FOREIGN AID AND DEVELOPMENT IN COLOMBIA

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Colombia can be considered an intermediate "success story" of foreign aid. During the severe balance of payment crisis of the 1960s, the country became the "showcase" of the Alliance for Progress. Concessional lending from AID and later from the Interamerican Development Bank was compounded with significant net flows from the World Bank, with which Colombia had privileged relations since 1949. The country successfully overcame the crisis by the late 1960s, initiating more than a decade of rapid growth and, in the last phases of the expansion, rapidly improving social indicators. Moreover, Colombia phased out of AID and improved its access to new forms of lending in the 1970s. Although it was severely affected by the crisis of the 1980s, the country continued to have moderate access to external capital and has been recently praised for its "prudent" macroeconomic management and acceptable economic performance by Latin American standards.

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This paper analyzes Colombia's experience with bilateral and multilateral lending in the post-war period. It is divided in four sections. The first presents general background information on economic and social development in this period. Section II discusses the macroeconomic and policy environment during major phases of the business cycle. Particular emphasis is placed on balance of payments policies, since the management of foreign exchange shortages and booms has figured predominantly in economic policy in the past four decades. Special attention is also given to the 1957-1974 period, during which bilateral and multilateral lending played a crucial role. Section III analyzes the evolution of external financing, with particular emphasis on the role of bilateral and multilateral agencies, the macroeconomic effects of lending and the more qualitative effects of foreign assistance on economic management. The paper ends with a short section of conclusions.

I. GENERAL DEVELOPMENT TRENDS

Colombia experienced its first major macroeconomic boom in the 1920s, based on the rapid expansion of coffee and oil exports and on significant inflows of foreign capital for public investment in infraestructure. The sudden interruption of capital flows precipitated a major crisis in the 1930s, which led to the declaration of moratoria on its foreign debt and a first phase of import-substitution. Thus, by the end of the World War II, Colombia had built both competitive export activities and an incipient manufacturing sector, producing light consumer goods and some standard intermediates 1/. Nonetheless, it remained largely a traditional economy, with close to two thirds of the population living in rural areas, more than 40% of GDP still produced in agriculture and a per-capita GDP in the lower ranges of the middle income countries by present World Bank classifications.

In the post-war period economic and social development has been rapid by historical standards but not faster than the average of the Third World. GDP multiplied by six and GDP per capita by 2.2 between 1945/46 and 1984/85. The corresponding growth rates -- 4.7 and 2.1% -- are far from spectacular and, indeed, are quite similar to the average of the Third World or Latin America. Growth was accompanied by a fairly rapid urbanization, with 67% of the population living in urban areas by 1985, and an increasing share in GDP in secondary and service activities (See Table 1).

Population growth was slightly over 2% in the first half of the century, up from 1.5% in the nineteenth century. With falling mortality rates, population growth accelarated to over 3% in the third quarter of the century. A fast decline in fertility starting in the second half of the 1960s led to a rapid fall in population growth in the last decade, reaching only 1.6% in the

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1/ Ocampo and Montenegro (1984, Chs. 1 and 2).

intercensal period 1973-1985. Falling mortality rates had already increased the expected life span at birth from some 30-34 years in the first decades of the century to 49 in 1951 and 62 years in 1981. However, mortality rates remained high in the rural areas, reflecting the uneven coverage of the health system 2/. The educational upgrading of the population was also fast, starting in the 1950s, when the first massive school programs were started. Between 1951 and 1985, persons with no education declined from 42 to 12% of population 15 years or older; those with some secondary or university education simultaneously increased from less than 10 to close to 40%. At the same time, illiteracy rates for persons 10 years or older fell from 39 to 12%, but remained relatively high in rural areas (See Table 1).

Income distribution remained quite skewed in the post-war period, reflecting the uneven distribution of land and wealth and weak redistribution policies. Major studies on the subject indicate that there was a secular worsening of income distribution from the 1950s (and even before) to the early 1970s. By then the top 10% of households were receiving some 38-40% and the poorest half 16-19% of urban income, while the highest decile of income recipients (including absentee landlords) received 57% of rural income. In the second half of the 1970s the distribution improved in the urban areas (more so if personal rather than household data is used). This period was

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2/ Flores et al (1987); Vivas (1987).

followed by a relative stabilization in the 1980s. Today urban household income distribution is quite similar to estimates for the mid 1960s (the top 10% receive 35-36% and the poorest half 19% of urban income). Comparable rural estimates are less abundant, but they also indicate an improvement of income distribution from the early 1970s to the early 1980s 3/.

