agreement between the GOC and its Agricultural Credit Bank, which provided that upon receipt of the United States loan funds, in lieu of repayment, certain GOC obligations to the bank in equivalent amount be canceled, was that

1. The GOC substituted a loan payable to the United States Government for certain debts it owed to its Agricultural Credit Bank.

2 The bank received immediate liquid resources to make loans to individual settlers in place of long-term debts from the GOC

3. The bank obligated itself to carry out the resettlement program it was not otherwise obligated to undertake.

AID stated also that the GOC's assistance to the agricultural sector doubled in 1966 and would triple in 1967 over the 1965 level

Evaluation of agency comments

In our opinion, the record shows clearly that AID intended that its loan be used to increase the funds available for subloans in support of the resettlement program. In this respect, as pointed out on page 23, a condition precedent to the loan required that the Government of Colombia submit evidence that "increased Colombian financial resources" be made available to the bank for this program.

The record does not support the contention that the bank could not receive "immediate liquid resources" for this program without the loan. As pointed out on page 22, the bank officials reported that they could obtain cash at any time by rediscounting their accounts receivable at the Bank of the Republic.

With respect to AID's contention that the bank obligated itself to carry out a subloan resettlement program it was not otherwise obligated to undertake, AID records show that the bank was created by the GOC specifically for the purpose of providing credit to the agricultural sector. The bank had become the foremost agricultural credit institution in Colombia with capital resources in excess of $100 million and was one of the strongest institutions of its kind in Latin America and was dedicated to the improvement of agriculture in Colombia.

AID pointed out the extent of the GOC's assistance and planned assistance for its agricultural sector but did not furnish information as to whether any funds had been made available by GOC for the subject resettlement program. AID records showed, as reported on page 23, that, as of December 1965, the GOC had not made available any of its own funds for lending to farmers for the purpose of resettlement.

A top Mission official reported to the Mission in May 1965 that the GOC should be required to provide the funds for this program, as originally intended, since this program could not prosper if it depended wholly on foreign financing. In this regard AID determined that the resettlement program was the most important program which could be undertaken by Colombia to develop its rural areas We believe that these circumstances dictate that action be taken by AID to encourage the GOC to channel an appropriate portion of its planned investment in agriculture into this important priority program.

Limited progress of educational projects

Our review of (1) AID's investment of $3.5 million in dollars, and $3.1 million worth of pesos, in a primary education project to assist the GOC to develop the facilities and train the personnel necessary to provide basic education for all primary-school-age children in Colombia by July 1965, and (2) AID's investment of $575,000 in a related educational television project, which was to establish an educational television network to reach 1,500 classrooms during 1964, revealed the following information.

Of the 22,000 primary classrooms estimated to be needed and which were to have been constructed by July 1965, 4,983, or about 23 percent, had been completed or were under construction as of May 1965.

Little progress had been made toward alleviating the serious shortage of qualified teachers in Colombia. Mission officials had found that teachers were not available for a number of the classrooms constructed under the project.

A number of the newly constructed classrooms were used by Colombia to replace existing classrooms, although its educational plan provided for continued use of the existing classrooms.

The newly constructed classrooms were not being adequately maintained and were deteriorating.

Approximately 650, or 43 percent, of the educational television sets provided by AID in early 1964 had not been installed as of September 1965, due primarily to the inability or unwillingness of the Government of Colombia to provide the necessary technical personnel.

On the basis of our review of AID records, we are of the opinion that AID (1) entered into these projects without adequately evaluating the ability of the Government of Colombia to provide the resources necessary to implement the projects in an effective and timely manner and (2) after the projects were undertaken, did not attempt to determine the extent of problems preventing satisfactory progress on these projects or initiate action to correct such problems.

Primary education

In December 1961, AID, after determining that Colombia's inadequate educational system was one of the most significant impediments to Colombia's economic and social progress, entered into a primary education project with the Government of Colombia. AID subsequently provided 3.5 million United States dollars and the equivalent of $3.1 million in pesos for the project The Government of Colombia provided the equivalent of about $5.2 million in pesos for the project.

The project was based on and in support of a 4-year plan, prepared by the Government of Colombia in early 1961, to develop the facilities and train the personnel necessary to provide basic education for every child of primary school age in Colombia by July 1965. In 1961 about one third of the primary age children in Colombia were not in school. Colombia's 4-year plan provided for construction of 22,000 primary school classrooms, continued utilization of approximately 8,000 classrooms which were not fully adequate, construction of four teacher training schools, training of 9,500 new primary teachers, upgrading of approximately 11,000 teachers, and training of 400 supervisors and 2,500 school administrators and inspectors.

As of May 1965, 4,983 of the planned primary classrooms had been constructed or were under construction and none of the four teacher training schools had been constructed. During the implementation of the project, the Government of Colombia and AID jointly decided that the additional teacher training schools were not needed. The funds allocated for the construction of the four teacher training schools were expended on existing teacher training schools.

AID, in our opinion, had obtained almost no meaningful information with respect to either the percent of primary age children in school or the extent of progress on the training of the needed teachers and other personnel. However, statistical information for 1963 published by the Government of Colombia in 1965 showed that (1) 33 percent of all primary-school-age children in Colombia were not in school, (2) the ratio of qualified teachers to primary students was unsatisfactory, and (3) there had been almost no improvement in that ratio. The ratio of qualified teachers to primary school students from 1960 through 1963 was as follows

| Year | Qualified teachers | Primary school students | Ratio of qualified teachers to students |
|---|---|---|---|
| 1960 | 13,613 | 1,432,223 | 1 to 105 |
| 1961 | 14,036 | 1,532,254 | 1 " 108 |
| 1962 | 14,418 | 1,669,581 | 1 " 116 |
| 1963[a] | 16,928 | 1,786,556 | 1 " 106 |

[a]Most current information available at the time of our review.

Our inspection of a total of 183 classrooms in 38 schools, and discussion with appropriate school officials, revealed that 92 of the classrooms had been used to replace older existing classrooms or to change double-shift schools into single-shift schools. We also found that the lack of maintenance in a majority of the schools was resulting in deterioration. Examples of some of the maintenance deficiencies noted in the 38 schools inspected were

| | |
|---|---|
| Roof leaks | 11 schools |
| Cracked walls | 12 " |
| Broken windows and general damage | 13 " |
| Insufficient water supply | 5 " |

Mission officials concluded that maintenance was a problem with certain municipalities because--although a contract is signed when the school is delivered, which requires the municipality to landscape, fence, and maintain the school--the municipalities did not always comply with these requirements.

