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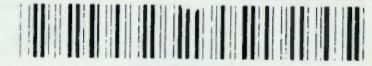
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PUBLIC DISCLOSURE AUTHORIZED

McNamara papers

Contract
Colombia (1971-1980)

The World Bank Group
Archives



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Contacts with member countries: Colombia - Correspondence 02

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through *SA* Mr. G. Alter) DATE: January 6, 1971

FROM: Raymond M. Frost *M²*

SUBJECT: COLOMBIA - Your Meeting with Dr. Arenas, Chief of the Planning Department

Biographical

Dr. Roberto Arenas Bonilla was appointed Chief of the Planning Department on December 22. Dr. Arenas is aged 40. He studied economics at Pittsburgh, worked as an economic consultant with Lauchlin Currie in Colombia, and was successively Director of the Center of Development Studies at Colombia's National University; Rector of the University of Los Andes; and Member of the Bogota Municipal Council. He was elected a Congressman for Bogota in the 1970 elections, and became a member of the Third Committee of the Lower House which deals with economic affairs and taxation.

Purpose of Dr. Arenas' Visit

Dr. Arenas is visiting Washington to reassure the Bank, IDB, AID and CIAP about the continuity and stability of the planning process in Colombia, following the resignation on December 20 of the former Planning Chief, Dr. Ruiz Lara, following a public disagreement with President Pastrana. The immediate subject of dispute - namely the pace at which the North coast beaches should be developed for tourism purposes - did not as such justify this clash. However, the underlying reason for the dispute appears to have been the extent to which Government investment decisions could be permitted to vary from the prescriptions of the Plan document. Disagreement over this was exacerbated by differences of temperament, with Dr. Ruiz Lara insisting on adherence to the Plan perhaps with undue rigidity, while the President tended to be somewhat more relaxed in his approach. Also, the Planning Department was the only Department in the Central Government surviving unchanged from the previous Administration, and this may have given rise to a mutual lack of confidence in relations between the Department and the President.

In the past, a custom had emerged in the Planning Department, that when the Chief resigned over a policy issue, his seven Division Chiefs resigned also; and this precedent was followed on December 20. There was an element of histrionics in this, as four of the Division Chiefs were in any case planning to leave the Department. At the same time, the entire professional staff of 100 went on strike.

At that time, we considered how to proceed in the event that the Planning Department was seriously damaged. We concluded that the Bank and Consultative Group operations had come to depend to a critical extent

President has seen

January 6, 1971

upon a functioning Planning Department, which has become important in project preparation and loan administration; in the development of general and sectoral economic policy; in solving inter-sectoral planning problems; in arranging the domestic financing for the investment program. We did not, in short, see how we could proceed with a large and complex external financing program without a functioning Planning Department.

We have conveyed this to Dr. Arenas, and he has informed us first, that the strike of Planning Department employees is over, and that resignations will be confined to a total of 15 - 20. Furthermore, the resignations will not be abrupt, as the staff concerned will stay on to complete urgent tasks. Their replacement is to be met partly by Planning Office staff (including some sent overseas for post-graduate training and now scheduled to return) and partly from the universities and other sources outside the Department.

With respect to the issue over which the original dispute took place, President Pastrana has confirmed his adherence to the Plan and Dr. Arenas has assured us of continuity of Planning Department policy. In our conversations Dr. Arenas has shown a quick grasp of practical problems of external financing, and his visit has turned out to be an unexpectedly useful opportunity in which to discuss a variety of problems relating to the Bank's lending operations; to the work of the Operations Evaluation Unit; and to arrangements for the Consultative Group meeting scheduled for February 16. These discussions have left us with a favorable impression of a quietly effective executive, who may be expected to give the Planning Department an appropriately practical orientation. The fact that he has the personal confidence of President Pastrana is also likely to resolve the atmosphere of distrust which had evidently developed between the President and the Planning Department.

You may wish to reiterate our concern with, and support for the Planning Department, as necessary to the Bank's own lending operations, and to our ability to mobilize support from other members of the Consultative Group on the growing scale required by Colombia's development program.

cc: Mr. Knapp

OFFICE MEMORANDUM

TO: Memorandum for Record DATE: January 11, 1971

FROM: Raymond M. Frost *MF*

SUBJECT: Meeting of Mr. McNamara with the Chief of the Colombian Planning Department, Dr. Roberto Arenas

On January 7, Mr. McNamara met with Dr. Arenas who was accompanied by Dr. Douglas Botero, Colombian Ambassador, and Dr. Virgilio Barco, Executive Director. Mr. Frost was also present.

Mr. McNamara inquired into the present situation of the Colombian Planning Department following the recent resignation of the former Chief and some of his staff in a dispute with President Pastrana. Dr. Arenas replied that his appointment had reassured the staff, and the number of resignations was small. He reassured Mr. McNamara that the Government adhered firmly to the Plan and to an orderly planning process. Mr. McNamara asked how the Plan was proceeding, and Dr. Arenas replied that the various programs under the Plan were being executed, and that the external financing of those programs would be considered at the meeting of the Consultative Group to be held in February.

Mr. McNamara asked about the progress of the Government's efforts to mobilize fiscal resources in support of development programs. Dr. Arenas said that the Government had already presented to the Congress legislation to increase the sales tax to yield Ps 1 billion, and was seeking to collect accumulated arrears of income tax. Mr. McNamara inquired about the adjustment of the exchange rate for petroleum, and Dr. Arenas replied that the Government had a draft law under study to implement this measure. This was not the end of the list of tax measures in the stage of active study, which included a tax on presumptive agricultural income.

In the course of the meeting Dr. Arenas handed Mr. McNamara a letter dated December 28 from President Pastrana.

cc: Mr. Alter

President has seen

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 1, 1971

FROM: Bernard Zinman *BZ*SUBJECT: COLOMBIA - Mr. McNamara's Meeting with the Minister of Finance

On September 27, Mr. McNamara met with Mr. Rodrigo Llorente, the Colombian Minister of Finance, to discuss the Government's request for a program loan. The following Colombians and Bank staff members also attended the meeting:

Colombia

Dr. German Botero de los Rios
General Manager, Banco de la Republica

Mr. Pablo Salazar, Advisor to the
Minister of Finance

Bank

Messrs. Knapp
Chenery
Alter
Zinman

The Minister of Finance said the Colombian Government had fulfilled its commitment to the Consultative Group that it would mobilize about Col\$1 billion in additional revenues per year in connection with external support of the Colombian development plan. To achieve this target, the Colombian Government had increased rates of sales and stamp taxes and had adjusted the so-called petroleum exchange rate.

The Minister added that because of the sharp drop in the coffee price the Government would suffer a large revenue shortfall in 1972, and that therefore important public sector investments totalling more than \$100 million had to be cut out of the 1972 budget. The Government was requesting a one-time program loan which, according to the Minister, would be required mainly to permit the inclusion of additional high priority investments in the 1972 budget; the aim would be to maintain the rates of public sector investment and economic development which prevailed before the drop in coffee prices. To continue these high rates of growth in 1973 and thereafter, the Colombian Government would adopt appropriate fiscal and financial measures.

The Minister said he realized program loans were exceptional for the Bank, but that Colombia had a good case which warranted consideration. Mr. McNamara responded that the Bank would be prepared, in principle, to consider program loans if our established policy requirements were met. In the case of Colombia we would want to determine whether the measures the Government was proposing would meet these policy requirements. Mr. McNamara said, further, that Colombia's request for a one-time program loan implied that either the coffee price would rise to earlier levels by about 1973 or that the Government would raise the required revenues from other sources. The Minister responded that his Government would adopt specific measures - particularly to promote non-traditional exports - so as to

President has seen

October 1, 1971

permit high growth targets for public sector investment to be maintained for 1973 and subsequent years. Mr. McNamara commented that he would be particularly interested in the measures the Government was planning to take to increase exports.

When the Minister presented him with a copy of the Colombian Government's loan request, Mr. McNamara said that in the case of program loans we were looking forward to well-documented requests which would meet the criteria approved by the Bank's Executive Directors. He told the Minister that we would review the Colombian loan request and have further discussions on the subject during Mr. Alter's visit to Bogota around the end of October to review with the Government the findings of our latest economic mission.

The Minister asked Mr. McNamara whether, in view of prospects for a low level of Bank loan commitments for this fiscal year, it would be possible to advance to FY 1972 consideration of any Bank loans now proposed for presentation to the Executive Directors in FY 1973. Mr. McNamara replied that we would examine this matter to determine whether this would be possible.

Cleared with and cc: Mr. Alter

cc: Messrs. Knapp
Chenery
Wiese
Avramovic

BZinman:eb

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 17, 1973

FROM: Gerald Alter *GA*SUBJECT: COLOMBIA - Visit of Minister of Finance

1. This memorandum provides background for your meeting on January 22 at 2.45 p.m. with the Colombian Minister of Finance, Dr. Rodrigo Llorente. You will recall that the Minister met with you during the 1971 Bank Annual Meeting, at which time he presented the Colombian Government's formal request for a program loan.
2. Dr. Llorente, a member of President Pastrana's Conservative Party, is about 44 years old. He has legal training and during his professional career served for about eight years as Deputy General Counsel at the Inter-American Development Bank. He is known to be interested in holding a high level political position in his country, and is expected to play an active role in Colombia's presidential election to be held in the spring of 1974.
3. The Minister will be coming from Japan, where he visited to arrange for a loan for the Colombian Government of the equivalent of US\$25 million. While in Washington he will be attending a CIAP meeting on Colombia. He is also scheduled to go to New York next week to sign an agreement with the First Boston Corporation concerning a US\$20 million, 15-year bond issue on behalf of the Colombian Government.
4. We have been informed that the main purpose of the Minister's visit is to request the release of the second US\$30 million tranche of our Development Program and Export Expansion Loan, which was signed on June 28, 1972. To date a total of US\$20 million has been disbursed from the import component, and commitments against most of the US\$10 million export projects component are expected to be made over the next few months.
5. The conditions for release of the second tranche -- which are explicitly expressed in the loan agreement -- refer to two specific targets for fiscal performance, a target for non-traditional export growth, and a US\$0.57 cents per pound cut-off price for coffee, i.e. if the New York price for Colombian coffee during the period January 1-February 15, 1973, averages more than US\$0.57 cents per pound, the second tranche of the loan would not be released. Thus far, only one of the four conditions described above -- the 15 percent annual increase in non-traditional exports -- has been met (by a considerable margin). The attached annex summarizes the status of compliance with each of the conditions.

President has seen

January 17, 1973

6. Shortly after the loan was signed the price of Colombian coffee began to exceed the limit, partly as a result of a freeze in the major coffee growing area of Brazil. Colombian coffee averaged US\$61.5 cents per pound for the July 1-December 31, 1972 period. Since the beginning of 1973 the price has averaged over 67 cents and now stands at US\$68.5 cents. It seems very likely that the average coffee price for the January 1-February 15 period will be far above the 57 cents limit.

7. With respect to revenue increases, the Colombian Government was to have taken measures which would yield a net increase in current income of at least Col\$1 billion (equivalent to nearly US\$50 million) per year beginning in 1973. This commitment is needed to ensure Government financing for adequate growth in public investment, and was also made by the Minister last February at the Paris meeting of the Consultative Group for Colombia.

8. The Minister will undoubtedly refer to the Government's steady effort, during 1972, to push the necessary tax measures through Congress. As evidence of this effort, he will probably also refer to the extraordinary session of Congress expected in early February. Although this is correct, the Government's performance has been inadequate concerning measures which do not require congressional approval. In point of fact, the Colombians had informed us at negotiations for the program loan that customs duties on selected items -- including imported cars -- would have produced about two-thirds of the Col\$1 billion beginning in 1973. Under pressure from strong industry groups, however, the tariff increases were either cancelled or offset by compensating downward adjustments.

9. We have concluded that there are no convincing grounds for release of the second tranche of the program loan. As mentioned above, two conditions for release of the second tranche have clearly not been met. First, the price of coffee has considerably exceeded the US\$0.57 cents per pound limit. Also, the increase in the current budgetary surplus for 1972 was well below the 19 percent gain called for in the loan agreement. On the revenue front, there is still considerable uncertainty as to whether the Colombia Congress will pass the necessary tax measures at the forthcoming extraordinary session of Congress in February.

10. Second, the balance of payments situation no longer calls for the type of assistance provided for under our special loan. It was precisely to meet an urgent need for a substantial and rapid injection of foreign exchange resources, that we devised the import program component, and current coffee receipts have effectively obviated this need.

January 17, 1973

11. Several of the major economic indicators in Colombia are favorable. In 1972 the economy resumed a high rate of growth, on the order of 7 percent, after a drop in the rate of expansion in 1971. Non-traditional exports have performed in excellent fashion, although the boom in that sector has caused some supply difficulties at home. As a result of the sharp rise in both non-traditional exports and coffee prices, Colombia's foreign exchange reserves now stand at a historic high. ✓

12. A negative factor, however, is the accelerated rate of inflation and its implications. Prices rose by 15 percent in 1972 as compared with 9-10 percent p.a. in the previous five years. The Government's demand management has been inadequate, in our opinion. In an effort to combat inflation through monetary measures, restrictions have fallen almost entirely on the private sector. In the absence of adequate revenue raising measures, the Government stepped up public investment by borrowing heavily abroad to cover peso expenditures. (It recently borrowed US\$80 million from U.S. and other foreign commercial banks in addition to the US\$25 million mentioned above, obtained from Japanese banks. These loans carry 7 years terms.) Continued recourse to foreign borrowing -- particularly borrowing on terms of less than 15 years -- could have a serious impact on the country's creditworthiness. Moreover, given the presently favorable balance of payments situation and the upsurge of inflation in Colombia, the timing of the foreign borrowing is particularly poor. The implications of the foregoing for future economic development will be analyzed in our forthcoming economic report.

13. We have kept in close touch with the IMF on Colombian economic developments, and they share the concerns described above. We have also indicated these concerns to the Government through the Colombian Ambassador to the U.S., who can be expected to convey them to the Minister when he arrives in Washington.

14. Should the Minister, as we expect, request release of the second tranche of the program loan, I recommend that you lay heavy stress on the coffee price developments and the outlook for continued high prices. You might wish to emphasize to him that the circumstances under which the loan was made no longer exist. With respect to fiscal measures, I recommend that you emphasize the importance of adopting adequate revenue raising measures so as to ensure non-inflationary financing of public investment including the necessary Government financial support of externally financed development projects. In this connection you may wish to ask the Minister about the Government's plans for raising the necessary revenues in the event that the extraordinary session of Congress fails to act on pending tax legislation.

Attachment
BZinman:pr/gc

cc: Mr. Wiese.
cc: Messrs. Knapp, Knox, Avramovic

STATUS OF COMPLIANCE WITH PERFORMANCE TARGETS
DEVELOPMENT PROGRAM AND EXPORT EXPANSION LOAN (842-CO)

Conditions for Withdrawals under Second Tranche

Status

- | | | |
|----|--|--|
| 1. | 15 percent increase in non-traditional export registrations in 1972 over 1971. | Achieved. Non-traditional export registrations have increased by considerably more than 15 percent in 1972 over 1971. |
| 2. | After 1971, Government shall have adopted new taxes or duties (or increased rates of existing ones) to yield at least Col\$1 billion during calendar 1973. | Action taken on only about Col\$70 million out of proposed Col\$1 billion. Special session of Congress scheduled for February to consider real property surtax (for education) and presumptive tax on agricultural income. Prospects depend on Congressional action. |
| 3. | Current budgetary surplus for 1972 shall have exceeded the 1971 surplus by at least 19 percent. | Not achieved. |
| 4. | Average indicator price for Colombian coffee as reported by ICO between January 1, 1973 and February 15, 1973 shall not exceed 57 ¢/lb. | Coffee price has averaged over 67 ¢ per lb. since January 1. |

January 17, 1973

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: January 24, 1973

FROM: Gerald Alter *ga*

SUBJECT: Meeting of Mr. McNamara with the Minister of Finance of Colombia,
Mr. Rodrigo Llorente

1. The Minister of Finance of Colombia, Mr. Rodrigo Llorente, accompanied by Colombia's Ambassador to the U.S., Mr. Douglas Botero-Boshell, called on Mr. McNamara on Monday, January 22. Messrs. Knapp and Alter were also present. The Minister informed Mr. McNamara of their current interest in opening capital markets in the U.S., Europe and Japan, and stated that they were now about to conclude the public offering in the U.S. of a US\$20 million issue, 15 years maturity, 8-1/4 interest rate. They had already placed an issue in Japan with 10 banks and were hoping to do something in Europe by the end of the year.