Studies on trends in poverty levels are, unfortunately, less abundant, particularly if the household rather than the individual is the unit of analysis. The methodology developed by Carrizosa (1987) combines, data on personal incomes with dependency and employment rates to estimate the ability of poor employed individuals (construction workers and unskilled rural laborers) to support their families. These estimates indicate that there was little or no improvement in poverty levels from the 1950s to the early 1970s, but there was a significant betterment in the second half of the latter decade. These conclusions are consistent with trends in income distribution and with estimates by the same author on changes in per-capita food consumption, which had a slightly downward trend from the early 1950s to the early 1970s, followed by significant growth in the second half of the latter decade. This result is also an

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3/ For trends up to the mid 1970s, see Urrutia and Berry (1975) and Urrutia (1984). More recent trends of income distribution in urban areas are analyzed by Misión de Empleo (1986, Ch. 1) and Reyes (1987). Two recent papers, Aguilar and Perfetti (1987) and Uribe (1987)consider the evolution of rural income distribution.

agreement with the improvements in nutrition levels in 1972-1981 which had been identified in a recent study. Nonetheless, malnutrition continues to affect a significant proportion of households in Colombia -- the poorest 20 to 30% in urban areas and a slightly lower proportion in the countryside 4/.

The reasons for the rapid improvement in income distribution and poverty indicators in the second half of the 1970s are still subject to controversy. It is unclear, in particular, what role -- if any -- did macroeconomic policies play. Booming labor demand in the countryside due to rising coffee incomes (see next section), in the context of falling labor surpluses, associated with extensive migration to the cities in previous decades, are certainly part of the story. In the urban areas, significant changes in the relative supply of skilled and unskilled laborers may be the major explanation for the rapid fall in wage differentials 5/, but it is unclear why they changed so rapidly in a fairly short period of time. Finally, the fall in dependency rates and better overall employment opportunities meant that a rapidly rising proportion of household members became income recipients.

II. THE MACROECONOMIC CONTEXT

Macroeconomic behavior in the post-war period has been

4/ Uribe (1987).

5/ Misión de Empleo (1986, Ch. 3).

significantly affected in Colombia by oscillations in world coffee prices. Figure 1 shows five major phases in the evolution of the relative export prices :(a) a period of rapid improvement of the terms of trade, which peaked in 1954 but remained high up to 1956; (b) a phase of collapse (1957-1959), followed by low relative export prices in most of the 1960s; (c) a period of slowly improving terms of trade in the late 1960s and early 1970s, which came to an end in 1974-1975; (d) the coffee boom of the second half of the 1970s; and (e) low relative terms of trade in the early 1980s, temporarily interrupted in 1986. An association between economic growth and the evolution of the terms of trade, is suggested by the periodization of the economic cycle in Table 2. However the relationship between these two variables has not been as close as expected, reflecting the quality of economic policy in different periods. 6/.

The adequate supply of foreign exchange was the background for economic expansion in the first decade of the post-war period, which was particularly impressive in the industrial sector, as Table 2 indicates. Two major problems were faced by economic authorities at the time. The first, and most important, was the increasing dependence of the Colombian economy on high coffee prices, as a reflection of the slow growth of coffee production (due to aging of plantations and violence in rural

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6/ For a detailed analysis of major macroeconomic phases in the post-war period, see Ocampo et al (1987).

areas) and the lack of diversification of the export structure (See Table 3). The second was erratic growth, as annual rates in Figure 2 indicate. This problem was to a large extent associated with the repressed demand for imported capital goods which had built up during the 1930s and the Second World War. As the 1948 and 1951 devaluations did not significantly increase the real exchange (See Figure 3), the government had to rely most of the period on strong import controls to maintain equilibrium in the balance of payments. Easing of controls led to significant current account deficits in 1945-46 and later in 1955, which forced authorities to reestablish drastic import rationing soonafter. It is unclear whether this stock disequilibrium would had been better managed by a more active exchange rate policy, as suggested by Lauchlin Currie, the head of the first World Bank Mission (1949-1950). Indeed, it may be argued the overvalued exchange rate operated as a second-best efficient subsidy by coffee growers to the impressive built up of the private capital stock in manufacturing and transportation which took place during these years. A similar process in the face of devaluation would have been possible only with high taxes on coffee incomes, a policy with blink political prospects, given resistance of coffee growers to similar (weak) experiments after the 1933 and 1951 devaluations.