On several occasions Mission officials found cases where the newly constructed classrooms either (1) were not being used due to a lack of teachers, (2) were being used as replacements for existing classrooms, or (3) were not being maintained However, we were unable to find evidence that the Mission had attempted to determine the full extent of the problems or to correct them.

The Mission reported to AID/Washington in 1964 that the limited progress of the project was not due to a lack of funds but was due to the lack of experienced and adequate personnel to administer and implement it and to the sudden demands placed upon the construction industry in Colombia.

Educational television

On June 27, 1963, AID, the Peace Corps, and the Government of Colombia entered into a project agreement for the establishment of a system of televised education for 1,500 public school classrooms in Colombia during 1964. The project was undertaken to help compensate for the deficiency in the number and quality of teachers available for Colombia's expanding school program.

The project agreement provided that AID would supply 1,500 television sets and that the Government of Colombia would be responsible for installing and maintaining the sets and would furnish six educators, 30 special participant personnel to be trained in the United States for the project, and 100 personnel to work as counterparts to Peace Corps volunteers in implementing the project. The project agreement further stipulated that Colombia's National Apprenticeship Service (SENA) would be responsible for installing and maintaining the television sets. The Peace Corps' responsibility included furnishing volunteers to assist in project implementation and paying for the cost of travel and other expenses of participants in connection with undertaking training in the United States.

As of September 1965, or more than 18 months after the 1,500 television sets had been delivered to Colombia, about 850 sets had been installed. AID records showed that the principal reason which prevented the effective implementation of the project was the lack of the necessary technical personnel. Only 16 of the required 100 counterpart personnel had been furnished by the Government of Colombia for the project. Also AID records showed that the GOC subsequently relieved SENA of its responsibility for installation and maintenance of the sets because it was not properly equipped for the task and because its goals differed from the goals of the project and the Peace Corps assumed responsibility for installation of the sets.

Responsible Peace Corps officials concluded in mid-1965 that personnel qualified to serve as counterparts were not available in Colombia and that, if personnel were available, they could not be effectively trained in less than 2 years. With respect to the 28 personnel specially trained in the United States for the project, information furnished by the Government of Colombia revealed that in August 1965 only 13 were being utilized in connection with the project.

In February 1963, 4 months before the educational television project agreement was signed, a consultant on the subject of educational television with a well-known United States foundation expressed serious reservations as to the Government of Colombia's ability to implement the project and its real intentions to allocate the people and money required for the project.

In March 1963, after reviewing the Government of Colombia's project proposal, foundation officials reported that there were no clear lines of authority and responsibility between Colombia's Ministry of Education and Ministry of Communications for carrying out the project. These officials have suggested that the project be delayed until it is clear which Government of Colombia agency has authority and responsibility for carrying on this project.

AID records do not indicate the reason for going ahead with the project. On the basis of our review of AID's records and discussions with AID officials, it is our opinion that AID entered into the project notwithstanding these reservations and without obtaining reasonable assurance of the capability and willingness of the Government of Colombia to implement and maintain the project.

Agency comments

In its comments on these matters, dated March 1967, AID recognized the existence of the many management problems encountered by the primary education project and stated that it had contracted with a United States firm of architects and engineers to evaluate the technical aspects of the project and to advise the Mission regarding project implementation. AID stated that "It is now obvious that these 4-year plan goals were highly ambitious and were beyond attainment in a relatively brief period, given Colombia's limited economic and human resources." AID stated, however, that this project had served important development objectives in Colombia even though it had experienced problems. In this regard AID pointed out that Colombia had established the administrative mechanism to supervise the project and that this mechanism had been an important contribution to development of education in Colombia.

With respect to the educational television project, AID agreed that "this project was disappointingly slow in being completed" but pointed out that considerable progress had been made from the time of our review. AID informed us that a total of 1,250 receivers had now been installed in classrooms and were in operation. AID pointed out that the remaining 250 receivers had not been installed due to limitations in the schools--such as lack of electricity, space, or security--and pointed out the need to maintain a reserve of sets to be used in school while inoperative sets were being repaired. AID confirmed that many of the Colombian counterpart personnel trained in the United States for the project were not working on the project but stated that Colombia's National Apprenticeship Service planned to train technicians who were to be in charge of installation and maintenance of the TV receivers.

Feasibility studies loan made despite known inability of Colombia to effectively utilize funds

More than $3 9 million of a $4 million loan made to Colombia by AID in June 1963, for feasibility studies of specific priority economic development projects, remained unutilized as of January 1966 due to the GOC's lack of an administrative structure capable of effectively administering the funds. Evidence was available to AID, prior to making the loan, showing that the Government of Colombia (1) had been unable to utilize any funds from a similar loan for $500,000 made in October 1961 by the Inter-American Development Bank (IDB) and (2) did not have an administrative structure capable of identifying and assigning priorities for development projects which had potential for effectively contributing to Colombia's development goals.

In February 1963 the Government of Colombia requested funds from AID to complete several feasibility studies in the agricultural field. In March 1963 the Washington office of AID requested the Mission to submit justification for a feasibility studies loan up to a total of $4 million The loan agreement when executed in June 1963 stipulated that general surveys and studies were not to be financed by the loan in accordance with AID policy to finance feasibility studies only for specific priority projects rather than for general area studies or surveys.

AID records showed that, at the time the loan was made positive, identification had not been made of the feasibility studies to be financed by the loan although a tentative list of projects had been submitted by the GOC. Inquiries by Mission officials in March 1963 had disclosed that the primary reason for failure to use the above-mentioned IDB loan funds had been Colombia's lack of an organizational structure capable of identifying and assigning priorities to potential development projects for which feasibility studies were needed. However, the justification submitted by the Mission to AID/Washington for the $4 million loan did not include the key fact that $500,000 was available and had been available but unused for more than 18 months. The mission did not attempt to determine the Government of Colombia's specific plans for utilization of the IDB loan until 6 months after the AID loan was made.