2. The Minister expressed his appreciation for the program loan which had been extended last year to Colombia and urged that the second tranche of the loan be made available, giving no explicit reasons but implying that we were only now getting started with the disbursements and that the loan had been late in being placed on the books. Mr. McNamara explained that, given the special restrictions in the Bank's Articles of Agreement and given the background of this particular loan with the explicit relationship to coffee prices, he did not see how we could release the second tranche. The Minister did not press the matter.

3. The Minister went on to describe the very good foreign exchange position they were enjoying, indicating that exchange reserves would soon exceed the US\$400 million level. He wondered whether it might not be useful to consider the creation of a special fund which might be invested in World Bank securities and which could be available to Colombia when and if coffee prices were to decline. Mr. McNamara suggested that the Minister could explore a proposal along these lines with Mr. Alter.

cc: Mr. Knapp
Mr. Wiese
Mr. Zinman

GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Mr. Anders E.E. Ljungh, Office of the President DATE: April 9, 1973

FROM: Bernard Zinman, Program Coordinator, LAC

SUBJECT: COLOMBIA - Visit of Mr. Alvaro Gomez

4/9

Mr. Alvaro Gomez, who is 53 years old, is a leading member of the Conservative Party -- one of the two traditional political parties in Colombia. He is expected to be front runner for the Conservative Party's choice as Presidential candidate for the election which takes place in the spring of 1974. (The current President, Misael Pastrana, a Conservative, was elected under a system known as the National Front which, since 1968, provided for alternation of Liberal and Conservative presidential candidates. This arrangement is scheduled to end in 1974.)

This is Mr. Gomez's first trip to the U.S. in five years, apparently in preparation for the forthcoming presidential campaign in Colombia. He is in Washington to become acquainted with matters mainly concerning Colombia-US relationships. We understand he has no specific business to discuss; his interest is to exchange views on economic development and to meet with top representatives of the US Government and of institutions with which Colombia has important relationships, such as the IDB and the Bank. This morning at the U.S. Department of State he is seeing Deputy Secretary Rush; this afternoon he will see Under Secretary for Economic Affairs Casey, and Acting Assistant Secretary for Latin America Crimmins. He is also scheduled to see Senators Fulbright, McGee and Javits as well as Congressmen Rascell and Frelinghuysen. We understand he was also scheduled to see Henry Ford.

Mr. Gomez is the son of Laureano Gomez, Colombia's President from 1950-53. His family owns El Siglo, the leading Conservative daily newspaper in Bogota. He is now serving as a member of the Advisory Council to the Minister of Foreign Affairs -- a body of distinguished Colombian citizens. He served five terms in the Colombian Chamber of Deputies, the last being in 1968.

Mr. Gomez is known to be intelligent and responsible. He has had a right-wing reputation in his country over the past several years, and is said to be seeking a more progressive image.

President has seen

MEMORANDUM FOR THE RECORD

Visit of Mr. Alvaro Gomez, April 9, 1973

Mr. Gomez was on a tour of the United States, probably to enlist some support to make contacts for his future political career as a possible presidential candidate for the Conservative Party in the election in the spring of 1974. He was accompanied by the Ambassador of Colombia, Dr. Douglas Botero-Boshell. Mr. Gomez said that relations with the World Bank were excellent but that Colombian relations with North America were not as good. He said that Colombia had special problems and did not wish to compare it to Brazil, Chile, Argentina or possibly even Peru. Commodity prices are improving and so are the terms of trade, but he felt that Colombia must prepare for a coffee price decline. Oil imports would be necessary within the near future as the local capacity is insufficient. The most important area for economic expansion is still agriculture where the potential lies in irrigation, hydroelectric power and meat production. The economy must adapt to these changes.

Mr. McNamara said that Colombia has the Bank's full support. The Bank's lending in the five-year period FY69-FY73 had in fact been three times that of the previous period which is much more of an increase than for other countries, and the average had been some \$100 million a year. The Bank had lent both for agriculture and for export promotion. It's important that Colombia allow the benefits of growth to be more equitably distributed.

Mr. Gomez said that the population is involved in economic development to a much greater extent than in other countries like Peru where the Indians are mostly isolated. The whole country speaks Spanish. It will probably be easier to build an internal market in Colombia, but the effort for income distribution cannot be successful until there is more income to distribute. He asked whether Mr. McNamara thought that you could increase output without a concentration of income in the type of system which Colombia has. Mr. McNamara replied that this is possible and pointed to the example of Taiwan which had achieved this mainly through land reform and universal education.

Mr. Gomez said that statistics do not show properly the distribution of income or wealth and he said that credit may be more important than land reform to stimulate agriculture and provide for even income distribution. There is virgin land in the northern parts of Colombia which can be settled and there must be incentives for resettlement. Mr. McNamara said that credit and land reform are parts of a strategy for income redistribution.

Mr. Gomez proposed that the incentives for agro-industry could help income distribution if there were wide ownership and help the economy as a whole by promoting exports.

Mr. McNamara asked about progress in the Andean Pact. Mr. Gomez said there had difficulties by countries dropping out in times of disagreement, but production of metal products and plastics had been allocated and there were negotiations underway for the auto industry. An important problem would be to find a policy for the treatment of foreign investment. Public opinion in Colombia was divided on the Andean Pact and the Government had approved the most recent decisions subject to certain amendments.

AL

April 17, 1973

President has seen

Dr. Jose Felix Patiño

Date of Birth: February 15, 1927

Place of Birth: San Cristobal, Venezuela

Received a degree in Medicine from the National University of Bogota in 1948. Also studied at Yale 1958.

Since 1959, up to the present, he is the Executive Director of the Federacion Panamericana de Asociaciones de Facultades de Medicina (FEPAFEM) with headquarters in Bogota, Colombia.

1962-63: Minister of Health, Colombia

Member: American Medical Association
American Society of Surgeons

Population and Nutrition Projects Dept.
May 31, 1973

ALFONSO LÓPEZ MICHELSEN

Date of Birth: June 30, 1913

Civil Status: Married, three children

Education: Secondary education in Paris, Brussels and London.

Doctor of Jurisprudence, Facultad de Derecho del Colegio Mayor del Rosario, Bogotá - 1938

Courses in Law at the University of Chile and at the Georgetown University School of Foreign Service.

Early Career: Professor of Constitutional law, practiced corporate law, journalist.

Positions Held: 1950-1957 Resided in Mexico in exile, authored several books and conducted private business.

1957-1963 Directed Newspaper "La Calle", Bogotá.

1958-1962 Deputy, Colombian Congress

1959 Founded Liberal Revolutionary Movement (MRL)

1962-1966 Senator, Colombian Congress

1967-1968 Governor, Department of Cesar

1968-1970 Minister of Foreign Relations.

1970-Present Senator, Colombian Congress and active in Liberal Party Politics

Foreign Languages: English and French.

January 8, 1974

6. During his conversation with Bank staff, Dr. López cited electric power and rural development as his highest priority areas insofar as project activity is concerned. He strongly supports a rapid expansion of hydroelectric capacity and prompt action to link the north coast power system, which is dependent upon imported petroleum, with the central interconnected system which draws on Colombia's abundant and low-cost hydro resources. Dr. López's concern is based on the fact that Colombia will become a net importer of petroleum in 1975, and within a few years such imports will have a severe negative effect on the country's balance of payments. We have both a hydro power generation project and the north/central interconnection project in our FY75 program, although we are contemplating a relative phase-out in order to free Bank resources for more projects in the agricultural and social sectors. Should Dr. López be elected, he may press for a high level of assistance for both electric power and those projects which benefit the rural and other low-income population.

7. Dr. López has expressed great interest in the Bank's evolving attitude toward development, as reflected in your speeches of the past few years. In his campaign he has referred to the emphasis placed in your Nairobi speech on overcoming rural poverty. His own writings and speeches indicate a long-standing concern over the dualism that exists in Colombia, and he has often referred to "The Two Colombias"--one predominantly rural, backward, and depressed, and another urban, industrialized, and relatively prosperous, characterized by a small, wealthy elite. He wants to do a great deal more to elevate the "first Colombia," and wishes to concentrate more resources on promoting agricultural development. He also feels strongly that only through a new social contract, wherein government, business, and labor mutually agree to limit increases in public spending, taxes, prices, and wages, can Colombia hope to achieve real growth without intolerable inflation. Once such an "incomes policy" has been implemented and proven viable in terms of reducing price inflation (the blue-collar worker cost-of-living index spurted upward by 25 percent in 1973) it can then be used deliberately to alter the skewed distribution of income that exists in Colombia.

8. These and other views of Mr. López are compatible with the Bank's current emphasis--direct action to improve the lot of small farmers and artisans, etc.--but his ability to achieve results will obviously depend on the degree of support that he can get from the new Congress. Only with a strong working majority would he be able to push ahead with agrarian reform, an effective incomes policy, and other controversial programs.

9. In view of Mr. López's stature and the good possibility that he will be the next President of Colombia, we should make a special effort to inform him of the Bank's interest in assisting its borrowers to spread the benefits of economic growth. It may also be useful to impress upon him that an adequate rate of spending on education, water supply, health, agriculture, electric power, and other worthwhile activities will require a vigorous and continuous fiscal effort. It is important that Mr. López understand the close relationship between the volume of development assistance to be obtained from the Consultative Group and the corresponding availability of domestic financial resources to cover Colombia's legitimate share of total costs.

Attachment


cc: Messrs: Knapp
Wiese, Director LAC II

GLHyde/MCZenick/dpb

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 8, 1974

FROM: Gerald Alter SUBJECT: COLOMBIA -- Visit of Dr. Alfonso López on January 10

1. Alfonso López Michelsen is the presidential candidate of Colombia's Liberal Party. On April 21 the voters will choose between him, Alvaro Gómez of the Conservative Party (who visited you last April), María Eugenia de Moreno Díaz of the National Popular Alliance, and a few other minor party candidates. Dr. López is currently favored to win the presidency. Both the Senate and the Chamber of Deputies are also to be fully renewed.
2. Dr. López's curriculum vitae is attached. You will note that he has been active in Colombian public life, following in the footsteps of his father, Alfonso López Pumarejo, a Liberal reformist who was President in 1934-38 and 1942-45. During his political career Dr. López has advocated a liberal philosophy, and for a time broke away from the main Liberal Party to found the Liberal Revolutionary Movement (he was its presidential candidate in 1960). Last June the main party chose him by a considerable margin over the other leading candidate for the nomination, former President Carlos Lleras Restrepo.
3. Dr. López is currently enjoying a respite from a long political campaign. After vacationing in Miami he has spent several days in New York where he met with members of the Colombian community, lunched with a group of bankers, and addressed the Council on Foreign Relations and other interamerican groups. He will visit Washington for one day only to meet you, Assistant Secretary of State for Latin American Affairs Jack Kubish, and IDB Executive Vice President Henry Costanzo, in Mr. Ortiz Mena's absence. On Friday he will return to Colombia to begin the last three months of intensive campaigning.
4. Dr. López is a cosmopolitan person, speaks both French and English, and has traveled widely. He is knowledgeable about the Bank and the Consultative Group for Colombia, and seems eager to continue our special relationship. Our Colombia Division staff members have talked with him and his economic adviser, as well as with the other major candidates, for the purpose of assuring smooth continuity in our activities during the April 21 to August 7 "lame-duck" period and during the early days of a new administration. Dr. López has stated that if elected he will want his team to consult with us promptly, while he is preparing a "100 days program." This program would be set in motion from the date of his inauguration, and would include presentation of a sizable package of legislative proposals to the new Congress. He sees the December 1974 meeting of the Consultative Group (tentative schedule) as an opportunity to present his administration's economic policies to the outside world.
5. As explained by his economic adviser, Dr. López envisages a development program based on (a) continued high GDP growth, especially in agriculture and industry; (b) an improving employment, income, and social welfare situation; and (c) an effective incomes policy which taken together with (a) and (b) would make it feasible to achieve both growth and redistribution without excessive price inflation. Dr. López expects to produce a comprehensive Strategy Paper, based on papers being prepared by various working parties, by mid-February. This would serve as the basis for a public document.

President has seen

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: January 15, 1974

FROM: Gerald Alter *gk*SUBJECT: Meeting of Mr. McNamara with Dr. Alfonso López Michelsen,
Senator, Colombian Congress

1. Mr. McNamara was visited on January 10 by Dr. Alfonso López Michelsen, the presidential candidate of Colombia's Liberal Party (see my memorandum of January 10). Dr. López was accompanied by Dr. Virgilio Barco, Executive Director of the Bank. Mr. Alter was also present.

2. Dr. López was confident that he would win the coming elections, referring to recent public opinion polls. He pointed out that the Cabinet would still be a coalition Cabinet and, while the President under the Colombian Constitution was in a strong position, he would still need broad support in the Congress, particularly for taxation measures. Expanding on his philosophy, he indicated that he wanted the Colombian Government to move rapidly in achieving a better distribution of income, while at the same time expanding output. He hoped to be able to make a start in the conversion of Colombia from "the two Colombias to a showcase in human affairs". Essential was action to put a stop to the rapid inflation and he was thinking a great deal about what kind of an incomes policy would contribute to this objective. There was an exchange of views between Dr. López and Mr. McNamara on various aspects of the problem of raising the living level of the lower income groups, while sustaining economic growth. Mr. McNamara emphasized the importance of increasing the productivity of the rural poor, rather than simply transferring income to these groups.