The end of the coffee boom brought up major macroeconomic imbalances. By 1955 and 1956 both coffee and non-coffee public finances were generating considerable deficits by the standards of the 1960s (See Figure 3), financed in both cases by the central bank. After the 1955 current account deficit and reserve drain, repressed import demand reduced the short-term current imbalances in 1956, but the country accumulated substantial commercial arrears. By December of the latter year, the short-term (private) commercial debt was equivalent to 260% of Banco de la República gross international reserves. Existing disequilibria served as the background for the stabilization program of 1957, which included a sharp devaluation -- through a temporary floating of the exchange rate --, correction of fiscal imbalances and renegotiation of the commercial debt of the country.

The stabilization program of 1957 initiated a decade of foreign exchange strangulation. Economic authorities faced first falling and later scarce export proceeds. This environment obviously resulted in increasing dependence of foreign, particularly bilateral and multilateral creditors (See Section III). Finally, political conditions were extremely difficult, due to the impact of the Cuban revolution and expectations raised by the return to full democracy in 1958 7/. The rapid growth of

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7/ The liberal party did not participate in the 1950 presidential elections for what it claimed to be lack of political safeguards. The conservative government which was elected in that year was overthrown by a military coup in 1953. In 1957 the military president was in tun overthrown by a transitional military junta and the two dominant political parties joined in a labor unions generated significant pressures on urban wages in the late 1950s and early 1960s. Labor unrest was particularly effective in forcing the government to decree a strong increase in minimum wages in 1963, which defeated the real effects of the November 1962 devaluation, and to postpone the implementation of the sales tax, which had also been established as part of the austerity programs. At the same time, the rise of leftist guerrilla movements pressed a reformist response of the establishment, which was reflected in major social programs (education, health, housing, etc.) and a (weak) attempt at agrarian reform.

The strategy followed by economic authorities after 1958 has been generally characterized as a second phase of import substitution. This characterization is partially correct. Indeed, the 1959 and 1964 tariff reforms strengthened protectionist policies, which had been weakly implemented for the first time in the post-war period in 1950 8/. Direct import rationing was also on the rise during most of the period. Prior import deposits in the central bank were constantly used to repress imports and to control the growth of high-powered money.

"National Front", by which they agreed to alternate the presidency and divide equally the administration, the Congress and the judicial power. The first civilian National Front president was elected in 1958. The newpolitical arrangement formally ended in 1974, but for some purposes it lasted until 1986.

8/ Martínez (1986)

The government directly contributed to the creation of new manufacturing activities through the Industrial Development Institute, which had been created in 1940, but experienced its most rapid expansion after 1958. The development banks (Corporaciones Financieras) were created in the late 1950s to finance new private endeavors. Finally, the 1960 tax reform created important incentives to new investment, particularly in import-substituting industries 9/.

The exchange rate regime of the period included a basic fixed rate (which was devalued in November 1962 and divided into a preferential and intermediate markets in September 1965), combined with a (generally) freely floating exchange rate for capital movements and special rates for coffee and oil transactions. 10 Despite widespread claims of overvaluation of the exchange rate -- <u>the short term</u> real exchange rate was certainly overvalued, given structural imbalances in external accounts -- and periodic real appreciations, the effects of the 1957 devaluation were maintained up to 1966. This fact has been generally disregarded in most analyses of the period. According to the basic data used for Figure 3, between 1945-55 and 1959-66 there was a real devaluation of 66% for imports, <u>excluding</u> thee effects of tariffs, quotas and import deposits. The effective

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9/ For a summary of industrial policy in the period, see Ocampo <u>et al</u>, (1987).

10/ See a more detailed history of exchange rate policies in Wiesner (1978).

real depreciation of the currency was even stronger for non-traditional exports (73% in the same period), as they were allowed to sell their export earnings at the capital or intermediate rates and were given direct tax incentives in 1960. A limited drawback mechanism for minor exports was also created in 1957.

As Table 2 shows, the moderate economic growth of the period concentrated in production for the domestic market, particularly in second-phase import substituting industries. However, a significant export diversification took place during these years. Non-traditional exports grew from 7% of total sales abroad in 1955-59 to 24% in 1965-69 (See Table 3). The export quantum for non-coffee, non-oil primary exports increased 336% between 1955-59 and 1967 and that for manufacturing exports 290% between 1960-62 and 1967 11/. Moreover, the import substitution pattern seems to have overcome most of the excesses of similar policies in other countries. In the late 1960s, according to Hutchenson (1973), traditional manufacturing products were not significantly overpriced in the domestic market over similar articles abroad, despite high nominal tariffs and restrictive quotas. Overall, effective protection for manufacturing was then relatively low by Latin America standards (25%) 12/. It was high, however, in

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11/ Villar (1983).