After the AID loan agreement was signed, Mission officials on several occasions met with Colombian officials in an attempt to determine the most appropriate use to be made of the AID loan

However, AID eventually concluded that the Government of Colombia did not have the capacity or sufficient information to effectively select, plan, and develop sound project feasibility studies Consequently, the loan agreement was amended in August 1964

1. To permit $1 million to be used for general area and prefeasibility studies with the objective of identifying potential projects for feasibility studies.

2. To clarify that private sector studies were eligible to be financed under the loan

3 To empower Colombia's Bank of the Republic to act as a contracting party in representation of the Government of Colombia for contracts financed with the loan

As of January 1966 a total of nine proposed feasibility studies, estimated to cost approximately $1.1 million, had been approved by AID for financing under the AID loan. However, a total of only $92,500 for one study had been utilized as of that date With respect to the IDB loan, only $27,500 had been utilized as of February 1966. On February 17, 1966, AID withdrew $1 million of the $4 million feasibility studies loan.

Agency comments

AID, in commenting on this matter, informed us that it had overestimated the administrative capacity of Colombia to handle the investigations and other technical requirements of preparing feasibility studies. AID stated that it had informed Colombia's Director of Planning in November 1966 "that the uncommitted balance of the loan would be deobligated unless effective measures were taken within a reasonable time to assure that the funds were utilized promptly for their intended purpose."

AID informed us that, on the basis of its initial review of actions taken by Colombia to correct the problem hindering the effective utilization of the loan, it had tentatively decided not to deobligate the balance of the loan but planned to make a full review before July 31, 1967, of progress achieved by Colombia AID also informed us that the "Mission management has learned a valuable lesson from the experience of this loan "

In addition, AID pointed out that it takes considerable time to select a firm, execute a contract, and recruit personnel for each feasibility study. AID, therefore, concluded that the date of approving a feasibility study was more meaningful in terms of showing progress under the loan than were dates of disbursement.

## Conclusions

On the basis of the facts related above, it seems evident that the accomplishment of AID objectives for these six projects in Colombia was dependent upon (1) sound planning as to the feasibility and the willingness and ability of the Government of Colombia to implement them in an effective and timely manner and (2) vigilant surveillance over project implementation to ensure proper utilization and conservation of United States-furnished assistance We believe that AID approved financing for these projects without sufficient advance planning to reasonably ensure that the projects were feasible or that the Government of Colombia was willing and able to effectively implement them in the manner intended, also, that AID did not subsequently exercise vigilant surveillance over project implementation.

It is also evident, we believe, that the degree of planning for the projects financed entirely with local currency--the fertilizer production project and the private investment fund project--was more limited than that required by law for the projects for which dollar financing was provided For example, on the fertilizer production project, we were unable to find any evidence that the Mission, prior to making either the initial release or the subsequent releases of funds for the project, had made any substantive studies concerning either the project's economic and technical feasibility or the willingness and ability of the Government of Colombia and the project's management to efficiently and effectively implement the project.

Similarly on the private investment fund project, AID released the peso equivalent of $38 million without first determining the areas or product lines that were susceptible to, and had the greatest potential for, increased exports or for replacing necessary imports--the objective of the project Moreover, AID also released the funds for this project without establishing any guidelines or controls with respect to the utilization and management of the funds

Section 611(a) of the Foreign Assistance Act of 1961 (22 U S.C. 2361) requires, with regard to United States dollar assistance, that no agreement or grant constituting an obligation in excess of $100,000 may be entered into if it requires substantive technical or financial planning until engineering, financial, and other plans necessary to carry out such assistance have been completed With respect to projects financed with United States-owned or United States-controlled foreign currency, although not a statutory requirement, AID's general policy is to follow the principles set forth in section 611(a) to the extent feasible.

The Agency recently informed us that it had moved to ensure improved performance in project activities by requiring that releases of all funds for all projects, ongoing and new, be directly related to specific implementation plans. Such a policy, if firmly put into actual practice, should result in improved project management. However, we believe that additional specific measures are necessary with respect to the AID-suported projects discussed in this report. Also, as stated on page 12, we believe that appropriate criteria and controls are needed with respect to "private credit" type projects financed by AID with local currency resources.

Recommendations

We therefore recommend that the Administrator, Agency for International Development, take the following actions

1. Consider establishing more definitive criteria regarding determinations of recipient country capability for implementing and administering contemplated development projects.

2 Establish appropriate criteria and controls for AID-assisted private credit-type projects being financed with local currencies.

## SCOPE OF REVIEW

Our examination consisted principally of a review of the financial and related management practices followed by AID in administering six economic development projects in Colombia and related activities within the overall economic assistance program, with particular regard to their consistency with basic agreements and with stated United States objectives.

Although we were primarily concerned with the administration accorded economic development projects from 1959 through 1965, our examination was necessarily extended into prior and subsequent administration due to the length of time involved in implementing the projects.

We reviewed program documents, reports, correspondence, and other pertinent material available at AID headquarters in Washington, D.C., and at AID's overseas Mission in Colombia and discussed relevant matters with responsible Mission officials. We also discussed appropriate matters with representatives of certain agencies of the Government of Colombia. In addition, we visited 40 project sites and discussed pertinent matters with responsible technical and administrative personnel.

## APPENDIXES

# OFFICIALS PRIMARILY RESPONSIBLE FOR ADMINISTRATION OF THE ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM FOR COLOMBIA SINCE 1959

| | Tenure of office | |
|---|---|---|
| | From | To |
| **DEPARTMENT OF STATE** | | |
| SECRETARY OF STATE | | |
| John Foster Dulles | Jan. 1953 | Apr. 1959 |
| Christian A. Herter | Apr. 1959 | Jan. 1961 |
| Dean Rusk | Jan. 1961 | Present |
| UNDER SECRETARY OF STATE | | |
| C. Douglas Dillion | Feb. 1959 | Jan. 1961 |
| George W. Ball | Nov. 1961 | Oct. 1966 |
| Nicholas deB. Katzenbach | Oct. 1966 | Present |
| ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS AND UNITED STATES COORDINATOR ALLIANCE FOR PROGRESS | | |
| Edwin M. Martin | May 1962 | Jan. 1964 |
| Thomas C. Mann | Jan. 1964 | Feb. 1965 |
| Jack H. Vaughan | Mar. 1965 | Mar. 1966 |
| Lincoln Gordon | Mar. 1966 | June 1967 |
| Robert M. Sayre (Acting) | June 1967 | Present |
| AMBASSADOR TO COLOMBIA | | |
| John M. Cabot | June 1954 | June 1959 |
| Dempster McIntosh | June 1959 | Feb. 1961 |
| Fulton Freeman | May 1961 | Mar 1964 |
| Covey T. Oliver | May 1964 | Oct. 1966 |
| Reynold E. Carlson | Oct. 1966 | Present |
| **AGENCY FOR INTERNATIONAL DEVELOPMENT** | | |
| ADMINISTRATOR | | |
| James H. Smith, Jr. | Oct. 1957 | Jan. 1959 |
| James W. Riddleberger | Mar. 1959 | Feb. 1961 |