3. Dr. López pointed out that between the election in April and the inauguration in August, he wanted to work out the details of the economic and social program which he would hope to initiate in the first 100 days of his administration. He requested the Bank's advice and assistance during this period. Mr. McNamara agreed that the Bank would do what it could to assist him, but that we were far away from having the answers to many difficult questions in this area.

cc: Mr. Knox, Projects Director, LAC
Mr. Wiese, Programs Director, LAC II
Mr. Zenick, Division Chief, LAC II

GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Mr. Anders E.E. Ljungh, Assistant to the President DATE: April 2, 1974

FROM: M. C. Zenick, Division Chief, CPDII, LAC

SUBJECT: Briefing for Meeting between Mr. McNamara and Ex-President
Dr. Carlos Lleras Restrepo of Colombia, April 2, 1974

1. Dr. Lleras was President of Colombia in 1966-70. Mr. McNamara met him during his visit to the country in June 1970, when Bank loans were signed for Education, Highways, Chivor I Hydroelectric, and the Cali Water Supply and Sewerage Projects. Attached is a biographical note.
- 4/2
2. Dr. Lleras has played the role of Liberal Party elder statesman since he left office. Last August, at his insistence, the Liberal Party met to designate the candidate for the 1974 election campaign and Dr. Lleras lost the nomination to Dr. Alfonso Lopez Michelsen, with whom Mr. McNamara met in January. The differences between the two men stem from personal rivalry and style rather than ideology. Dr. Lleras has taken no part in the campaign and, despite entreaties from Liberal Party officials and friends (not including Dr. Lopez), made no statement in support of his party's candidate until a few days ago. He has chosen to remain outside of Colombia during most of the campaign.
3. Dr. Lleras was probably the strongest of the Colombian Presidents over the 16-year period of the Liberal-Conservative Coalition. His tenure in office was a stormy one, and he forced through important legislative measures, including a constitutional reform. His largely sound and active economic policies with respect to flexible exchange rates, export promotion, and public investment contributed to the accelerated economic growth the country has experienced in the past several years. He is especially proud of the success of his export diversification efforts which resulted, after he left office, in a rapid growth of foreign exchange earnings. He considers this is the "main feature", in his own words, of Colombia's recent economic evolution.
4. During the past several months, Dr. Lleras has been Special Consultant to the President of the Inter-American Development Bank. He first carried out an assignment on Paraguay's public finances and, after an interim, undertook an assignment last month on long-range planning for the IDB, including lending priorities and methodology. He has a special interest in rural development and met recently with Mr. Yudelman and staff of the LAC Agriculture Division. Their discussion included an explanation of our rural development work in Mexico, on which both the IBRD and IDB have been asked to provide assistance. Dr. Lleras was particularly interested in the question of developing suitable coordination mechanisms between the two institutions, since both are being asked to assist in comprehensive integrated rural development programs in several Latin American countries.

April 2, 1974

5. I had the opportunity to meet with Dr. Lleras recently, on March 12, at a Conference at the University of Alabama. Dr. Lleras has a high interest and regard for the contribution made by the Bank in Colombia by helping build the country's infrastructure and by improving the credit structure for agriculture and industry. He is very pleased with the current emphasis the IBRD has placed on projects designed to increase the income of the rural poor by improving agricultural productivity. He considers that the IBRD leadership in the field of income distribution matters, as they affect both rural and urban dwellers, is one of the most important events in the economic development field. He is very conscious that the difficulties in attaining achievements in the social area are considerably more difficult than in the area of balance of payments and gross national product growth -- on which he concentrated when he was President of Colombia.

6. Mr. Knapp lunched with Dr. Lleras last week to discuss the questions of concern to him in connection with his assignment for the IDB.

Attachment

cc: Messrs. Knapp
Alter
Wiese

MCZenick:ak

Biographical NotePresident Carlos Lleras Restrepo

- 1908 Year of birth.
- 1929 Entered politics as leader of the University Students Federation. From this position he was catapulted into national politics, becoming second chairman of the Liberal Party.
- 1933 Elected to the House of Representatives, where he started his activities by introducing Agrarian Reform Legislation. His struggle for agricultural reform lasted through 1961, when as a Senator, Dr. Lleras headed the commission that drafted the agrarian reform law of 1961 that created the Colombian Institute for Agrarian Reform (INCORA).
- 1935 Elected President of House of Representatives. At the same time, he was serving in the House of Representatives as chairman of the Taxation Committee. Dr. Lleras drafted and achieved congressional approval for the tax reform of 1935. This was the first time in history that a Latin-American country introduced progressive income taxation, which from then on became the cornerstone of Colombia's fiscal policy. Played a leading role in the Constitutional Reform of 1936, guaranteeing the freedom to strike, the freedom of religion, the freedom of education, and other social benefits.
- 1936-38 While continuing as congressional leader, Dr. Lleras was elected by Congress to serve simultaneously as Controller General of the Republic. In this position Dr. Lleras modernized the nation's accounting methods and organized its current statistical system.
- 1938-42 Appointed Minister of Finance. Reorganized systems for internal and external credit. He was his country's delegate before the Foreign Bond Holder's Committee of the United States, and negotiated the conversion of 6 percent 10-year maturity bonds, into 3 percent bonds payable in 30 years. During his tenure, Dr. Lleras also originated the following institutions: Instituto de Credito Territorial (Housing Development Institute), Fondo de Fomento Municipal (The Municipal Development Fund), the Geographical and Cadastral Institute, the Livestock Development Fund, the Industrial Development Institute, the National Coffee Fund, the Grancolombian Merchant Fleet, the Coffee Bank, the Agrarian Insurance Co., and revamped the Caja Agraria (Agricultural Development Bank) into its present form.

- 1941 Dr. Lleras was elected National Chairman of the Liberal Party, a position that he was to take several times more. While in this position, the President of the Republic, Dr. Lopez, resigned the Presidency. Dr. Lleras was nominated to the Presidency by unanimous proposition of congressmen belonging to the Liberal Party. He resigned this nomination when President Lopez withdrew his resignation.
- 1943 Reappointed Minister of Finance, serving in this position for one year. When he left the Ministry he was elected president of the National Coffee Committee, a position in which he served for 7 years.
- 1944 Led Colombia's delegation to Bretton Woods, writing a book entitled "International Monetary Fund" on the proceedings and conclusions of the conference.
- 1945 Delegate to the first General Assembly of the United Nations and in 1947 headed the Colombian delegation to the Employment and Trade Conference of Havana, Cuba.
- 1952 While being National Co-Chairman, jointly with ex-presidents Lopez and Santos, of the Liberal Party, he had to take political asylum in Mexico while the Government of Colombia was taken over by the military dictatorship of General Gustavo Rojas Pinilla.
- 1957 After having been at the United Nations working on the theory of planning economic development and on studies for the development of river bank resources, he was appointed member of the Bipartisan Institutional Readjustment Committee by the Military Junta that overthrew the Rojas Pinilla regime. In this position he was one of the leading members of the Committee's group drafting the constitutional reform that lead to the creation of the National Front, the political system that has since ruled Colombia.
- 1959 Dr. Lleras withdrew from politics until 1960 when Congress elected him Vice-President of the Republic. Also in 1960, as a Senator, proposed and led the drafting of the Agrarian Reform Law.
- 1963 Appointed by the United Nations' Economic Commission for Latin-America to head one of the technical groups in charge of preparing working papers and recommendations for the United Nations Trade and Development Conference that took place in 1964. Dr. Lleras was the head of the Colombian delegation to that meeting.

1965

Dr. Lleras accepted the nomination for the Presidency, which he resigned in May because of opposition principally from groups of the Conservative Party. In October a bi-partisan Committee headed by ex-president Lleras Camargo, asked him to accept again the nomination.

1966

Elected President of the Republic on May 1, 1966

1970-74

Upon completion of his presidential term in August 1970, Dr. Lleras resumed leadership of the Liberal Party. He also plunged into a heavy schedule of personal appearances, often outside the country, and became involved in a number of special studies. A few years ago, for instance, he led a high-level FAO commission in an assessment of agrarian reform as an element of development. Late in 1973 he encountered difficulties within his party, and effectively withdrew from active participation in domestic politics (the party leadership passed to Mr. Turbay and the presidential nomination was won by Mr. Lopez). At present Dr. Lleras is a Special Consultant to the President of the IDB. In this capacity he is working with Lincoln Gordon to evaluate the IDB's lending policies, as well as Latin America's financial needs, to determine the kinds of institutional changes that would seem desirable in the medium term. He is also very much involved in rural and urban development studies, and is reportedly seeking to identify ways in which the two topics can be integrated.

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: April 16, 1974

FROM: Gerald Alter *ga*

SUBJECT: Meeting of Mr. McNamara with Dr. Carlos Lleras Restrepo, Ex-President
of Colombia

1. As an advisor to the Inter-American Development Bank, Dr. Carlos Lleras called on Mr. McNamara on April 2 to discuss the implications of the energy crisis and related world economic developments for the less developed countries, particularly Latin American countries. They had a wide ranging discussion. The effects of the prospective changes in the rates of growth of the developed countries were explored. Mr. McNamara felt that the special oil facility of the IMF will prove beneficial for a number of developing countries, but was unlikely to be a substantial source of concessional aid. There was some discussion of the effect of the surpluses of oil producing countries on world market interest rates, the effects of higher rates of inflation on the interest rates charged by international lending institutions and on the currency in which loans are to be denominated. The possibility of commodity agreements for products other than oil was considered. The prospects for concessional assistance to less developed countries from the oil countries and from the industrial countries was touched upon.

2. Dr. Lleras also mentioned his interest in integrated rural development schemes and expressed the hope that the World Bank and the Inter-American Development Bank would work together in this field.

cc: Mr. Knapp
Mr. Wiese, Programs Director, LAC II
Mr. Zenick, Division Chief, LAC II

GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 3, 1974

FROM: Hendrik van der Heijden, Division Chief, LAC II

SUBJECT: COLOMBIA: Mr. McNamara's Meeting with the Colombian Delegation

1. On September 30, Mr. McNamara met with the Colombian Delegation to the 1974 Annual Meeting consisting of Dr. Abdon Espinosa Valderrama, Head of the Delegation, Dr. German Botero de los Rios, Manager of the Banco de la Republica, Dr. Rodrigo Escobar, Economic Counselor of the Colombian Embassy, and Dr. Hernan Mejia, Adviser Banco de la Republica. Messrs. Alter, Wiese and van der Heijden were also present.

2. Responding to Mr. McNamara's question regarding the measures which the Government of Colombia was taking to deal with Colombia's financial problems, Dr. Espinosa Valderrama said that the Government had taken strong measures in the field of fiscal and monetary policies. As the first step the Government was attempting to substantially reduce the fiscal deficit: the wheat subsidy had been eliminated, an increase in the sales tax had been introduced and the income tax structure had been changed so as to capture higher-income earners and capital gains. These fiscal measures together with a restrictive monetary policy would set the stage for the implementation of an adequate incomes policy. In this connection, Dr. Espinosa Valderrama indicated that as yet a specific incomes policy had not yet been formulated but a tripartite commission consisting of representatives from the Government, business and labor was meeting to formulate such policy. It was the Government's hope to achieve a deceleration of price increases that had taken place so far, but there would be still considerable upward pressure on prices due to the Government's adopted policy of substantially increasing the tariffs which public utilities charged for their services.

3. When Mr. McNamara inquired about the longer-term objectives of the Government's development policy, Dr. Espinosa Valderrama stated that the Government would be pursuing a policy of continued high economic growth with improved distribution of its benefits. This would be achieved through a combination of fiscal, monetary and price policies, and through developing programs for subsistence agriculture, education, public health and nutrition. It was the Government's intention to stimulate the development of labor-intensive export-oriented manufacturing, hoping to make Colombia into the Japan of Latin America. While the previous Government was putting much emphasis on construction as the driving force of economic growth, Colombia's present Government would reorient this policy to stress the development of manufacturing, mining, and subsistence agriculture. While the Government recognized that Colombia's urban problems were great it had no choice but to reduce rural unemployment, and to increase the standard of living of the people depending upon agriculture, which accounted for 40 percent of Colombia's population.

4. Dr. Espinosa Valderrama finished by saying that Colombia's new Government, while being left-of-center, had a bipartisan composition and a clear mandate from the Colombian people, having been elected by the largest majority in Colombian history.

5. Mr. McNamara asked Dr. Espinosa Valderrama to convey his best wishes for success to President Lopez Michelsen and his best regards to Finance Minister Botero.

cc: Messrs. Alter
Ljungh
Wiese, Director, LAC II
Blaxall, Acting Director, LAC Projects
Avramovic, Chief Economist, LAC
Greene, Sr. Economist, LAC II
Geli, LAC Projects
Glaessner, LAC Projects
Goffin, LAC Projects
Haasjes, LAC Projects
Quijano, Res. Rep. Bogota, LAC II
Division Circulation

HvdHeijden/dpb

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 30, 1975

FROM: Adalbert Krieger

SUBJECT: COLOMBIA - Your Meeting with Dr. Rodrigo Botero,
Minister of Finance of Colombia

1. Dr. Rodrigo Botero, Colombia's Minister of Finance, whom you will meet on Monday, June 2, 1975, may well talk to you about the following topics:

- a) the Government's development strategy;
- b) the Bank's lending program for Colombia; and
- c) the Government's strategy for the Consultative Group Meeting which is planned for June 23 and 24, 1975 in Paris.

The Government's Development Strategy

2. As you know, we are well impressed with the program of measures which the Government has adopted to achieve the twin objectives of "internal equity and external efficiency". A major reform of Colombia's taxation system is now on the books and Dr. Botero is justifiably taking much personal pride in this achievement. According to our consultants, the reform stands out as a model for both developed and developing countries in terms of its equity, progressivity and elasticity features. Furthermore, the Government is executing a public investment program which aims at improving the income and productivity of the poorest 50 percent of Colombia's population while, at the same time it is pursuing policies designed to stimulate efficient private sector activity so as to maintain a vigorous pace of economic growth. The Government's accomplishments, and its policy intentions, are outlined in the recent economic report, a copy of which is attached in case you wish to inform yourself in more detail.

3. The recent economic report identifies two major areas where a clarification of Government policy is called for: the external payments' outlook for 1975 and beyond, and the Government's petroleum policy. We expect that Dr. Botero will inform you about these matters. As we see it, a combination of low coffee prices and a reduced growth of manufactured exports (caused by the world recession) has been primarily responsible for a relatively heavy loss in international reserves, which is continuing, and which could lead to these reserves dropping below prudent levels this year if the Government does not take action to replenish them. Here is where a problem arises: the Government takes the view that it has ample access to medium-term resources from foreign commercial banks -which is correct- and it wishes to approach those banks first -should the need arise- before seeking accommodation from the IMF. We have a lot of sympathy for the Government's position, but the IMF does not: the IMF has offered Colombia access to its financial assistance facilities, but so far such offers have been rather brusquely declined, leaving somewhat of a relationship problem about which

May 30, 1975

we are concerned. You may wish to explore this matter with Dr. Botero and, perhaps, mention to him the advantages of maintaining a cordial relationship with the IMF.

4. As to petroleum policy, our economic report stresses the problems resulting from unremunerative producer prices and the advantages to be derived from raising them, as well as from raising consumer prices which were set at about 11 US cents per gallon. The Government had consistently refused to discuss its petroleum policy with international organizations for as long as the subject was under discussion within the Government, but when I was in Bogota some two weeks ago, the Government's position changed and I was told that action was imminent. We have just been informed that the Government has doubled the consumer price for premium gasoline, and that a doubling of regular gasoline prices would be introduced next week. In addition, we have been informed that in its negotiations on the new crude prices, the parties are now close to reaching agreement which should lead to the establishment of these prices at levels sufficient to restore self-sufficiency.

5. The only fact is that premium gasoline prices have been doubled with effect from yesterday. You may, therefore, ask Dr. Botero what the Government's plans are in the area of petroleum policy, recognizing, however, the Minister's sensitivity to outsiders raising such issues.

The Bank's Lending Program for Colombia

6. During my discussions in Bogota, Minister Botero made a strong plea that we join the Government in efforts to increase resources available for investment, thereby achieving a quantum jump in economic growth and social well-being. We discussed the composition of the operations and lending program which we are proposing for your consideration at a June 18 meeting on the new CPP which has been distributed to you today by P&B. You may, therefore, wish to read the CPP before your meeting with the Minister. The proposed Operations Program, we believe, is in line with the Government's development strategy, and we propose an increase in the Lending Program for the 1976-1980 program. However, the proposed increase has been tempered by creditworthiness considerations.

7. On Monday we plan to sign the documents relating to the Second Caqueta Project which brings the number of loans signed in this fiscal year to 4, totalling US\$67 million. We are still hopeful that we can bring a fifth loan of \$21 million for the Cordoba 2 Project to the Board on June 24 as scheduled, but as of today we have not yet completed loan negotiations.