# OFFICIALS PRIMARILY RESPONSIBLE FOR ADMINISTRATION OF THE ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM FOR COLOMBIA SINCE 1959 (continued)

| | Tenure of office | |
|---|---|---|
| | From | To |
| AGENCY FOR INTERNATIONAL DEVELOPMENT (continued) | | |
| ADMINISTRATOR (continued) | | |
| Henry R. Labouisse | Feb. 1961 | Nov. 1961 |
| Fowler Hamilton | Sept. 1961 | Dec. 1962 |
| David E. Bell | Dec. 1962 | July 1966 |
| William S. Gaud | Aug. 1966 | Present |
| ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA | | |
| Teodoro Moscoso (note a) | Nov. 1961 | May 1964 |
| DIRECTOR, MISSION TO COLOMBIA | | |
| John Johnston | Sept. 1957 | May 1959 |
| Metcalfe Walling | May 1959 | Feb. 1960 |
| Charles P. Fossum | Feb. 1960 | June 1964 |
| James R. Fowler | June 1964 | Present |

[a] In addition, Mr. Moscoso was appointed United States Coordinator for the Alliance for Progress in February 1962. The position of Assistant Administrator, Bureau for Latin America was abolished in January 1964.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

MAR 17 1967

Mr. Oye V. Stovall
Director
International Operations Division
U S General Accounting Office
Washington, D. C 20548

Dear Mr Stovall

We appreciate the opportunity afforded this Agency to review the General Accounting Office draft report entitled "Review of Administration of Assistance Furnished Colombia for Selected Economic Development Projects." Our detailed comments on the report are included as an attachment to this letter

We generally agree with the findings as stated in the report. We realize that the six projects selected for review have experienced varying problems because of insufficient controls and surveillance. However, we believe that the facts as outlined in the attachment will establish that, despite disappointments and shortcomings in some instances, implementation was reasonably well done. Action now being taken will strengthen controls and surveillance. We consider that these projects will help to accomplish U S assistance objectives in Colombia Two of the projects (Primary Education and Educational Television) actually have contributed significantly to these objectives, two projects (The Private Investment Fund and Agricultural Resettlement Credit) also have made a contribution and two projects (The Feasibility Studies Loan and the Fertilizer Plant) now give promise of making a contribution in the near future.

We hope that these observations will be of value to you and that they will be given due weight in the final report, if one is issued

Sincerely yours,

William O Hall

William O Hall
Assistant Administrator for Administration

Attachment a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMENTS ON THE
GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT ENTITLED
"REVIEW OF ADMINISTRATION OF ASSISTANCE FURNISHED COLOMBIA
FOR SELECTED ECONOMIC DEVELOPMENT PROJECTS"

A General

The selection and study by the GAO of six A I D -assisted projects in Colombia has contributed to the process of improvement of overseas assistance administration. Going beyond the basic field examination, there has been a continuing exchange of information and views by the GAO and A I D representatives both in Colombia and in Washington There has been a useful probing and better understanding of the problems of the administration of local currency projects and, where indicated, adoption of specific actions for improvements

Regarding management aspects of utilization of peso and dollar amounts, all of the projects selected have had problems which are recognized by the A I D. Mission and are discussed in Mission audit reports or other documents, as well as being described in detail in the present GAO draft report However, we believe that by providing additional facts or background information we can place the problems in better perspective Allowance should be made for the special factors involved in the planning and implementation of these projects under the circumstances prevailing at the time in newly developing but sovereign foreign nation Notwithstanding, we believe the cited projects can satisfy criteria concerning contributions, actual and potential, to accomplishment of U. S assistance objectives Most importantly, we can report that corrective actions have been taken or are being taken where necessary and that, in general, management of the projects has shown improvement

We appreciate the distinction which the GAO auditors have drawn between dollar and peso financing. It is important to note that of the $68 5 million involved in the six projects selected by the GAO for its review, about $52 million were in pesos, of which approximately $44.1 million were Colombia-owned As the report indicates, these $52 million in pesos were proceeds from U S.-financed commodity imports, local sales proceeds from P.L. 480 Title I agricultural commodities, and proceeds from direct dollar loans repayable in dollars

The basic U S assistance actions had been these commodity transactions or dollar loans and grants Experience with local currency projects in Colombia is demonstrating that perhaps the most advantageous period for programming in detail use of local currency generations is, if it can be done, at the time of the negotiation of the primary commodity or dollar transactions with a view to developing an integrated development "package " To the extent possible, and in a very general way, this has indeed already been accomplished in the past Increasing attention is being given to further possibilities in this direction

The GAO review quite correctly points out that lesser care was given to administration of local currency projects than of dollar projects The draft report provides details of specific instances where performance would have been improved by better control and surveillance We are pleased to report that necessary corrective actions have already been undertaken or are now being carried out as described under individual project commentaries which follow

However, before discussing the individual projects we would like to comment on certain characteristics of managing the use of local currency in general and, with particular reference to Colombia, which might be useful when considering the history of these projects

The nature of these counterpart holdings and practical factors affecting their use present very real management problems in Colombia, as indeed elsewhere

First, because counterpart funds are the property of the Government of Colombia (GOC), they are not subject to the direct control of the U.S. More than ever, Colombian objectives must be taken into consideration in joint U S.-Colombian planning of such funds Although U.S. and Colombian developmental objectives usually coincide, nevertheless in the establishment of priorities, selection of projects, and many other obvious ways, the local government takes a stronger role when programming "its own" money At the same time, we recognize that given the origin of the generating funds, the U.S., through its A.I.D. Mission, should play an active role in decisions on the use of such counterpart funds

Secondly, it is a technique of technical and economic assistance programs to build and strengthen domestic institutions which can grow and continue to foster national development In local currency programs especially, this tends to take the form of placing maximum possible responsibility and authority with domestic institutions Once implementation is in the hands of a local entity, there are definite practical limits on the influence the U.S. can exert With regard to the Private Investment Fund (PIF), we did not feel that the U.S. should become involved in evaluating and approving sub-loan proposals involving Colombian institutions and Colombian money We are aware that an element of uncertainty is always present in relying on a local instrumentality With this in mind, in the case of the PIF, responsibility for implementation was given to one of the strongest and most competent institutions in Colombia, the Bank of the Republic (BOR), in an effort to achieve the best possible results. With regard to the agricultural loans, the key institution was the Colombian Institute of Agrarian Reform (INCORA) which was established in 1961 In the early years, personnel had to be trained and procedures set up which was not an easy process Today, INCORA is considered a success as an institution due to Colombian effort and, to a considerable extent, due to the lending program and guidance from the A I D Mission in Colombia Similarly, we are pleased with the institutional development role U S. support has played in setting up the educational administrative entity known as La Oficina Administrativa pava Programes Educativos Conjuntos (OAPEC)

Thirdly, even if the A I D Mission wished to rely less on local institutions and instead sought a greater direct role in administering local currency projects, limitations on the size of the American staff would not permit this The Mission has never had the large number of Americans which would be required to enter into the process of evaluating, approving, and monitoring sub-loan projects submitted to credit institutions such as the PIF

Fourth, like all such local currency holdings, these balances are subject to a time factor in programming for their use If held too long or allowed to accumulate unduly, they run the risk of losses in purchasing power through price increases and a consequent reduced contribution to economic development They should, therefore, be used reasonably expeditiously We note that, in general, local currencies for development purposes have been reasonably well programmed from the timing standpoint, and the GAO has not found any difficulties with this aspect of management.

Our comments on the six cited projects follow

B. The Private Investment Fund (Page 7)

It is noted that the PIF has received support, in addition to the $38 million cited in the project, from the World Bank and the Inter-American Development Bank (IDB). The Mission worked with the Colombia's Bank of the Republic (BOR), an existing institution, and expanded the BOR's role by providing means of affording intermediate term credit through the commercial banks Of interest is the fact that Colombian commercial banks by long custom had provided only short-term credit of the sort usually required by traders and importers There existed no source in Colombia for intermediate credit of the sort needed for financing industrial or large agricultural enterprises. The project enabled the PIF to pioneer this method of financing which is so necessary for developmental growth The commercial banks for their part were considered to be able to provide a useful network and ready-made private sector mechanism in searching out feasible projects throughout the country

The two major points of criticism regarding this project are discussed as follows

(1) Regarding the sugar transactions, the relation of A.I D 's Manual Order 1016 2 to PIF's lending operations might be considered further PIF was established by and is an instrumentality of the BOR, and is administered by the BOR Its lending operations are defined by Resolution No 11 and subsequent amendments thereto by the Bank Thus, PIF was not directly bound by the Manual Orders A reasonable interpretation here is that the M O might apply only to counterpart used directly by the borrower and would not apply to counterpart funds acquired by intermediate credit institutions which subsequently used the funds through sub-loans To clarify the extent of applicability, a revision to M O. 1016 2 has been suggested which would make clear that the provisions of the M.O. are applicable to operations of lending institutions financed in the future by host country-owned counterpart

Although the A I D Mission was not directly involved in lending counterpart funds to the sugar industry, the PIF in so doing at that point in time was financing what seemed to be prudent business ventures In 1963 and 1964, the price of sugar on the world market reached highs of over $ 10 a pound (the current world price is about $ 0165 a pound) Further, Colombia's Cauca Valley has a comparative advantage in this industry, having close to ideal conditions for growing sugar

PIF sugar loans have not injured U S interests Colombia has never filled its sugar quota shipments to the U S Reputable authorities in Colombia point out that even with all new planned sugar mill capacity, Colombia will not meet the estimated increased domestic consumption in 7 years The production and refining capacity created by PIF loans will be used to satisfy some of the domestic demand which otherwise would result in further imports and consequent drain on Colombia's scarce foreign exchange

(2) Regarding the size of companies receiving loans, loans to large firms entail some of the foregoing considerations, however, the following factor has particular importance

The primary objective of PIF was to strengthen the country's balance of payments position by supplying the private sector with financial resources for export promotion and import substitution Regulation No 11 provides specifically that the sub-loans made by the funds should be for the following purposes

(a) to increase and diversify exports from Colombia,

(b) to facilitate production in Colombia of necessary items currently imported,

(c) to eliminate or alleviate industrial bottlenecks in the Colombian economy

Most small and medium-sized firms had neither the manufacturing base nor the capital to launch an export drive in highly competitive world markets Expansion of manufactured or processed exports then and now is more likely to be generated by large firms For these reasons, the PIF, with the Mission's knowledge, has had a policy of interpreting liberally the powers it possesses to make loans in excess of 3 million pesos

To summarize, we agree that the execution of the project has not been perfect However, the project has clearly served valid developmental objectives in Colombia and the basic framework is excellent

With regard to the GAO recommendations, and based on observation of the operations under this peso loan, the A I D Mission has moved to improve the implementation of the project Since the GAO representatives were in Colombia, agreements have been signed covering all counterpart pesos PIF has received In these agreements, the interest to ultimate borrowers has been increased from 12 to 14 5 percent per annum. These rates will be much more nearly equivalent to going market prices as the GAO suggested they should be This increase in interest rates is in accordance with Mission policy that subsidized interest for capital shall be avoided wherever possible and, based on experience with the loan, the increase of PIF rates was obtained largely as a result of the Mission's initiative In addition, the maximum amount intermediary institutions are allowed to charge was reduced to 3 percent per annum to compensate them for the analysis, monitoring, and guaranteeing of the subloans, a reduction of this type is in accord with GAO recommendations.