May 30, 1975

Consultative Group Meeting

8. As you know, a meeting of the Consultative Group for Colombia is scheduled to take place on June 23 and 24 in Paris. I will chair this meeting where donors will have a chance for the first time to become acquainted with the development strategy of Colombia's new Government. I have told Minister Botero that the participants in the meeting will probably also wish to be informed about the Government's policies in the fields of petroleum policy and the external payments outlook. You may wish to reiterate this point. I hope to have a word with Minister Botero on the Agenda for the Meeting, a copy of which is attached for your information.

cc: Messrs. Knapp
Chenery
Wiese, Director, LAC II
Knox, Director, LAC Projects
Adler, Director, P&B

HvdHeijden/dpb

CONSULTATIVE GROUP FOR COLOMBIA

Paris, Monday and Tuesday, June 23 and 24, 1975

PROPOSED AGENDA

Monday, June 23

10:00 a.m.

Opening Statement by the Chairman,
Dr. Adalbert Krieger, Vice President,
Latin America and the Caribbean
Regional Office, IBRD.

Address by the Minister of Finance and
Public Credit, Dr. Rodrigo Botero, Head
of the Delegation of Colombia.

Discussion of Colombia's Development Policies.

3:00 p.m.

Presentation by Colombian Delegation:

Outline of New Development Plan;
Monetary and Financial Reform; and
the Balance of Payments.

Discussion of Topics raised by Colombian
Delegation.

Presentation of Project List and Medium-Term
Requirements of External Financing.

Tuesday, June 24

10:00 a.m.

Discussion of External Capital Requirements
and the Project List.

3:00 p.m.

Continuation of Discussion.

Concluding Statement by the Head of the
Delegation of Colombia.

Concluding Statement by the Chairman.

Latin America and the Caribbean
Regional Office
May 29, 1975

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 19, 1975

FROM: Adalbert Krieger

SUBJECT: COLOMBIA: Visit of President Alfonso López Michelsen, September 24-26A. Background

1. President Alfonso López Michelsen will visit Washington on a state visit September 24-26. He has requested that you visit with him at Blair House on September 25 at 7:20 p.m. You will recall that you met President López early last year prior to his election and exchanged views with him regarding the problems facing Colombia and the need to raise the living level of the lower income groups while simultaneously sustaining rapid economic growth (see Attachment I, Memorandum of Conversation, January 10, 1974, and Attachment II, President López's Curriculum Vitae). *What progress*

2. Since taking office in August 1974, the López administration has successfully implemented a far-reaching program of economic and social reform. Badly needed, but politically difficult, reform of the fiscal and monetary systems aimed at strengthening resource mobilization, broadening the distribution of the benefits of economic growth and increasing allocational efficiency have been carried out. The tax system has been converted from an outmoded, regressive, inelastic and difficult to administer one to a modern, more equitable, and more efficient system capable of generating substantially increased resources for investment. The monetary reform included a restructuring of interest rates, simplification of the complex reserve system and elimination of many of the more rigid and cumbersome controls which inhibited the system's allocational efficiency and effectiveness in mobilizing private savings. The reform has produced a more balanced flow of resources through Colombia's financial system and a substantial increase in financial savings. These reforms when taken in their entirety stand as a landmark in the recent history of such undertakings. As a result, Government revenues in real terms are about 30 percent over those of last year. At the same time the Government reduced the annual rate of inflation in Colombia from 30 percent in early 1974 to less than 22 percent at present. *922*

3. At the recent Consultative Group Meeting the Colombian Minister of Finance Rodrigo Botero noted that the major problems facing the Colombian economy in the immediate future are disequilibrium in the balance of payments, increasing unemployment and the loss of self-sufficiency in petroleum production. A petroleum pricing policy aimed at maintaining the price of crude, gasoline and other derivatives at artificially low levels resulted in declining domestic production of crude and the country has for the first time in the postwar period become a net importer of petroleum products. Recently, however, President López introduced a major policy change in this field. Producer prices for crude are now at remunerative levels and gasoline prices have been increased and further increases will occur on a monthly basis. During the first half of this year it appeared that *←*

September 19, 1975

the need to import crude petroleum, reduced demand for the country's non-traditional exports stemming from recession in the industrialized countries, lower world coffee prices and increased prices for most of Colombia's major imports would result in a substantial loss of foreign exchange reserves. Partial recovery of the growth of nontraditional exports, continued low demand for imports, and sharply higher world coffee prices have turned this situation around and, by the end of this year, Colombia is expected to increase its foreign exchange holdings to the level prevailing (US\$430 million) at the beginning of the year. In 1976 Colombia is expected to accumulate foreign exchange reserves.

4. The major problem now faced by Colombia is reduced economic growth and increasing unemployment. The rate of growth of GNP has declined over the past year as a result of depressed levels of economic activity in every sector but agriculture. Urban unemployment has increased to 14 percent and the López administration has come under attack as pursuing policies which have aggravated the position of the lowest income groups. To reverse this trend the Government is now taking action to increase both public and private investment. These measures are expected to increase growth in the last quarter of the year and GNP for the year as a whole is expected to expand by about 4.5 percent. In addition, the Government is instituting nutrition, health, education and agricultural programs designed to improve the level of living of the poorest 50 percent of the population. Because of their complexity these programs have been slow in getting started and every effort will now have to be made to implement them. While these programs will benefit the poor, they may not have an immediate positive impact on employment and more will have to be done to return the economy to the high growth path achieved in 1970-73.

5. As President López indicated last year, shortly after winning an overwhelming victory in his bid for the presidency, such a victory does not assure continued political support. Early this year, with economic growth declining, unemployment increasing, inflation continuing at a high rate and the tax burden on middle and higher income groups having been increased by the recently completed tax reform, the López administration lost much of its political support despite the party's majority in Congress. Guerrilla activity appeared to be on the rise, and the increased frequency of street demonstrations in protest of the worsening economic situation gave rise to widespread rumors of military intervention. Since that time, both the economic and political situations have improved and President López appears to have recovered much of the political support lost in the early months of his administration.

B. The Bank Program in Colombia

6. In recent years there has been a decline in the relative importance of our lending for economic infrastructure in favor of agriculture, industry, education and water supply projects which directly benefit lower income groups. Our current lending program continues this trend, and thus supports the

September 19, 1975

López administration's strategy of shifting public investment to nutrition, health, education, and urban and rural development programs which benefit the poorest 50 percent of the population. Since the beginning of the current calendar year, we have signed five loans with Colombia for land settlement, small farm development, small scale industry, water supply, and telecommunications, totaling US\$88 million. The appraisal process is proceeding on schedule for the sixth DFC, second agricultural credit, and tourism projects, for which we expect to make loans totaling US\$164 million in FY76. We are planning to begin appraisal of five new projects in the next six months for rural development, nutrition and health, power, railways, and telecommunications. Less advanced are projects in support of high priority programs for slum improvement and rural water supply (see Attachment III for project status).

C. Points you may wish to raise with President López

7. You may wish to congratulate the President on his successful implementation of comprehensive economic, social and financial reforms and indicate the Bank's continued strong support of the nutrition, health, urban and rural development programs aimed at benefiting the lowest income groups.

8. You may wish to ask about the growth and employment situation. The nutrition, health, and other programs aimed at benefiting the poor are important but even if their implementation is accelerated, their full impact will not be felt for a number of years. It is desirable, therefore, that economic growth, especially in the industrial and construction sectors, be accelerated so that unemployment can be reduced.

Attachments (3)

Set up due for strong FZJasper

cc: Messrs. Knapp

Knox, Director, LAC Projects
Wiese, Director, LAC II (o/r)
Skillings, Acting Director, LAC II
Quijano, Res. Rep. Bogota, LAC II
van der Heijden, Div. Chief, LAC II

FZJaspersen/dpb

Attachment I

January 15, 1974

Memorandum for Record

Gerald Alter

Meeting of Mr. McNamara with Dr. Alfonso Lopez Michelsen,
Senator, Colombian Congress

1. Mr. McNamara was visited on January 10 by Dr. Alfonso Lopez Michelsen, the presidential candidate of Colombia's Liberal Party (see my memorandum of January 10). Dr. Lopez was accompanied by Dr. Virgilio Barco, Executive Director of the Bank. Mr. Alter was also present.

2. Dr. Lopez was confident that he would win the coming elections, referring to recent public opinion polls. He pointed out that the Cabinet would still be a coalition Cabinet and, while the President under the Colombian Constitution was in a strong position, he would still need broad support in the Congress, particularly for taxation measures. Expanding on his philosophy, he indicated that he wanted the Colombian Government to move rapidly in achieving a better distribution of income, while at the same time expanding output. He hoped to be able to make a start in the conversion of Colombia from "the two Colombias to a showcase in human affairs". Essential was action to put a stop to the rapid inflation and he was thinking a great deal about what kind of an incomes policy would contribute to this objective. There was an exchange of views between Dr. Lopez and Mr. McNamara on various aspects of the problem of raising the living level of the lower income groups, while sustaining economic growth. Mr. McNamara emphasized the importance of increasing the productivity of the rural poor, rather than simply transferring income to these groups.

3. Dr. Lopez pointed out that between the election in April and the inauguration in August, he wanted to work out the details of the economic and social program which he would hope to initiate in the first 100 days of his administration. He requested the Bank's advice and assistance during this period. Mr. McNamara agreed that the Bank would do what it could to assist him, but that we were far away from having the answers to many difficult questions in this area.

cc: Mr. Knox, Projects Director, LAC
Mr. Wiese, Programs Director, LAC II
Mr. Zenick, Division Chief, LAC II

GAlter:pa.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 22, 1975

FROM: Adalbert Krieger

SUBJECT: COLOMBIA: President López Visit: Supplementary Brief

1. On June 12, 1975, President López invoked Article 121 of the Constitution (state of siege powers) for the Departments of Atlantico, Antioquia, and Valle in response to the increase in kidnapping, guerrilla activity, and street demonstrations which has occurred in these Departments with increasing frequency since the beginning of the year. On June 26, the state of siege was extended to the entire country. Under Article 121 the Executive is provided with extraordinary powers to restrict civil liberties in order to combat internal unrest.

2. During the postwar period Article 121 has been in effect more often than not. During the past administration, President Pastrana of the Conservative Party resorted to its use for three of his four years in office. Shortly before the inauguration of Liberal President López, President Pastrana lifted the state of siege. While López successfully resisted pressure from the military to immediately restore the state of siege powers on taking office, events during the first semester of this year weakened the position of those in his administration who opposed use of Article 121. It now appears likely that Article 121 will be in effect for the indefinite future.

cc: Messrs. Knapp

Knox, Director, LAC Projects
Wiese, Director, LAC II (o/r)
Skillings, Acting Director, LAC II
Quijano, Res. Rep. Bogotá, LAC II
van der Heijden, Div. Chief, LAC II

FZJaspersen/dpb

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Adalbert Krieger
SUBJECT: Visit of President Alfonso López Michelsen

DATE: September 22, 1975

CONFIDENTIAL

Today, I have been informed by our Resident Representative in Colombia, Mr. Carlos Quijano, that Minister Rodrigo Botero would like to see me on Wednesday evening, September 24, at Williamsburg before the dinner with the President of Colombia.

Mr. Quijano also informed me that the message we sent to Minister Rodrigo Botero regarding the selective increases in IBRD capital subscriptions has been transmitted to him. This is one of the subjects Minister Rodrigo Botero would like to discuss on Wednesday, as he is planning to ask the President of Colombia to raise this issue during his conversations in Washington.

I attach a copy of the President's itinerary covering his stay in Washington.

Attachment

cc: Mr. Knapp

AKrieger:bg

9/22

Itinerary - State Visit of President López Michelsen, September 24-30

Wednesday, September 24, 1975

4:20 p.m. Arrive at Patrick Henry International Airport, Williamsburgh, Va.
4:45 p.m. Arrive at the Presidential Residence in Williamsburgh
8:00 p.m. Dinner

Thursday, September 25, 1975

9:20 a.m. Leave Williamsburgh to Washington, D.C.
10:25 a.m. Arrive at the White House, Washington, D.C.
10:30 a.m. Meeting with President Ford
12:30 p.m. Luncheon with members of the Senate Foreign Relations Committee
3:00 p.m. Visit with Vice President Rockefeller at Blair House
7:20 p.m. Meeting with Mr. McNamara at Blair House
8:00 p.m. Banquet in the White House with President Ford

Friday, September 26, 1975

8:00 a.m. Meeting with Mr. Ortiz Mena, President of IDB
9:30 a.m. Meeting with members of the Congress Foreign Relations Committee
11:00 a.m. Visit to the Unknown Soldier Monument, Arlington Cemetery
1:00 p.m. Luncheon with Mr. Kissinger
4:00 p.m. Meeting with Mr. Alejandro Orfila, OAS Secretary General at Blair House
7:00 p.m. Reception at the Colombian Embassy
10:00 p.m. Reception at the Colombian Embassy for the Colombian Colony

Saturday, September 27, 1975

10:00 a.m. Leave Washington, D.C. to New York (in train)
12:59 p.m. Arrive at Penna. Station, New York
2:00 p.m. Luncheon with the President of Banco de Bogota in New York

Sunday, September 28, 1975

5:00 p.m. Salute to the Colombian Colony from Roosevelt Hotel, New York.

Monday, September 29, 1975

12:30 p.m. Luncheon with members of the First National City Bank, New York.

Tuesday, September 30, 1975

Leave New York from La Guardia Airport to Fort Ordell, Florida.
1:15 p.m. Leave Florida to Bogota, Colombia

Information given by Mr. Quijano (by phone)

September 22, 1975

Alfonso López Michelsen - Presidential Candidate of the Liberal Party

Born: June 30, 1913 in Bogotá

Profession: Lawyer (Specialized in Juridical and Constitutional Law)

Education: Bachiller, Liceo Pascal, Paris, France;
Further studies in the Liceo Francés, London, England;
University studies: Facultad de Derecho del Colegio Mayor del Rosario - Constitutional Law

Publications: "Derecho Público"
"La Posesión en el Código de Bello" (1936)
"Introducción al Estudio de la Constitución de Colombia" (1943)
"La Estirpe Calvista de Nuestras Instituciones" (1946).

Experience: Mr. López Michelsen lived several years in México. On his return to Colombia he entered business, journalism and politics. He was Director of the Newspaper "La Calle". He also was elected as Representative to the Congress.
Mr. López Michelsen was the leader of a liberal group "Movimiento Revolucionario Liberal" (MRL), now defunct. Later he was nominated to the post of Governor of the Department of César and subsequently to the post of Minister of Foreign Affairs.

Languages: French and English

Travel: Has travelled extensively to several countries in South America, Canada, England, Mexico, and also to several countries in the Far East.

Married with Mrs. Cecilia Escobar

Sons: Alfonso, Juan Manuel and Felipe.

STATUS OF OPERATIONS

A. FY 1976 Lending Program

1. SIXTH DEVELOPMENT FINANCE COMPANIES PROJECT

Borrower: Banco de la Republica (Central Bank)

Loan Amount: US\$80 million

Project Cost: Approximately US\$300 million in industrial investment.

Scheduled Board Date: January 1976

Project Description: Continuation of Bank lending to manufacturing, mining, and tourism firms in Colombia, through intermediation of Central Bank and private industrial finance companies (financieras). Innovative features of the proposed Sixth DFC loan are: (1) requirement that large firms (except those proposing to export incremental output, or locate outside main industrial regions) assume foreign exchange risk on sub-loans; (2) creation of technological development fund; and (3) creation of equity financing fund. Retroactive financing to July 1, 1975 of US\$5 million equivalent is proposed.

Project Status: Project is on schedule.