C Fertilizer Production Project (Page 12)

The draft report accurately describes the facts concerning this project This project has long been a disappointment to the U S and also to Colombia which has invested heavily in the project Because of this history, it is encouraging that the plant finally seems likely to begin making a significant contribution to the Colombian economy by June or July of 1967

As the GAO report indicates, the immediate demand for nitrogenous fertilizer was actually for use in mixed fertilizer The GAO report also goes on to note that the peso equivalent of $4 7 million of the P.L 480 funds were apparently used in the modification of the plant to permit it to produce mixed fertilizers

Regarding the $5 8 million in pesos loaned to private investors, the GAO report comments that such channeling of funds "in no way contributes to increasing the economic and social development of the recipient nation--the fundamental purpose of U S assistance programs" (page 17) The further observation might be made regarding this point, however, that the U S is interested not only in development *per se*, but in the kind of development and the manner in which it takes place Emphasis on the role of the private sector, as opposed to state-ownership and management of economic enterprises, has long been part of U. S development philosophy Although there is no evidence presently available to the GAO or to A I D that there was, in fact, a positive intention at the time to make possible participation of the private sector through this $5 8 million segment of the project, this may well have been the case

The GAO correctly shows that at the time of its examination there was a bleak picture of the then current situation and the future prospects of the plant The following additional information provided by our Mission on February 13, 1967, may be helpful as a frank appraisal of the current situation and of what seems to be a greatly improved outlook for the future

a As of June 30, 1966, Fertilizantes' paid-in capital totalled Colombian pesos 105 million, of which 65 million was financed from ICAX Funds loaned by the Caja Agraria to private businesses and individuals to buy company shares

b As of June 30, 1966, Fertilizantes had accumulated losses totalling Colombian pesos 83 million.

c Production has been suspended since September 24, 1965, due to the breakdown of an air fractionation plant

d The company is in the process of liquidating and reorganizing with the hopes of acquiring additional capital to put the plant into operation again with a capacity of 140,000 tons of mixed fertilizers annually The plans include an independent mixing plant

e A new company has been formed and transfer of existing assets to the new company is expected to be completed by the end of February 1967

f A contract has been negotiated between Colombian Fertilizers, Inc (the new company) and Petroquimica del Atlantico to operate the plant and production is expected to begin in June or July of this year

g Inasmuch as this is a "two-step" loan, we look to the GOC for repayment, not to the fertilizer company GOC is current with repayments

D Primary Education Project (Pages 17-21)

The purpose of this project was to assist the GOC in a general program intended to develop the facilities and to train the personnel necessary to provide basic education for all children of primary school age in Colombia by July 1965

We believe that additional comment can show that this project served important developmental objectives in Colombia, and in fact did have a good effect upon development progress in Colombia even though execution of the project encountered problems as the GAO draft report has described These problems arose from well-known difficult local conditions which had always prevented the country from making desperately needed progress in bringing some education to the poor and discontented elements of the population In fact, the project was aimed at overcoming some of these conditions, particularly the lack of administrative capacity The project actually has helped to overcome these problems but, in turn, project execution was impeded by them

Regarding funding, the U S investment was 22,822,500 pesos The GOC contributed an additional 43,674,435 pesos in the same period (to August 10, 1965) Colombia thus invested all funds agreed upon in the project agreement and established the administrative mechanism, OAPEC, to supervise the project Creation and strengthening of this mechanism, has been an important contribution to development of education in Colombia

It is important to note that the project agreement did not program construction of 22,000 classrooms As the GAO report states on page 19, the project was based on, and in support of, a 4-year plan, prepared by the GOC in early 1961 This plan provided for the construction of 22,000 primary school classrooms, as well as setting other targets including continued use of approximately 8,000 classrooms, construction of 4 teacher training schools, and the training of 9,500 new primary teachers, 400 supervisors, and 2,500 school administrators and inspectors. It is now obvious that these 4-year plan goals were highly ambitious and were beyond attainment in a relatively brief period, given Colombia's limited economic and human resources However, the project marked the first really serious attempt by the country to overcome the lack of rudimentary education in a country with serious social, economic, and internal security problems The year 1961 was the first year of the Alliance for Progress of which Colombia was an early supporter The cited project marked a beginning of serious interest in, and support for, educational programs Support from Colombia's budget and internal resources for education has been growing steadily ever since This project, coming at a critical point in time, definitely helped the Colombians to begin a significant attack on a grave and basic problem affecting the country's political as well as economic stability

This project encountered many management problems, however, inasmuch as targets were revised as dictated by hard experience, it is worthwhile noting that all funds were actually spent for educational purposes Regarding the disappointing showing in teacher-student ratio, numbers of teachers and pupils did increase substantially as the GAO report indicates on page 20

We note that the in-service program involving 18,000 teachers was a considerable effort toward improving qualifications of primary school teachers An extraordinarily large number of classrooms were built and repaired The number of classrooms for which teachers were not available was 51, which constituted a very small percentage of the total, 47 of these were in two Departments, Valle and Santander, and were dedicated in mid-year or later in the school year when teachers were difficult to employ

With regard to maintenance, every school when completed was received by a departmental or municipal representative at which time an agreement was signed committing the municipality or department to provide maintenance

The A I.D Mission was aware of the great problems encountered in administering the project The Mission contracted Norman Giller and Associates, Architects-Engineers of Miami Beach, Florida, to evaluate the technical aspects of the construction program and to advise the Mission on the following design and construction methods, quality of work, rate of progress, and effective use of funds Recommendations for improvement made in this study were discussed and followed up with Ministry of Education personnel

E Educational Television Project (Pages 21-23)

The GAO draft report correctly indicates that this project was disappointingly slow in being completed

However, with all of its difficulties in getting under way, a UN study team of educational television experts who reviewed the project were nevertheless able to state that it was one of the most successful projects of its type in the world

The GAO examination reports on the status of the project as of September 1965. We are pleased to say that the current situation is much improved as can be seen from the comments which follow

Colombian educational television now has been in operation over 3 years, 1 250 sets are in classrooms in 8 departments and the Special District These sets reach 345,700 children and 7,789 teachers by latest count, with forty-one 15-minute programs on science, social studies, mathematics, language, arts, music, and teacher training This is a considerable accomplishment both educationally and operationally

It might be observed that all 1,500 receivers have not been installed due to limitations in the schools, i e , lack of permanent electricity, lack of space for television rooms and lack of security, and need to maintain a reserve of sets to be used in school while inoperative sets are being repaired

Many of the U S -trained Colombian counterparts are not now working in the Educational Television project However, each individual department (state) has provided financial and personnel support to the ETC project

Colombia's National Apprenticeship Service (SENA) will train departmental (state) technicians who will be in charge of the installation and maintenance of the TV receivers Each technician receives his salary from a state budget

Programs in adult literacy, nutrition, and physical education have been added to the broadcast schedule during the late afternoon and early evening hours

F <u>Agricultural Credit Loan</u> (Page 24)

Regarding the GAO comments on this loan, DLF No 208 (Agricultural Settlement), the Mission has provided the following additional information

The proceeds of the subject loan provided liquid resources for the use of the Caja Agraria in the program stipulated in the Agricultural Settlement Loan. USAID disbursed U. S dollar checks directly to the Caja in the amount of US $8,000,000 An initial amount of US $1,000,000 was disbursed to the Caja to establish a drawing account from which to commence making sub-loans to qualified borrowers All further disbursements to the Caja were made upon the Mission's receipt of satisfactory documentation from the Caja in support of the sub-loans made in accordance with the stipulated program

Based upon examination made by the Mission, these sub-loans were in fact made within the areas of activity stipulated in the program of the Agricultural Settlement Loan, i e ,

> "Loans to individual settlers (other than for land rental or purchase) to facilitate the development of new and the expansion of existing settlement on 'family-sized farms' or ranches in Colombia "

Bookkeeping transactions cited between the Caja Agraria and the Government of Colombia, cancelling certain indebtedness of the Government to the Caja were based upon a contract, dated November 14, 1961, between the Government and the Caja

The contract must be examined in the context of the Loan Agreement for DLF 208 which provided that the government assumed all of the obligation to repay the loan to the United States, whereas the sole but important obligations of the Caja were to implement the loan by using the loan proceeds to make sub-loans according to Section 1 02, and to perform other implementing responsibilities This was not within the terms of the Loan Agreement itself, a "two-step" loan wherein the Caja had obligations to repay any part of the loan proceeds to the Government

Therefore, it was essential that an agreement be reached between the Caja and the GOC as to the basis on which the Caja received the loan proceeds which the GOC was obligated to repay to the U S The above-mentioned contract constituted such an agreement and merely provided that, in lieu of repayment by the Caja to the GOC of the loan proceeds, certain GOC obligations to the Caja in equivalent amount were cancelled. The contract further stated that the Caja would continue to be responsible for compliance with the terms of the Loan Agreement, and in no way attempted to dilute the obligations of the Government of Caja thereunder.

The only effect, then, of this contract was to settle internal matters related to DLF 208 between those two entities which, in themselves, in no way altered the original purpose of the DLF loan or its implementation By signing the contract, the Caja only agreed to reduce its accounts receivable due from the Government instead of creating an account payable to the Government for the DLF Loan funds received by it These bookkeeping transactions resulting from this contract did not cause a diversion of USAID funds out of the settlement program provided for in the Loan, nor alter the Government of Colombia's obligation to repay the Loan, together with interest, to A I.D

The GAO report indicates on page 25 that the loan proceeds of DLF 208 did not increase the resource availability of the Caja for the purpose of making sub-loans to individual settlers in accordance with the terms of the loan The Loan Agreement, however, does not specify that the resource availability would be increased for this purpose Instead, the loan requires the Caja to carry out the specified sub-loan program with the funds made available under DLF 208

The net effect of these transactions can be summarized as follows

1. The GOC substituted a loan payable to the U S Government for certain accounts payable to the Caja

2 The Caja Agraria received immediate liquid resources to make loans to individual settlers, as specified in the loan program, in place of long-term accounts receivable from the Government The Caja also obligated itself to carry out a sub-loan resettlement program it was not otherwise obligated to undertake

3 The U S Government continues to have a loan receivable from the GOC and an obligation on the part of the Caja to carry out a settlement program with the resources provided by the Loan

The Government of Colombia's assistance to the agriculture sector in recent years has been impressive Its investment in the agricultural sector doubled in 1966 and will triple in 1967 over the 1965 level for land reform, supervised agriculture credit, and livestock production A new bill recently proposed to Congress requests tripling the annual 100 million pesos (U. S. $7 4 million) appropriation for the Land Reform Institute (INCORA) and authorization of an additional 100 million pesos in bonds to finance acquiring property. Previous bond issues have totalled some U. S. $90 0 million during INCORA's 4 years of operation President Lleras has also requested Congress to authorize new procedures to cut red tape and provide more effective tools for land distribution

Farmers participating in the GOC's supervised agriculture program have raised their per capita income from an estimated 1,440 pesos in 1962-63 to 3,080 pesos in 1964, an increase of about 114 percent in annual income

No discussion of this loan and subsequent loan to INCORA would be complete without recognition of the important contribution made to developmental objectives in Colombia Land reform is one of the key goals set forth in the Charter of Punta del Este of 1961 which established the Alliance for Progress Colombia was among the first of the Latin American countries to make efforts in land reform These efforts culminated in taking the difficult political step of passing an effective land reform law in December of 1961

Passage of the law was not due to an excess of enthusiasm for a social panacea Land tenure changes in Colombia were found necessary, as a leading American specialist has noted, because (1) social unrest in the countryside resulting from living conditions acutely felt as intolerable was continually signalled by spontaneous internal migrations of landless peasants, by frequent seizures of land by squatters, and by the ease with which guerrilla bands found recruits and (2) economic policy makers facing inflationary pressures and balance-of-payments deficits could not help noticing that low agricultural production and productivity figured in these recurrent difficulties

The 1961 law created a central authority, INCORA, to deal with all questions concerning land reform and to implement the new law Space limitations do not permit here a full discussion of the manifold problems which the new institution faced, however, a major problem impeding success in raising the standard of rural living was a lack of credit facilities to the small landowner The loan to the Agricultural Credit Bank was to provide supervised agricultural credit for special settlement purposes - INCORA now provides agricultural credit to small farmers for a variety of purposes

The timing of our loan to the Agricultural Credit Bank encouraged early self-help efforts in land reform whereas subsequent loans to INCORA helped build that institution Today INCORA is a well regarded, well-established institution, which is performing its function well and which is receiving strong GOC and external support

G Feasibility Studies Loan (Page 27)

We note that, as the draft report indicates on page 29, A I D deobligated $1 million of the loan on February 17, 1966 Further, as of January 1966, although only approximately $100,000 of the loan had been disbursed, eight feasibility studies with a total value of $1 1 million had been prepared by the Planning Department for financing under the loan