2. SECOND AGRICULTURAL CREDIT PROJECT

Borrower: Banco de la Republica (Central Bank)

Loan Amount: US\$64 million

Project Cost: Approximately US\$175 million in agricultural and agro-industry investment.

Scheduled Board Date: March 1976

Project Description: Nationwide program of term credit for commercial crop and livestock farmers and small agro-industry investments, with portion of loan proceeds reserved for low-income farmers producing for the market. Funds would be channeled through the Central Bank's Fondo Agropecuario to public and private financial intermediaries in the form of rediscounts.

Project Status: Project appraisal has been somewhat delayed as a result of personnel constraints and reorganization of LAC Projects Department but should reach the Board by March 1976.

3. BARU-CARTAGENA TOURISM

Borrower: Corporacion Nacional de Turismo

Loan Amount: US\$20 million

Project Cost: US\$48 million

Scheduled Board Date: June 1976

Project Description: To furnish infrastructure and basic services for tourism development on the island of Baru, located 25 km south of Cartagena.

Project Status: An appraisal mission will arrive in Colombia on September 29.

B. FY 1977 Lending Program

1. INTEGRATED RURAL DEVELOPMENT PROJECT

Borrower: The Government of Colombia

Loan Amount: US\$70 million

Project Cost: US\$150 million

Scheduled Board Date: October 1976

Project Description: To furnish credit, technical assistance, and economic and social infrastructure to small farmers in three designated areas (Antioquia, Cundinamarca, Cauca-Narino).

Project Status: An FAO/CP final preparation mission in which Bank staff will participate is scheduled for October 1975.

2. NUTRITION AND HEALTH

Borrower: The Government of Colombia

Loan Amount: US\$40 million

Project Cost: US\$80 million

Scheduled Board Date: October 1976

Project Description: To provide the necessary inputs for growing, processing, distributing and marketing of foods with a high nutritive content. The Government intends to ask for retroactive financing of the project.

Project Status: Preparation work has proceeded unevenly and even if steps are taken to remove existing bottlenecks it appears that appraisal will be delayed until April 1976. A mission will visit Colombia on September 29 to review the status of the project.

3. SECOND SMALL-SCALE INDUSTRY PROJECT

Borrower: Banco de la Republica (Central Bank).

Beneficiary: Corporacion Financiera Popular (CFP).

Loan Amount: US\$20 million

Project Cost: Approximately US\$40 million in industrial investment.

Scheduled Board Date: April 1977

Project Description: Continuation of program begun with CFP through Bank's loan of FY 1975. Program comprises the financing of the establishment and expansion of small industrial firms and the financing of technical assistance for such firms.

Project Status: Decision whether to proceed with appraisal of second project will be made in August 1976.

4. NORTH/CENTRAL POWER INTERCONNECTION PROJECT

Borrowers: Interconexion Electrica, S.A. and Corporacion Electrica de la Costa Atlantica (CORELCA).

Loan Amount: US\$40 million equivalent

Project Cost: US\$83 million (excluding financial charges).

Scheduled Board Date: July 1, 1976

Project Description: The project involves building a 500 KV transmission line from San Carlos near Medellin to Sabanalarga near Cartagena, a distance of about 500 km. The line would connect the Atlantic coastal area which is presently dependent on thermal power (oil and gas) to the grid in the central region which relies almost exclusively on hydroelectric power. Parallel financing with Kreditstantalt fur Wiederaufbau is being arranged.

Project Status: A joint IBRD/KfW appraisal is scheduled for November 1975.

5. MULTI-CITIES SLUM IMPROVEMENT PROJECT

Borrower: Republic of Colombia

Loan Amount: US\$20 million equivalent

Project Cost: Not defined but will be in excess of US\$30 million

Scheduled Board Date: Early calendar 1977

Project Description: Upgrading an existing slum area in the southeastern part of Cartagena. In addition, the project comprises a number of cities (perhaps 8 in the initial phase) where it contemplates the construction and equipping of new community development centers, providing health, education and other services; creation of work banks to assist in job creation and training; upgrading of deficient public services and provision of sites and services for housing.

Project Status: Changes in key Government officials have delayed presentation of a concrete proposal. A mission will visit Colombia later this month to assist in defining and preparing the project.

6. II CALI WATER SUPPLY AND SEWERAGE

Borrower: Empresas Municipales de Cali (EMCALI)
Loan Amount: US\$15 million equivalent
Project Cost: US\$33 million
Scheduled Board Date: August 1976
Project Description: The proposed project comprises EMCALI's plan for investments in water supply and sewerage works in 1977-80. The works would include water pollution control facilities.
Project Status: Appraisal is scheduled for January 1976.

7. WATER SUPPLY FOR SMALL CITIES AND RURAL AREAS

Borrower: Instituto Nacional de Fomento Municipal (INSFOPAL)
Loan Amount: US\$25 million equivalent
Project Cost: US\$45 million
Scheduled Board Date: December 1976
Project Description: Construction of water and sewerage works in some thirty small cities and rural communities and investments in a national solid waste disposal program.
Project Status: Appraisal is scheduled for March 1976.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 19, 1975

FROM: Hendrik van der Heijden, Division Chief, LAC II

SUBJECT: COLOMBIA: Mr. McNamara's visit of November 2-5, 1975A. INTRODUCTIONBackground

1. Mr. and Mrs. McNamara visited Colombia from November 2-5, 1975. They went at the invitation of Colombia's President--Dr. Alfonso Lopez Michelsen--whom Mr. McNamara had met twice before: first, when Dr. Lopez Michelsen (the then-announced Presidential candidate) visited Mr. McNamara in January, 1974; and second, when President Lopez Michelsen came to Washington in September 1975 for meetings with President Gerald Ford. This was Mr. McNamara's second trip to Colombia (the first trip took place in 1970 under the Lleras Administration), and he was accompanied by Messrs. William Clark (Vice-President for External Relations), Adalbert Krieger (Regional Vice-President for Latin America and the Caribbean), Sven Burmester (Personal Assistant to Mr. McNamara), Hendrik van der Heijden (Division Chief for Colombia), Carlos Quijano (Resident Representative in Bogota) and, for part of the time, Frederick Jaspersen (Senior Economist in the Colombia Division). Dr. Ernesto Franco-Holguin (Executive Director for Colombia) also participated in the visit. Mr. and Mrs. McNamara stayed at the house of Dr. and Mrs. Rodrigo Botero Montoya, Colombia's Minister of Finance.

Timing and Objectives

2. The visit to Colombia took place when President Lopez Michelsen had been in office for some 15 months (since August 1974), some 4-1/2 months after the outside world had been informed about the achievements and plans of the reformist Lopez Administration (which will run until August 1978) at the Consultative Group Meeting in Paris, and at a time when the Bank had made 5 loans to Colombia since the coming to office of President Lopez (totalling \$88 million, for Small-Scale Industry, Telecommunications, Water Supply, Small-Farmers' Settlement, and for a Land Reform Project) and was looking forward to lend about double that amount in FY76 (for 3 projects--DFC VI, Agriculture Credit II, and Baru-Cartagena Tourism), and perhaps to double that again in FY77 and beyond (a total of 10 appraisals were in prospect for the November 1975 - June 1976 period--see Briefing Book). In short, the visit was timed so as to permit observation by Mr. McNamara of the effects which the policies of the Lopez Administration were having on the course of Colombia's economic history, ascertainment by Mr. McNamara of the efficiency by which the Lopez Administration was putting its policies and programs into effect, while at the same time, permitting Mr. McNamara to form a judgement regarding the extent by which the Bank Group could assist the Government in furtherance of its objectives.

3. To permit achievement of the objectives of Mr. McNamara's visit, the visit program was designed by the Government in such a way as to give Mr. McNamara maximum exposure to the Government's view points and to the counterpoints likely to be made by the Opposition, the private sector, academic circles and youth groups. From this point of view, the visit was successful. In a series of informal meetings with President Lopez, the President's Economic Team (presided by Dr. Rodrigo Botero Montoya), a number of Cabinet members (the Ministers of Agriculture, Telecommunications, Mines and Energy, and Health), representatives from the private sector, economic research organizations, and through field visits to Popayan, Pereira, Cali and Cartagena, Mr. McNamara obtained a firsthand view of the achievements, plans and problems with respect to the Government's program to reduce inflation, maintain economic growth and to put primary emphasis on programs designed to raise the productivity and income of the poorest half of Colombia's population, particularly the urban and rural poor, and to otherwise improve the distribution of income within Colombia.

Arrangements

4. Mr. McNamara's visit had been meticulously prepared by the Government with the assistance of Mr. Carlos Quijano, the Bank's Resident Representative in Bogota. In content and timing, the program was executed according to plan, with the exception of Mr. McNamara's meeting with Dr. Lleras, Colombia's former President, which had to be cancelled because of Dr. Lleras' absence from Bogota. Details on Mr. McNamara's visit are included in "Itinerary for Mr. McNamara's visit to Colombia" which has been inserted in the Briefing Book, and is attached to this memorandum. Mrs. McNamara followed a separate program which had been prepared by Mrs. Rodrigo Botero Montoya (wife of Colombia's Minister of Finance), details of which have not been recorded.

B. SUBSTANCE OF DISCUSSIONS AND FIELD VISITS

Impact of Policy Redirection

5. During the 15-month period since President Lopez had come to office, a fundamental redirection of economic policy had been introduced in Colombia: essentially, President Lopez had used the overwhelming victory in his bid for the Presidency as a mandate to introduce, in a break with history, policies and programs which were to benefit primarily the poorest 50 percent of Colombia's population and which were intended to be carried out - and financed - primarily by the Colombians themselves, with President Lopez very much stressing the concept of "self-reliance". Thus, a "State of Economic Emergency" had been proclaimed during the first 100 days of President Lopez' term, under which a major reform of the tax and financial system had been introduced, and the new strategy of economic development had been announced. This tactic had been chosen, President Lopez told Mr. McNamara, to take the population

by surprise and in order to prevent excessive debate from causing unacceptable delays in the adoption of the policy change. In fact, as President Lopez stated in his meeting with Mr. McNamara, a shortening of the "political cycle" had been judged to be absolutely necessary for the policy change to be adopted quickly, and for it to continue being accepted beyond the expiration of his four-year term in office. The latter was a function of the speed by which the Administration could point to results, i.e., the speed by which programs could be mounted which did, indeed, affect the living standards of the poorest half of Colombia's population tangibly and positively. This task was difficult enough, but made even more difficult when it had to be undertaken under a democratic system which tended to lengthen the process of program formulation and implementation ("the economic cycle"), while, indeed, there was an urgent need to shorten that cycle.

6. The notes attached to this memorandum record the substance of the meetings which Mr. McNamara had with Colombia's Economic Team (presided by Finance Minister Dr. Rodrigo Botero Montoya), with other members of President Lopez' Cabinet, and on the subject of family planning in Colombia. During these meetings Mr. McNamara was informed about the success which the Government was having with the reform of Colombia's financial system (the burden of taxation had been raised, its incidence shifted towards the higher-income groups, and its administration had been simplified by the self-checking features of the new system), about the strategy which had been developed (in response to the awareness as to how skewed the distribution of Colombia's national income actually was) to raise the productivity and income of the poorest half of Colombia's population, about the resistance which the Government was encountering from Colombia's right wing (rather mild) and from the left (very strong), and about the progress which was being made with implementing the new development strategy (insufficient, according to President Lopez but, according to others, quite remarkable if viewed from a dispassionate viewpoint).

7. Mr. McNamara's meetings with eminent representatives from Colombia's industrial and financial sector left little doubt about the questions which the private sector had on the subject of the new development strategy: the burden of taxation and interest rates were too high, economic growth deserved more stimulation at the expense of the Government's redistribution strategy, and the public sector remained inefficient when it came to exploiting Colombia's mineral and tourism resources. It should be noted here that some of this criticism was based on inaccurate information, but that, on the whole, the private sector's criticism regarding the Government's dynamism was substantiated by facts and was, inter alia, shared by President Lopez. Mr. McNamara responded in saying that for the very systems of capitalism, and democracy, to survive, it was essential that programs be mounted quickly and efficiently which would increase the productivity of the low-productivity segments of society, i.e., of the rural and urban poor, but that the answers to the question as to how this could best be done, were by no means clear. When Mr. McNamara asked the private sector representatives, and others, what specific suggestions they had for improving in the Government's policies, very little in the way of positive contributions came forth.

8. The general conclusion arising from the various discussions on the subject of the redirection of the Government's strategy, must be that the Government has been willing to use its mandate--with a consequent reduction in popularity--in leading Colombia in a policy direction which is likely to be consistent with the long-term requirements of economic and social viability, and that informed criticism of the Government's actions has been relatively mild, but that for such policy redirection to have longer-term continuity, the time has come to approach aspects of program implementation with great vigor.

Efficiency in Program Implementation

9. In discussions with President Lopez, some Cabinet members, and with the private sector, and through field trips to Popayan (rural development), Pereira (coffee diversification), Palmira (nutrition and health) and Cartagena (tourism and slum improvement), the impression was very much obtained that considerable experience had been gained, and good progress had been made, with thinking through the problems posed by giving a multiplicity of citizens access to Government financial and other support within the context of limited administrative and financial capacity. Essentially, the approach that was being evolved, centered around the organization of self-help groups (be they small farmers, potential recipients of nutrition and health services, slum dwellers), designed to raise the level of motivation and to economize in the use of limited delivery-system resources; and to provide a minimally-essential service which, nevertheless, appeared to be capable of achieving important results. Thus, plans are evolving, inter alia, to use nurses rather than doctors, clinics rather than hospitals, demonstration farmers rather than extension agents, to provide credit rather than infrastructure, support for production rather than for social services, to provide minimum but wide coverage rather than complete but narrow support.

10. While it became clear that much progress had been made with the preparation of the Government's Integrated Rural Development Program, its Nutrition Plan, and, in general, with the Development Program as a whole, it also was quite apparent that such progress had been below expectations, and potential, and that the time had come to introduce greater vigor into the implementation of the Government's development program. This point came up in discussions with President Lopez, some Cabinet members, the private sector and in discussions between Mr. McNamara and Bank staff. It was also made, in general terms, in Mr. McNamara's letter to President Lopez of November 10, and in Mr. McNamara's letter of even date, in explicit terms, to Finance Minister Botero (on whom it was not lost: we have just been informed that a decision has been taken to introduce the use of project timetables; the latter will be reviewed in weekly meetings of a just-established Program Implementation Task Force, chaired by Finance Minister Botero, with the Director of Planning, and of the Budget, and the Bank's Resident Representative as members).

Bank Group Assistance

11. Mr. McNamara's visit left little, if any, doubt about the appropriateness of the size and composition of the Bank Group Lending Program for Colombia. At around \$200 million per year, the Bank's contribution to the achievement of Colombia's policy objectives is both meaningful and prudent (the Bank's share of Colombia's external debt is 26 percent at the present time, 28 percent of debt service). However, should there be an acceleration in project preparation in Colombia, a review of the program for Colombia would be called for: the FY77 program (including standby projects), could well be double (\$430 million) the amount authorized for that year (\$210 million).

C. CONCLUDING REMARKS

Impact of Visit

12. From the region's point of view, an important benefit of Mr. McNamara's visit to Colombia was the realization by the Colombian authorities of the need for imposing discipline on the various agencies and ministries in the preparation and implementation of their programs, and Mr. McNamara's visit has already resulted in the creation of a Program Implementation Task Force, which should help in ensuring the timely execution of the Bank's Lending Program.

Press Coverage

13. Mr. McNamara's visit received extensive press coverage. Press clippings have been collected for the record.

Cleared with and cc: Mr. Krieger

cc: Mr. McNamara's Office (2)

Messrs. Knapp

Chenery

Clark

Baum

Knox, Director, LAC Projects

Wiese, Director, LAC II

de Vries, Chief Economist LAC

Quijano, Res. Rep. Bogota, LAC II

HvdHeijden/dpb

Attachments

Mr. McNamara's Visit to Colombia

November 2-5, 1975

Index

- I. Meeting with Economic Team
- II. Meeting with Minister of Communications
- III. Meeting with Minister of Mines
- IV. Meeting with Minister of Health
- V. Meeting with Minister of Agriculture
- VI. Meeting with Director of Profamilia
- VII. Meeting with Private Sector Economists

I. Meeting with Economic Team

Messrs. Rodrigo Botero, Minister of Finance and Public Credit
Ramirez Ocampo, Minister of Economic Development
Joaquin Bohorquez, Vice Minister of Finance
Cristian Mosquera, Director, Public Credit, Ministry of Finance
Francisco Ortega, Asst. Technical Manager, Banco de la Republica
Miguel Urrutia, Director, National Planning Department
Guillermo Perry, Director, National Tax Office
Eduardo Sarmiento, Adviser, Monetary Board
Julio Restrepo, Adviser, Monetary Board
Jorge Vasquez, Director, DANE
Ms. Clara Lopez, Economic Adviser to the President

1. Finance Minister Dr. Rodrigo Botero opened the meeting by describing the modus operandi of the economic team. Major economic policy decisions are discussed by the team in an open and informal manner, but once a course of action had been agreed upon, members of the team are expected to support that position. He then called on individual members of the team to explain to Mr. McNamara the major components of the Government's economic program.
2. Minister of Development, Dr. Ramirez Ocampo, explained that the objective of the Government's Development Program was to bring about an improved distribution of income while simultaneously accelerating the rate of economic growth. Since inflation was regressive, the Government's first priority upon taking office had been to implement a stabilization program. In addition, measures had been introduced to increase the efficiency of the price system and to shift the pattern of demand toward mass-consumed goods which are produced with labor-intensive techniques of production. Development strategies of previous Governments had been based on shifting resources from agriculture for use in the rest of the economy. The present Administration has redressed the balance by shifting more resources to agriculture.
3. While the fiscal and financial reforms have helped to reduce inflation, the shock to the economy has been considerable. The level of economic activity in the private sector is now beginning to pick up, however, as indicated by the increased credit demand being experienced by the Investment Banks (Corporaciones Financieras). Dr. Ramirez Ocampo pointed out that the Lopez Administration continues to place considerable emphasis on promoting nontraditional exports through exchange rate policy, subsidized credit and development of an improved transportation network, especially in the Caribbean. Colombia has also been attempting to shift the Andean Group philosophy away from inward-looking import substitution policies, and towards export promotion. The Minister of Development indicated that Mr. McNamara's support of this objective would be extremely helpful.
4. Minister Botero asked Dr. Urrutia, head of the Planning Agency, to explain the Government's approach to improving income distribution and increasing employment. Dr. Urrutia explained that policy makers in Colombia had not realized that the income distribution was as badly skewed as it was. Colombia is using interest and exchange rate policies to increase employment opportunities and has shifted public sector investment priorities toward programs which will increase the productivity of the rural and urban poor.

Dr. Urrutia concluded by saying that while current research being undertaken was assessing the distributional effects of public expenditures in the same sector (e.g. education), such analysis should be extended to measuring their impact across sectors (e.g. airports vs. primary education).

5. National Tax Director Dr. Guillermo Perry was called upon to explain the recent tax reform. He described the new capital gains and presumptive income taxes, pointing out that they were aimed at improving the progressivity of the tax system while simultaneously providing an incentive for productive investment and a disincentive for speculative investment. The reform has features tending to improve tax administration, and has produced additional revenue equivalent to about 2 percent of GDP, which was being spent in equal proportions on programs designed to help the poor and to pay off the large floating debt inherited from the previous administration. Dr. Perry indicated that the redistributive effect of the tax reform would not have a negative effect on growth by reducing aggregate savings since:

(a) marginal propensities to save of high and low income groups are about the same; and

(b) personal savings are only a small portion of total savings.

6. Dr. Francisco Ortega of the Central Bank was called upon to describe the major characteristics of the financial reform. He pointed out that the reform was aimed at strengthening monetary management and at increasing the allocational efficiency of capital markets. Dr. Ortega pointed out that growth of the money supply had been reduced from 27 percent during the first semester of 1974 to 17 percent during the first semester of 1975. Change in the level and structure of real interest rates in Colombia has resulted in a 20 percent real increase in financial savings and improved allocation of savings.

7. Minister Botero explained that the Government had implemented its economic program with great speed so as not to give the vested interests in Colombia time to organize for defeating it. The Administration was also finding that the bureaucracy had its own vested interests and that it had, on numerous occasions, attempted to impede implementation of the program. Once the macro-economic program was in place, the Government had shifted its attention to implementation of the development programs (integrated rural development, nutrition, etc.). It is now essential that the program be implemented rapidly so that the Administration can recoup some of the political capital which it had expended in implementing the fiscal and financial reforms.

8. Mr. McNamara asked why previous Administrations in Colombia had not introduced a development program aimed at increasing the productivity of the urban and rural poor. Was there a trade-off, Mr. McNamara asked, between growth and equity or could the two objectives be achieved simultaneously? Minister Botero replied that the severity of the income distribution problem was not known until recently. The link between political and economic power which had existed in Colombia, had prevented implementation

of meaningful programs for social change. It was pointed out that numerous efforts were now being made in Colombia to improve income distribution data and to increase understanding of the process by which productivity of the poorest income groups could be increased. Minister Botero concluded by saying that only by increasing the productivity of the poor could equity and growth objectives be simultaneously achieved.

II. Meeting with Minister of Communications

9. The Minister of Communications, a member of the Conservative Party, welcomed Mr. McNamara to Colombia and stated that Bank participation in the communications sector had been extremely helpful, especially as it had helped to maintain the efficiency of public enterprises. Considerable progress had been made in recent years in adjusting tariffs of public enterprises in the communications sector so as to strengthen the financial capacity of these enterprises. Mr. McNamara asked whether the Government's economic program had been criticized in Colombia. The Minister explained that there had been considerable dissent, since the Government's economic program constituted a departure from past policies. For years development strategy had been based on a transfer of resources from rural to urban areas. The Lopez Administration has attempted to reverse this by giving higher priority to investments in agriculture and this has taken many of the vested interests in Colombia by surprise. In addition, the Lopez Administration has brought about improved distribution of income and it is believed that increasing the purchasing power of middle and lower income groups will increase aggregate demand for goods which are produced with labor-intensive techniques of production, thereby accelerating creation of employment opportunities.

10. The Minister explained that the major problem facing Colombia at present is where to get resources for productive investment. As a result of the fiscal reform, the tax burden on households and corporations has been increased, with the result that savings by these groups have declined. This has resulted in declining private investment which has not been compensated by increased public sector investment.

11. The Minister noted that he was skeptical of the viability of programs aimed at improving the conditions of the rural poor. He stated that such programs are expensive and have only a negligible production impact. Mr. McNamara asked the Minister whether it was not a matter of developing programs which would be designed in such a way as to increase the productivity of the rural and urban poor. The Minister replied that the production response of large and medium-sized farmers would be much greater and that developing a strong production base in agriculture was essential to accelerated growth of the Colombian economy. Mr. McNamara pointed out that worldwide the Bank had been involved in a number of efforts to increase the productivity of the rural poor. Several of such projects had brought about impressive production gains. He said that the key characteristics of these successful projects were that the marketing problem had been overcome so that small farmers were assured of being able to sell their production.

12. The Minister agreed that marketing was important and added that extension agents providing technical assistance to small farmers frequently had little practical experience in agriculture, and that quality of technical assistance was frequently a determinant in the success or failure of such projects. Mr. McNamara explained that the Bank was still attempting to develop the proper technology for improving productivity of the rural poor. While significant gains have already been made, it might take another five to ten years before the appropriate technology is developed. The problem

of rural poverty is critical, however, and the Bank will continue to make every effort to develop effective means of alleviating it. Mr. McNamara then pointed out that, in the absence of programs aimed at improving the productivity of the rural poor, rural to urban migration would increase and that it would be difficult to employ these people in the cities. The Minister responded that Mr. Laughlin Currie, an economist who has lived in Colombia for a number of years, has suggested that this problem be solved by employing the migrants in the labor-intensive construction industry to improve housing conditions in the cities. Such a solution would be possible, however, only to the extent that substantial gains are made in agricultural productivity, since a greater agricultural surplus would need to be generated to feed the urban labor force. The Minister and Mr. McNamara agreed that marketing and pricing problems could be critical determinants of the success or failure of rural development projects.

III. Meeting with Minister of Mines and Energy

13. Mr. McNamara opened the meeting by asking the Minister if he would explain energy policy, with special emphasis on price policy, and longer term energy development strategy. The Minister replied that Colombia was currently going through an energy crisis which was particularly severe in the petroleum sector. It is estimated that Colombia will have to import 20,000 barrels of crude a day in 1976. Efforts are currently being made to increase production in wells already in operation and to intensify exploration. The Minister explained to Mr. McNamara that prices of crude had recently been adjusted to a level which provides adequate incentive to petroleum producers. In addition the retail prices of gasoline and other petroleum derivatives are being adjusted upward on a periodic basis and it is expected that internal prices will reach international levels within a two-year period. Finally, the government is carrying out a campaign to reduce consumption of petroleum products. The Minister pointed out, however, that foreign petroleum companies have been slow in responding to the new incentives for exploration.

14. Mr. McNamara asked why the internal price paid for crude is only US\$7 per barrel when it reaches US\$11 per barrel in world markets. The Minister responded that 85 percent of the US\$11 world price represents taxes collected by governments in oil-producing countries. In Colombia, the Government take is much lower and it is estimated that the US\$7 price per barrel yields a slightly higher return to the private foreign oil producers than does the US\$11 price. It is surprising, therefore, the Minister concluded, that the foreign oil companies have not responded more vigorously to the new increased price incentives which exist in Colombia. (Comment: The Minister neglected to point out the two reasons why foreign oil companies have not responded to such incentives. First, of the 18 exploration wells drilled in Colombia in 1974, none were successful in locating commercially exploitable crude. Second, the Lopez Administration has publicly announced 50-50 participation of the state in ownership of the petroleum industry in Colombia. This is to be achieved through transfer of assets from foreign companies to ECOPETROL, the state-owned oil company. The acquisition price for transfer of such assets has not yet been determined, however, and given ECOPETROL's currently weak financial situation there is some uncertainty in the climate for investment in the petroleum industry in Colombia.)

15. The Minister explained that there is a great need in Colombia to expand sources of energy other than petroleum. Colombia has considerable undeveloped potential for generating hydroelectric, coal and gas and major emphasis will be given to developing these sources of energy. He asked Mr. McNamara that the Bank give special priority to the Interconnection, Patia and San Carlos hydroelectric projects which will require World Bank financing if they are to be implemented on time.

16. Development of the coal deposits which exist in Colombia will also require substantial capital from abroad, both private and official. The Government has decided that it will put in all of the general infrastructure required. Development of the coal deposit will then be carried out by

private foreign firms (offers had been received from petroleum companies). The Minister asked Mr. McNamara if the Bank would be willing to finance mining projects. Mr. McNamara replied that the Bank only finances projects in cases where alternative sources of funds are not available. For this reason, the Bank has not very much involved itself in such investments. In the case of general infrastructure for development of the coal deposits in Colombia, the Bank could make funds available provided this is consistent with the objectives and magnitude of the Bank's overall lending program to Colombia.

17. Mr. McNamara asked what the domestic price of gasoline was at present and how rapidly it would be adjusted upwards. The Minister replied that the retail price of regular gasoline is currently 13 cents (US) per gallon in Colombia and that the Government intended to gradually bring the domestic price into line with the world price over a two-year period. During this transition period there will be distortions and the Government may have to introduce rationing of gasoline if the current campaign to limit gasoline consumption is not successful. Development of the coal deposits in the northern part of the country is an urgent matter since this would permit substitution by coal of petroleum in the thermo-electric plants on the Atlantic coast.

18. The Minister then described the Government's plan to develop the Guajira gas field which has been discovered by Texaco and ECOPETROL on the Atlantic coast. Recent drillings in this field indicate that reserves are even larger than preliminary estimates had shown. ECOPETROL has now opened bids for three projects which will permit exploitation of natural gas from the field. These are a gas pipeline project, and two petrochemical projects, one for the production of ammonia and one for the production of urea. The Minister asked if Bank financing could be made available to finance these projects. Mr. McNamara observed that the Bank has not done much financing for the development of hydrocarbons because capital for such projects has generally been available in the private sector.

19. Mr. McNamara asked the Minister whether Colombia was having difficulty attracting capital for developing its mineral projects. The Minister indicated that there has been a considerable response, particularly from petroleum companies, for developing the coal, nickel, uranium and phosphates which Colombia possesses. The Minister then asked Mr. McNamara whether he had observed capital shortage for the exploitation of specific minerals in other countries and Mr. McNamara replied that so far the Bank has not found significant shortages. He concluded that the Colombia experience tends to support this. Mr. McNamara noted that as the world economy moves out of recession it is quite possible that raw material shortages may develop which could justify Bank involvement in the development of such resources. He assured the Minister that the Bank was watching the situation closely and had adopted a flexible policy which would make possible rapid response to any capital shortages which may develop.

20. The Minister concluded the meeting by again expressing his concern that foreign petroleum companies were not responding sufficiently to the new price incentives established by the present government. He pointed out that 60 exploration wells per year will have to be drilled in Colombia if the country is to regain self-sufficiency in crude production. This year only 6 to 8 wells will be drilled and it is estimated that only 10 percent of Colombia's territory has been explored.

IV. Meeting with Minister of Health

21. The Minister opened the meeting by describing the health centers which the Ministry of Health operates throughout Colombia. The objective of these health centers is to provide medical services as well as to improve the general health environment through nutrition and water supply projects. Each health center costs Col\$1 million (US\$35,000). The objective is to build health centers which will service 1½ million people by the end of 1976. This will require 1500 paramedics (one paramedic per 1,000 persons). These health centers will be an integral part of the nutrition program since it is the workers in these centers (Promotores de Salud) which will attempt to change nutritional patterns in Colombia. The Minister pointed out that the Nutrition Program is ambitious, but that it would be difficult to induce change since nutrition is a cultural problem.

22. The Minister described the new regional hospitals which are being built in Pasto, Neiva, Cartagena and Lievano. He pointed out, however, that insufficient hospital beds may not be the key problem in improving medical services. The Ministry of Health is therefore placing major emphasis on creation of outpatient facilities. The Minister believed that urban health delivery systems are more expensive than those provided in rural areas. He pointed out, however, that this could be the result of more advanced services being provided in the urban centers.

V. Meeting with Minister of Agriculture

23. Mr. McNamara opened the meeting by asking the Minister to describe Colombia's Agricultural Development Program. The Minister responded by saying that the major new program is the Integrated Rural Development Program (DRI). There are three external sources of financing for this project: CIDA, IBRD and IDB. The Minister explained that 50 percent of the cost of the DRI program would be for agricultural credit. He pointed out that marketing was a major problem which would have to be solved in the context of Integrated Rural Development program. Mr. McNamara replied that Bank staff would keep this in mind in appraising the project.

24. He asked the Minister whether the greatest production response could be elicited from small or large farmers. The Minister replied that it is difficult to generalize and pointed out that some projects aimed at increasing the productivity of small farmers had been successful, while others had not. Introduction of new technology and improved seeds have been particularly successful. Generally the experience in working through cooperatives has not been successful. The Minister observed that the largest production responses over the past decade have generally come from large farmers. Special programs to assist large farmers are however not needed since such farmers respond vigorously to market incentives and can "take care of themselves." The marketing problem, however, is particularly important with small farmers, and IDEMA will in the future be used to assure markets for the production of the small farmers.