Selecting a firm to perform a feasibility study, executing a contract with such firm acceptable to A.I.D., and recruiting personnel required to work on the contract requires considerable time. We, therefore, believe the date of approving the feasibility study in question is more meaningful in terms of showing progress under the loan than dates of disbursement to a specific contractor which can only occur after he actually has men on the job. Of the feasibility studies already approved by the Mission, firms have been selected to perform the studies in seven cases and contracts have been executed and approved by A.I D in five of these cases

The GAO report on page 27 states that at the time the loan was signed positive identification of the feasibility studies to be financed by the loan had not been made We wish to observe that actually, in the Loan Application, dated April 8, 1963, the GOC submitted a list of proposed studies totaling $7.75 million These studies could not be approved by A.I.D. until after the Loan Agreement had been signed, Conditions Precedent met, and the studies approved by AID/W. Of the original studies submitted, three were financed by other international lending agencies, four will be financed by A.I.D , and one was financed privately. In addition, several were withdrawn by the GOC

At the time the loan was being considered, the Mission was aware that the IDB loan had not been utilized. However, it was believed that the reason for the non-utilization of that loan was due to the fact that the funds moved through the National Treasury, i.e , several months were required to have the funds released from the Treasury for use by the Planning Department.

While it is true that the Mission believed that the solution of the Treasury account problem would pave the way for effective utilization of the loan, other inherent administrative problems existed which were not recognized at the time of the signing by either the Mission or the Colombian Government In retrospect, it now appears that the Mission overestimated the administrative capacity of the Planning Department to handle the investigations and other technical requirements of preparing feasibility studies The 9 months required to satisfy the conditions precedent to the loan also indicates that the Government did not act in a timely fashion to satisfy these conditions Neither the Mission nor the Government apparently realized at the time of the signing that the Planning Department lacked the legal capacity to execute the feasibili study contracts, and it was necessary to cure this defect by an amendment, dated August 20, 1964, providing that the BOR would act as contracting agent for the Government regarding these contracts

Finally, the original evaluation did not properly evaluate either the need for general area and pre-feasibility studies or the fact that the Planning Department would have difficulty in utilizing the entire loan in a timely fashion for specific feasibility studies The original loan also needed clarification to assure that private sector studies would be funded from it As the GAO report properly notes on page 28, the subsequent re-evaluation of the loan by the Mission indicated that an amendment was necessary to resolve all of these issues and they were also rectified by the amendment of August 20, 1964

The A I.D Mission management has learned a valuable lesson from the experience of this loan Every new project is now subjected to close scrutiny in order to ascertain whether the Colombian entity receiving the assistance is legally empowered to carry it out, whether it has the sufficient capacity to do so, and whether the funds can be used promptly and effectively for the purpose intended While the last two criticisms noted above are substantially justified, we do not believe this type of situation will occur again. As the following discussion indicates, the new Director of Planning is also aware of the past deficiencies of his organization in administering this loan and is now engaged in taking steps to cure these deficiencies It is hoped that bringing the history of the Feasibility Study Loan up to date, as follows from January 1966 until the present will be helpful in evaluating the current status and prospects of the project

During the last 6 weeks of the outgoing Valencia regime, which left office on August 7, 1966, the Planning Department submitted six more feasibility studies for Mission approval for financing under the loan These studies had a total value of $1,876,000 However, since President Lleras had evidenced that he was going to revitalize the Planning Department, the Mission decided that it was reasonable to allow the new government to decide for itself whether it agreed with these submissions Accordingly, the Acting Director of USAID/Colombia, gave the new Director of the Planning Department the opportunity to re-examine the submissions made in July The new Director re-submitted four of the original six studies to the Mission by letter of October 4, 1966 These final submissions have a total value of $596,850

The USAID Mission Director visited the new Director of Planning to discuss the problems of the Feasibility Loan on November 4, 1966. He informed him that the uncommitted balance of the loan would be deobligated unless effective measures were taken within a reasonable time to assure that the funds were utilized promptly for their intended purpose The new Director of Planning replied at that meeting that he was determined to rectify the delays and other problems the Feasibility Loan has experienced. In a letter, dated November 10, 1966, to the Mission Director, he stated he was taking the following steps with regard to the Special Projects Group (which is the division with responsibility for the Feasibility Loan) in the Planning Department

1 Establish the legal status of the Special Projects Group so that it has the authority to negotiate and sign feasibility study contracts on behalf of the Government, thus eliminating the role of the BOR,

2 Add qualified professionals to its staff, and hire a leading private engineer on a consulting basis,

3. Concentrate the efforts of the Group on the promotion and selection of high priority development projects and pre-negotiation of their external financing,

4 Offer assistance to all levels of government in the adequate preparation of development projects,

5 Delegate to the Group responsibility for handling all internal and external credit sources for financing the pre-investment and feasibility studies,

6. Incorporate $10 million pesos in the GOC budget for 1967 for the specific purpose of financing the Special Group's increased activity

The Director of the Planning Department also indicated orally to the Mission Director that he had already requested the President to procure the special legal powers outlined under paragraph one above, and that they would be forthcoming provided, however, that the Congress granted the President the special legislative powers needed to make this change He added that he was already in contact with the private engineer and some of the professionals mentioned in paragraph two above

In his November 10th letter, the Director of Planning also stated that the Planning Department has several general pre-feasibility studies totalling $629,000 and four specific feasibility studies totalling $462,000 under review in final form with the expectation of forwarding some or all of these studies to the Mission for its approval These studies total approximately $1 1 million If all are submitted to and approved by the Mission in their present amounts together with the four proposals submitted in October, the uncommitted balance of the loan will be approximately $200,000

The Mission believes that the Planning Department intends to take the abovementioned steps and that when these steps have been taken it will be possible to fully utilize the Loan

On the basis of the determination of the Planning Department to correct problems hindering the effective utilization of the subject loan, and further considering the number and value of the feasibility studies either submitted in the past several months or about to be submitted, the Mission recommends, and AID/W concurs, that the uncommitted balance of the loan not be deobligated at this time. We believe that this decision is in accord with the GAO report which states that A I D should "Review the slow moving and unutilized feasibility loans to Colombia and other Latin American countries with the view of deobligating such loans or taking action to put the funds to use on their intended purpose "

The Mission will again make a full review of the progress achieved by the Planning Department before July 31, 1967, and make its recommendations to AID/W on any necessary further action



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