25. Mr. McNamara asked what the Government should do to increase productivity of the rural poor. The Minister replied that the best approach was through Integrated Rural Development projects. Introduction of new technology and improved seeds could best be done through production cooperatives (Comment: the Minister failed to explain, however, how this solution was consistent with the previous negative experience which the Government has had with cooperatives). The Minister explained that cooperatives would be as vertically integrated as possible. He concluded the meeting by extending an invitation for Mr. McNamara to visit some of the rural development projects next time he is in Colombia.

VI. Meeting with PROFAMILIA

26. The Director of Profamilia opened the meeting by explaining that Colombia has made considerable progress in the field of family planning. Since 1965, the birth rate has been reduced from 45 to 37 births per thousand and the overall population growth rate has been reduced from 3.3 percent annually during the early post-war period to 2.7 percent at present. The current birth rate of 37 per thousand is close to the breakthrough point of 35 per thousand which has occurred now that Colombia has a per capita income of sum \$500, a point at which reductions in the growth of population are forthcoming forcefully without large scale family planning programs. It was likely that by 1980 the growth rate would decline to 2 percent. Mr. McNamara pointed out that Mexico, with a higher per capita income has a higher birth rate than Colombia and asked why this was so. The Director of Profamilia explained that Colombia's lower birth rate is due to the active family planning programs which exist in the private sector. Currently Profamilia maintains 46 clinics in 31 of the largest cities in Colombia.

27. Profamilia services 35,000 new acceptors and 250,000 follow-up cases each year. Currently the program is reaching 8 percent of the female population of reproductive age. Additionally Profamilia performs 1,000 vasectomies per year and sterilizes 1,000 women per month. It is estimated that the sterilization potential is 80,000 to 100,000 per year. In addition to Profamilia the Ministry of Health through ASCOFAME covers another 8 percent of the female population of reproductive age and other private and commercial agencies an additional 8 percent. Thus, about 25 percent of the fertile female population is receiving family planning services. In addition, there are 250,000 abortions per year.

28. Rural family planning programs are being carried out by the Coffee Federation with the support of Profamilia. This program is now five years old and operates in six of the nine coffee growing states. Profamilia's urban program is only 2 years old but is now twice as large as the rural program.

29. Mr. McNamara asked about the cost of Profamilia's program and whether Colombia has passed the "easy" stage in terms of public acceptance of family planning programs. The Director of Profamilia explained that the program costs US\$2 million per year and operates through 705 distribution centers in Colombia. Cost per woman is US\$10 per year. 66 percent of Profamilia's financing comes from ICBF (Instituto Colombiano de Bienestar Familiar). The remaining 33 percent comes from the private sector in Colombia (Bavaria, Coffee Federation, etc.).

30. Mr. McNamara asked what the attitude towards family planning was in Colombia. The Director of Profamilia answered that the public acceptance of family planning programs was excellent. The Church hierarchy is against family planning but there are a number of prominent priests who are in favor of it. The official government position has been to provide services (since 1968) but not to promote family planning. No Government official has made a public statement for or against family planning. The Director of Profamilia emphasized the importance and urgency of continued efforts to extend family planning programs throughout Colombia so as to achieve the population growth of about 2 percent annually by 1980. Mr. McNamara observed that the Government may be able to extend family planning programs at a more rapid rate through its nutrition program. He concluded that it would appear that Bank involvement in this area might be counterproductive in Colombia at this time. The Director of Profamilia agreed with Mr. McNamara and said that the need for Government approval for direct Bank involvement might present a problem.

VII. Meeting with Private Sector Economists

31. Mr. McNamara opened the meeting by explaining to the Colombians that the major objective of his visit was to learn more about the country's development programs. He asked what the causes of the highly-skewed distribution of income were and whether the Government's policies would be successful in bringing about a more equitable distribution of income while simultaneously accelerating the rate of economic growth. Mr. Junguito, Director of FEDESARROLLO, replied that the fiscal and financial reforms which were required to stabilize the economy have had an adverse impact on the level of economic activity. The increase in unemployment which has resulted could aggravate the skewedness of income distribution in Colombia. Mr. McNamara asked whether the reduction in demand for manufactured luxury goods indicated that income redistribution had taken place. Mr. Junguito replied that changes in relative prices have been the major cause as agricultural prices have declined relative to those of luxury manufactured products. Mr. Ospina of FEDESARROLLO observed that while the tax reform had produced some redistribution of income in Colombia, only 30 percent of the work force pays taxes in Colombia and therefore the distributive effect of the tax reform was much less than would otherwise occur.

32. Mr. Calvo of CEDE, Universidad de los Andes, commented that rural unemployment appears to have increased as a result of reduced growth of the urban economy (i.e. unskilled urban workers appear to have returned to rural areas to seek employment). Mr. McNamara asked whether the Government's policies would solve the employment and income distribution problems. In responding to Mr. McNamara's question there was general consensus that the Government's efforts were in the right direction but that it would be difficult to make significant progress in solving these problems in the short-run. Mr. McNamara asked how long it would take to achieve an improved distribution of income in Colombia. Messrs. Ospina and Junguito responded that a substantial percentage (perhaps 80 percent) of the population fall below the absolute poverty level and raising the incomes of these people could best be achieved through rapid growth of the economy. Mr. McNamara pointed out that there is considerable difference in quality of life within the poorest 80% and wondered whether major emphasis should not be placed on increasing the productivity of the very lowest income group within the 80%, since these people had little possibility of improving their situation without assistance.

33. He asked whether high growth and income redistribution could be achieved simultaneously. Messrs. Junguito and Ospina replied that they were in favor of the Government's programs to improve nutrition and to increase the productivity of the rural poor. The presumptive income tax on agriculture has had the effect of redistributing income while simultaneously increasing productivity in agriculture among commercial farmers. The most important problem which Colombia faces, however, is to institutionalize these programs for social change. This would require continuity in public policy. Mr. Junguito said that 50 percent of the population of Bogota lives in slums and that the Currie strategy of using the construction sector to employ the urban poor for improving their own housing should be given more consideration. Mr. McNamara agreed that there was difficulty with continuity of public policy, particularly in democracies, since the political cycle is frequently out of phase with the economic cycle.

34. Mr. Junguito said that he had participated in President Lleras Restrepo's commission to study agrarian reform in Colombia and wondered whether the Bank would, in the case of Colombia, follow the conclusion of a recent Bank sector policy paper that agrarian reform should, where appropriate, be carried out in advance of major investments to increase productivity in agriculture. Mr. McNamara replied that rural development programs need to be tailored to the individual needs of each country and that it was entirely possible that productivity in agriculture could be increased in Colombia without massive agrarian reform. Mr. Junguito described some of the institutional problems which exist in the agricultural sector in Colombia and wondered whether the existing competition and lack of coordination between these agencies would present an obstacle to implementation of the Integrated Rural Development Program. Mr. McNamara replied that the Bank has supported more than 40 integrated rural development projects worldwide. Some of these projects have worked, others have not. There is no question that the programs are difficult to administer but because they are urgently needed, the Bank will continue to attempt to support them and to develop new technology for increasing productivity of the rural poor. He concluded that the world is currently in a period of rapid technological change and that there is every reason to be optimistic about the possibility of finding solutions to these urgent problems.

MEMORANDUM FOR THE RECORD

Trip to Colombia

November 2-5, 1975

November 3

We departed by Presidential plane from the military airport at 7:30 a.m., arriving in Popayan one-half hour later. From Popayan we took a helicopter tour of the rural development district in which a Bank-financed project is foreseen. We stopped at a small community, Sausa, in the mountains. The community was obviously poor, scratching a living from production of sugar cane, maize and potatoes. Main problems for the small farmers were lack of transportation to markets and agricultural credit.

From Popayan we flew to Pereira and visited coffee production areas. Mr. McNamara was very impressed by the efforts of the National Coffee Growers Association in terms of marketing and diversification of products. However, the Association only had 600 extension agents for 300,000 farms and the agents hardly ever reached the smallest and poorest farmers.

From Pereira we flew to the Cauca Valley. We made a helicopter tour of the very fertile and agriculturally very productive Valley. After the helicopter tour we went to CIAT where a briefing was arranged on CIAT's activities and on national activities in nutrition.

The philosophy of CIAT is to improve human welfare through increased food production, especially in Latin America. Better technology will be applied to achieve this. This technology must be economically valid, socially acceptable and biologically suitable. CIAT has programs in beef, beans, casawa, swine, maize and rice. CIAT does not work directly with the farmers but only through national institutes. Presentations were then given on research in nutrition, on CIMDER (multi-disciplinary center for rural studies) and on PRIMOPS (research program in health delivery models). The research had shown that nutrition could in fact be improved, even in very poor villages if better use would be made of calories and protein already present in the village. This might be achieved through better education. CIMDER is basically concerned with health in rural areas. A family health leader is appointed in a group of families and the health leader is in close contact with a rural health promoter who has been trained for about 10 weeks. The ratio of rural health promoters to families is about one to 800. PRIMOPS has so far concentrated on an experimental program in a poor area of Cali. Emphasis is placed on direct contact with mothers and children in the homes. The cost is as low as \$1 per capita per year to cover basic health needs and the program should therefore be replicable on a larger scale.

Mr. Urrutia, Director of Planning, summarized the discussion on nutrition. He said that the Government would apply the results of the nutrition research on a national scale. About \$300 million would be spent on food aid in 1976 and about \$6 million 1977. This was not a very large effort in financial terms. He stressed, however, that the key to better nutrition was not food aid but higher productivity of the small farmers. Water supplies were also essential and about \$12 million would be invested in water supplies in 1976.

From the Cauca Valley we returned to Bogota and arrived exactly on schedule at 6:30 p.m. in the military airport. Mr. McNamara was very impressed by the excursion. An enormous area had been covered and the program had obviously been very carefully planned. The three areas visited showed three different stages of agricultural development. The first was extremely poor and undeveloped; in the second the Coffee Growers Association had done an impressive effort, not only with respect to coffee production but also as far as infrastructure and diversification was concerned; the third area, finally, showed highly developed agriculture.

November 4, 1975

(Separate memoranda will be submitted by the Region for the meetings of this date.)

We met with the Economic Team at the Ministry of Finance at 8:00 a.m. Mr. Rodrigo had the team members briefly explain the Government's new efforts in tax policies, development policy, income distribution and monetary policy. Mr. Rodrigo summarized the statements by saying that this was a result of ten years of thinking on these matters. The team had come to the conclusion that something had to be done rapidly and dramatically if democracy were to survive in Colombia. The team had formally assembled three months before the new Government took power in 1974. The team had attempted to ram through its policies with a sledge hammer in the first three months of the new administration. It had been convinced that this was necessary since this would take everybody by surprise and would also efficiently use the newly gained political capital. Somewhat to its surprise the team had found that the major obstacle was not the elite but the bureaucracy. The time of the sledge hammer was now over and the tools of the watch maker would have to be applied. For this institution building was essential. There was no foreign expertise on this, however, and it would require the imagination and efforts of the Colombians themselves. He stressed that it would not be possible for Colombia to turn to the Bank for help since the Bank did not have the necessary expertise in these matters. Mr. McNamara turned the discussion to growth and equity. He was surprised that this had been debated in Colombia for 40 years and still not much had happened. He believed that this was due to three factors: (a) the facts were not known; (b) people with very low incomes did not have political power; and (c) there was still no conclusive evidence of how best to attack the problem. Personally he was convinced that it should be done through making the poor more productive but many economists disagreed with this view. He stressed that an adequate economic rate of return would be required for the envisaged rural development project.

Later in the morning we met with the Minister of Telecommunications who expressed rather conservative views on development. He said that he did this in a personal capacity. He took issue with the possibility of increasing the productivity of the rural poor, particularly if this were attempted by sending university graduates out to teach farmers how to become more productive. We also met with the Minister of Mines and Energy. The discussion focussed on oil prices and the external capital resources requirements for exploitation of natural resources.

Late in the afternoon we met with a group of prominent economists and sociologists. It was very hard to see where the prominence came from. The comments of the group were uninspired and not very provocative. Mr. McNamara attempted to provoke a discussion on growth versus equity but met with very little response. Only on a thought of economic cycles compared with political cycles did he get a reaction. One of the economists said that this was exactly the problem in Colombia, that a policy often had little chance of surviving the next Government and that the impact therefore could not be fully felt.

November 5, 1975

We met in the morning in my hotel room with a group of editors from Bogota. The exchange of questions was very friendly, concentrated on rural development, debt service, the general world economic outlook, and the Bank's lending program for Colombia. The editors wanted the conference to be for direct quotation but Mr. McNamara said that he preferred to have it off-the-record.

We then met with a group of private businessmen in the conference room of the Central Bank. The businessmen stressed that the private sector was suffering

during the new regime. The policies and reforms of the Government did not provide incentives for private industry. One businessman gave a very interesting statement on the population problem in Colombia. Although Colombia could feed a population of 65 million inhabitants by the end of the century, it would be socially and politically impossible to deal with such a population explosion.

The meeting was followed by an official luncheon in the Central Bank. Mr. Botero made a toast in which he once again stressed the themes that he had developed earlier at the consultative group meeting in Paris and at a bankers' meeting the previous week in Cartagena. Colombia was determined to rely on its own efforts. It would not accept conditions on its economic policies from foreign institutions. He said that the Bank now had a very useful and friendly relationship with Colombia but that had not been the case in the past. Mr. McNamara responded that he hoped Mr. Botero would present his view on self-reliance to other LDC governments.

In the afternoon we flew to Cartagena and visited the sites for the tourism project and the urban development project by helicopter. We later drove to the slum area by car. People are undoubtedly very poor in the slums of Cartagena but it was still amusing to observe that several families had television sets while lacking sewerage and water.

All in all there was a lively and at times even happy mood in the slums in contrast to the solemnness which is often observed in rural areas.

Summing up the visit to Colombia, I would say that there is no doubt that the young Economic Team and the Government are moving in the right direction. This is true with respect to financial and fiscal policies, the nutrition program, the rural development effort. The question remains, however, whether the Government also has the ability to implement its reforms. Furthermore, the reforms may after all come too late and do too little. The top 20% of the Colombian people earned 60% of the national income, while the bottom 20% earn 4%. It must be a tempting thought to people who are dissatisfied with the regime that the income of the bottom 20% could be doubled by taking away only 7% of the income of the elite. If the Government does not achieve the same result at a fairly fast rate, it is questionable that democracy can survive in Colombia.

The visit was extremely well planned and organized. I have no doubt that the Government in this small way wanted to demonstrate that it can be effective without having foreigners to run the show.

SB

November 11, 1975

30.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 7, 1976

FROM: Robert F. Skillings, Division Chief, LACII *ms*

SUBJECT: Mr. McNamara's Meeting with the Colombian Delegation

Present

For Colombia

Messrs. Rodrigo Botero Montoya, Minister of Finance
Hernan Mejia, Director, Research Department,
Banco de la Republica
Eduardo Sarmiento, Adviser, Monetary Board
Ernesto Franco-Holguin, Executive Director, IBRD
Mrs. Maria Mercedes de Martinez, Adviser to the
Minister of Finance

For the Bank

Messrs. McNamara
Knapp
Chenery
Krieger
Wiese
Burmester
Skillings

1. Mr. McNamara urged that Colombia support a major increase in the Bank's capital, as well as the fifth replenishment of IDA. If the Bank were limited to lending \$5.8 million a year, the middle-income Latin American countries (such as Colombia, Brazil and Mexico) would be most seriously affected. He urged that Latin American countries as a group impress upon the United States the serious effects of a failure to increase the Bank's capital. Because of the Bank's capital structure, the cost of such an increase to the OECD countries would be both distant and small.

2. Minister Botero said that Colombia had twice presented this case to the United States at the highest level. In line with the Government's emphasis on the principle of self-reliance, Colombia intended to make a contribution itself to international financial cooperation. It was ready to enter the super gold tranche in the IMF. It was making capital available to the Caribbean Development Bank and to Central America, and the Central Bank had increased its subscription to the Bank's 2-year bonds.

3. Mr. McNamara suggested that Colombia might also want to consider participating in IDA, if not the fifth replenishment then later on. The cash effect of increasing a country's capital subscription to IDA would be small, occurring over an 11-year period. The Minister said he would be willing to study this. Mr. Krieger noted that a Colombian gesture in favor of IDA might motivate Venezuela to contribute to IDA, something we have been trying but so far failed to do.

4. The Minister said that he was very pleased with the new resident representative in Bogota, Ian Scott. He had thought it would be hard to replace Carlos Quijano, but the Bank had done so successfully.

5. The Minister said that the Government attached very high priority to the nutrition project. It wanted to go ahead with it with Bank support, but if a Bank loan were delayed beyond July 1977, Colombia would have to move on it alone, even if it meant proceeding with an imperfectly prepared project with greater than usual risks. Mr. McNamara replied that the Bank hoped to be able to be associated with the project, but would want to see a high possibility of success. It was agreed that the Bank would continue to participate in preparation of the project, but that the Colombians might decide at any time to "go it alone".

6. The Minister also pressed for Bank loans for the power interconnection project and the San Carlos hydroelectric project. He said it was essential to have a line from the interior to the north coast by 1980. Several important decisions had just been taken; it had been decided that CORELCA would join ISA, and action on tariffs had been decided. If the Bank could not move promptly on the power loans, the Government would have to go ahead anyway.

7. In response to a question by Mr. McNamara, the Minister said that Colombia now had the highest rate of private investment ever. Industrial production was growing at 11% per annum, and, with good prices, agriculture was also enjoying a good year. The main problem was inflation, and to cope with this it was necessary to cut back on central government investment, in order that the Government could generate a fiscal surplus, thus counter-acting the expansionary effect of the recent increase in reserves from \$545 million to \$1.1 billion. Mr. McNamara asked whether it was not possible to shift resources from personal consumption to investment. The Minister noted that the Government had tried this in 1974 by increasing taxes, but this had adverse political effects and could not be repeated.

cc: Messrs. Burmester, Krieger, van der Meer, Christoffersen,
Wyss, Favilla, Scott (in Bogota)

RFSkillings:am

OFFICE MEMORANDUM

TO: Memorandum for the Records

DATE: October 6, 1978

FROM: Ian Scott *He for I.S.*SUBJECT: Annual Meeting: Meeting between Mr. McNamara and the Colombian
Delegation

1. A meeting between Mr. McNamara and the Colombian delegation was held on September 27, 1978. Those present for the Bank included Messrs. Stern, Barletta, Lerda, Holsen, Favilla, Scott, and Koch-Weser. The Colombian delegation was led by the Minister of Finance, Jaime Garcia Parra, and included Mr. Eduardo Wiesner (Director of the National Planning Department), Mr. Francisco Ortega (Deputy Manager of the Banco de la Republica), Dr. Hernan Mejia (Director of Research, Banco de la Republica), Dr. Ernesto Franco-Holguin (Executive Director) and Guillermo Constain (recently appointed Alternate Executive Director).

10/17
2. Mr. McNamara opened the meeting by inviting the Minister to comment on Colombia's relationship with the Bank and on the plans of the new Government. Responding, the Minister said that Colombia's relationship with the Bank was excellent. The Government was appreciative of the increased lending Colombia has received during the last two years from the Bank. With respect to the plans of the new Government, the Minister stated that the Government accorded top priority to social programs and would give them full support. The Government, however, wanted to assess whether social programs are indeed contributing to reduced poverty in Colombia. He added that while recent economic growth had been rapid, Colombia's infrastructure was inadequate and that new investments were needed for roads, railways, ports and power generation. Thus, without in any way diminishing the support given to social problems, the Government would need to increase infrastructural investment in order to promote rapid growth.

3. The Minister also said that his Government was concerned about the real cost of borrowing from the Bank in light of the exchange rate fluctuations. Noting that he would raise this matter in the Latin American caucus (held later the same afternoon) he added that this topic was becoming difficult to manage with respect to public opinion in Colombia. He then invited Mr. McNamara, on behalf of President Turbay, to visit Colombia.

4. Mr. McNamara thanked the Minister for the invitation and said that he would do so if his presence would help resolve specific problems, although he did not, at present, think a visit was necessary. Mr. McNamara went on to say that he felt Colombia was a country in which the Bank could play a useful role and that he could foresee a large program of Bank lending. That, however, was to some extent dependent on the efficient utilization of resources from loans

October 6, 1978

already made in which there was room for improvement. He said he fully endorsed a hard headed approach to social projects and therefore agreed with the position taken by the new Government with respect to on-going social development efforts and that the Bank would be prepared to help with infrastructure development. Mr. McNamara then closed the meeting by repeating he saw only good relations ahead between Colombia and the Bank.

cc: Messrs. Stern, VPO
Barletta, LCNVP
Lerdau, LC2
Holsen, LCNVP
Favilla, LC2
Koch-Weser, EXC

IScott:jw

OFFICE MEMORANDUM

TO: Files

DATE: October 6, 1978

FROM: Ian Scott and Daniel C. Lecuona

SUBJECT: 1978 Annual Meetings: Meeting with the Colombian Delegation

1. A meeting with the Colombian delegation, chaired by Mr. Barletta, was held on September 27 at 9:30 a.m. The Colombian delegation was led by the Minister of Finance and Governor of the Bank, Dr. Jaime García Parra and included Dr. Eduardo Wiesner (Director of the National Planning Department and Alternate Governor of the Bank), Dr. Francisco Ortega (Deputy Manager of the Banco de la República and Interim Governor of the IMF), Dr. Hernán Mejía (Director of Research, Banco de la República and Interim Alternate Governor of the IMF), Dr. Ernesto Franco-Holguín (Executive Director of the Bank), Dr. Guillermo Constain (elected Alternate Executive Director of the Bank) and Dra. Leonor Montoya Alvarez (Director of Public Credit). Those present for the Bank included Messrs. Barletta, Lerda, Holsen, Jaspersen, Favilla, Haasjes, Wallis, Lecuona, Gebhart, Goldman, Santiago, Scott, and Mrs. Garcia-Zamor.

2. Responding to Mr. Barletta's invitation to comment on the new Government's economic program and investment priorities, the Minister of Finance said that Colombia had excellent relations with the Bank, and that his Government wished to develop a large borrowing program. He emphasized his Government's commitment to continue financing the social development programs launched during the previous administration but added that the new Government wished to undertake major investments for infrastructure, (specifically for roads, railways, ports, and power) to lay the foundation for the productive investment levels required to ensure a steady expansion of job opportunities in Colombia. He added that the Government also attached a high priority to the mining developments with which the Bank is to be associated.

3. The Minister said that his Government was interested in a meeting of the Consultative Group early in 1979 and recognized that this implied the timely preparation of an economic report and of an updated project list. Mr. Barletta underscored the importance of agriculture in the project list. It was agreed in principle that late April/early May could be a possible date for the Consultative Group meeting. A preparatory meeting in Colombia, before the end of FY78 was also agreed. The Resident Mission will work out the details with the Colombian authorities.

4. Turning to current operational issues, the meeting reviewed the status of the Aviation project (scheduled to go to the Board on October 10); the Mesitas Power project (being negotiated and scheduled for Board presentation in November, where the main hurdle was the level (or scope) of exemptions from tariff increases for low income users and the impact of such exemptions on EEEB's financial performance); the

Cerro Matoso Nickel project (on which Dra. Montoya referred to the requirement of mortgages and pledges on Cerro Matoso's physical assets arising from (i) the need to furnish the Government a counter-guarantee in exchange for its guaranteeing the Bank loan; (ii) Chase's demands for security (iii) the Bank's insistence on being treated pari-passu with other lenders); the San Carlos II power project (appraisal scheduled for October/November 1978); the Bogotá Power Distribution project (appraisal scheduled for January/February 1979); the Cartagena Urban Development project (the Bank will proceed as soon as the Government has defined its position); INCORA credit (awaiting completion of project preparation work), Bogotá Water III (under appraisal); INSFOPAL III (where the Minister of Finance questioned INSFOPAL's absorptive capacity as it stands now and agreed that appropriate actions to strengthen it would have to be taken without delay); and future railway projects (with the assistance of the Bank, the Government proposes to improve the railways once and for all; in this regard the Minister commented on the need of developing an alternative route between Bogotá and the Magdalena Valley). Lastly, the Minister requested Bank financing for the Bogotá-Medellin expressway, the studies for which the Minister believes are ready.

6. The Minister was asked to expedite action at the Monetary Board to allow the DFC's to raise long-term loans in the international capital markets (as a supplement to, and, possibly, through the co-financing of, the Bank's DFC VII loan) and promised to do so without delay.

7. Two administrative issues affecting Bank operations in Colombia were also discussed. One was that of delays in disbursements which have been affecting the execution of our projects. It was agreed that the Director of Public Credit, who was staying in Washington after the end of the Annual Meetings, would discuss the matter in further detail with Bank staff.^{1/} The other was the problem of late payments on which the Minister said he recognized that while the record had improved, further improvement was needed.

8. In addition, the Colombian delegation reported the mounting concern of Colombian public opinion over the increase in the cost of Bank lending brought about by the recent marked appreciation of certain currencies used in the Bank's lending operations. After Mr. Barletta briefed the delegation on the current dialogue on this matter between the Bank's management and its borrowers, it was agreed that the Colombian representatives might pursue it further during their meeting with Mr. McNamara scheduled for the afternoon.

^{1/} Dra. Leonor Montoya left town without further discussing this point. We propose to follow up with her through the Resident Mission.

Distribution:

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 1, 1979

FROM: Guy Pfeffermann *GP*SUBJECT: 1979 Annual Meetings -
COLOMBIA: Meeting with Mr. McNamara (Monday, October 1)

Mr. Wiesner started his presentation by quoting the country's President's commitment to reducing inflation. As a result, fiscal policy had been restrained until now, but public investment (and consequently Bank disbursements) should pick up momentum soon. Mr. McNamara, who was concerned by slow disbursements, expressed satisfaction at this news. Mr. Wiesner also announced that imports would be liberalized and the growth of the trade surplus would slow down accordingly.

Colombia's petroleum policy rested largely on the use of the price system as evidenced by the more than doubling of gasoline prices during the past 18 months. Colombia was seeking to address the energy question in an overall national context involving electricity, coal, petroleum, etc.

Among the social programs, Mr. Wiesner said that DRI was going well. The main problem being addressed at the moment was marketing of the additional surplus of the program. He reserved judgement on PAN, and, generally, stressed the importance of institutional bases.

Mr. Gama described Colombia's satisfactory export performance and prospects, and wished to discuss credit lines for financieras with Bank staff. He also mentioned that Colombia would vote positively on the Bank's capital increase in a few days.

cc: Mr. McNamara's office (2)
Messrs. Stern
Ardito Barletta
Lerdau
van der Meer
Favilla

GPfeffermann/rh

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 6, 1980

FROM: Alfredo D. Gutiérrez, Resident Representative in Colombia

SUBJECT: COLOMBIA: Meeting of Colombian Delegation with Mr. McNamara
During 1980 Annual Meetings

1. The Colombian Delegation to the 1980 IBRD/IMF Annual Meeting met with the Bank's President on the afternoon of September 30. The Delegation was headed by the Bank Governor, Mr. Jaime Garcia Parra, Minister of Finance, and the Fund Governor, Mr. Rafael Gama Quijano, General Manager of Banco de la Republica (BR). Other members of the delegation included Mr. Eduardo Wiesner Duran, Chief of the National Planning Department, Mrs. Leonor Montoya de Torres, Director General of Public Credit, Mr. Hernan Mejia, Subsecretary of External Financing and International Organizations (BR). Messrs. Placido Mapa and Guillermo Constain, IBRD Executive Director and Alternate Executive Director, respectively, were present. Messrs. Ardito Barletta, Lerda, Favilla and myself also attended.

2. Mr. McNamara opened the meeting by inquiring about the Government's plan to cope with inflation while at the same time stimulating economic growth through a proposed increase in public expenditures included in the National Integration Plan. The Minister of Finance explained that the growth of aggregate demand expected to be generated by the proposed public investment program would be more than offset by a significant slowdown in the accumulation of foreign exchange reserves experienced during the last five years. Inflation could thus be expected to abate. The huge accumulation of reserves in the recent past was, in the Minister's view, the fundamental cause for the inflationary pressures experienced by the Colombian economy. He envisaged that these inflows would be noticeably curtailed in the future as a result of lower world coffee prices. The proposed investments in energy development and infrastructure would, in essence, replace the external sector as the main stimulus to economic growth.

3. The Minister expressed confidence that the accumulated foreign exchange reserves of nearly US\$5 billion would help to carry the economy over the next five years when new energy developments in coal, petroleum, natural gas, and hydroelectric power were expected to come on stream. He stressed that Colombia's main energy problem was in the petroleum sector, since the country's coal and hydroelectric potential was quite good.

4. The Minister lamented the heavy dependence of the country's transport sector on petroleum, and expressed his concern that the development of efficient urban transportation systems would be one of the most difficult and financially costly challenges facing Colombia in the medium-term. Mr. McNamara asked the Minister his views on whether housing was not as equally a difficult issue to solve as urban transport. The Minister felt that the housing shortage was more manageable in terms of availability of local financing resources and a fairly well-known technology. He felt that urban transport, on the other hand, required substantial external financing and technological know-how that was not available in Colombia. In this connection, the Minister informed

Mr. McNamara that the Colombian Government would like Bank assistance in identifying a consulting firm to carry out an independent assessment of a proposal for a rail transport system for Medellin. Mr. McNamara expressed his personal skepticism as to the effectiveness of rail transport systems in providing solutions to urban transport problems, particularly in the case of underground systems. Mr. McNamara assured the Minister that the Bank would do its best to provide the assistance requested.

5. Mr. McNamara went on to summarize the findings of the recent Bank study on energy ("Energy in the Developing Countries") and to outline the proposal for a Bank-affiliate exclusively dedicated to finance energy development in developing countries. Mr. McNamara asked for the support of the Minister in the realization of this proposal. The Minister agreed to emphasize the urgency of making a positive decision on this matter.

6. Mr. McNamara closed the meeting by stressing that the Bank was interested in maintaining a large lending program in Colombia and requested the Government's cooperation in moving projects forward. He expressed to the Minister a desire to know if the reasons for past or current delays in certain operations were the Bank's fault. The Minister replied that moving projects forward was not always easy as there were too many claims on limited resources. Therefore, he was at times responsible for slowing-up projects. He informed that he had recently requested early decisions on a number of key areas at the highest Government levels and progress could be expected soon. He closed by saying that Colombia's relationship with the Bank had always been and is very good.

cc: Messrs. Stern; Ardito Barletta; Lerdau, LC2; van der Meer, LCP; Glaessner, LCP; Jennings, LCP; Wessels, LCP; Favilla, LC2; Cash, IPD; Cook, LCP; Doyen, LCP; Elejalde, LCP; Haasjes, LCP; Linder, LCP (o/r); Newman, LCP; Zavala, LCP; Scott, LCP.