12/ Average nominal protection was 65.6% after the 1964 tariff reform. See Martinez (1986).

electrical machinery and transportation equipment and moderately high (40-55%) in basic chemicals, iron and steel and metal-mechanic products. The industrial structure that developed was in fact one in which traditional manufacturing was overexpanded relative to international patterns, while "middle" and particularly "late" industries were below predicted levels 13/.

Instability was also a major feature of economic management during these years. The inability to maintain the real exchange rate, fiscal imbalances and the instability of external financing explain the stop-go policy pattern typical of the period. Despite readjustments of the basic exchange rates and dirty devaluations undertaken by transferring goods from preferential to non-preferential rates, the real import exchange rate was subject to significant fluctuations, as Figure 3 shows. For non-traditional exports, fluctuations were even stronger, due to the combination of speculative movements in the capital market, short attempts by the government to stabilize the free exchange rate and the decision to create a new fixed intermediate rate for them in mid 1965. As Diaz-Alejandro (1976, Ch. 2) has shown, the instability of the real exchange rate rather than its level impaired a faster growth of non-traditional exports during the period.

13/ See Echavarría <u>et al</u> (1983) and Syrquin (1986).

The public sector deficit was also erratic, as Figure 3 indicates. The reduction of tax returns, due to the incentives created by the 1960 reform and strong import controls, together with a booming externally-financed public investment program, led to an extraordinary fiscal disequilibrium in 1962 (8.1% of GDP). In the following years, increasing indirect taxes and reductions in the investment programs, largely forced by cuts in external financing, led to a sharp reduction of the fiscal deficits, which by 1964-65 was slightly over 1% of GDP. Cuts in non-coffee public finances disequilibrium were accompanied, however, by rising coffee sector deficits in the mid-1960s, which were financed by the central bank and external credits 14/.

After the large and rather unconditional outburst of lending in 1961 and 1962, external financing became increasingly conditional on negotiations with the IMF, AID and the World Bank. In 1965 these agencies led the country in one of the greatest fiascos in the history of economic policy in Colombia, which has been admirably documented by Díaz-Alejandro (1967, Ch. 7). Discontent with long delays in the import rationing process and large differentials between the capital market and the basic exchange rate led foreign agencies to argue for gradual liberalization of controls accompanied by a transfer of goods from the preferential to the intermediate exchange rates which

14/ See a more detailed analysis of fiscal policy in the period in Perry and Cárdenas (1986) and Cárdenas and Ocampo (1985).

were created in September 1965 (an effective 50% devaluation for goods transferred). The experiment resulted in a record current account deficit and foreign exchange collapse in 1966 (See Figure 2). The agencies then demanded a large open devaluation to correct the disequilibrium. The Colombian government refused, braked negotiations with foreign agencies in November 1966, and established overnight generalized import and exchange controls. Soonafter, in March 1967, it established a crawling peg, permanent exchange controls on capital movements (thus eliminating the free capital market), transformed tax and exchange rate preferences for non-traditional exports for a tax-free subsidy and the differential coffee exchange rate for ad-valorem tax 15/.

The new foreign exchange regime was the prelude to the phase of most successful economic performance of the Colombian economy in the post-war period, which lasted until 1974 (See Table 2). There was a gradual real devaluation throughout the period, which was probably an element of export success. The size of the real depreciation of the peso (25% between 1959-1966 and 1968-1974) was, however, moderate when compared to the permanent effects of the 1957 devaluation. A more important factor was, undoubtly, greater flexibility in exchange rate management -- on which

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15/ See the official account of the crisis in Lleras (1967) and Espinoza (1970). A conflicting view on negotiations with the IMF in the period has been proposed by Currie (1984) and Lopez (1987).

foreign agencies had contradictory views --, 16/ which eliminated the instability of the real exchange rate typical of the previous decade, as Figure 3 clearly indicates. Stability of the exchange rate and of special incentives for non-traditional exports, in the context of a booming world economy, accelerated the process of export diversification which had started in late 1950s. By 1970-1974, non-traditional products made up more than 40% of Colombian exports. It should be emphasized, however, that total exports continued to decrease as a proportion of GDP (Table 3). Stiff exchange controls were maintained. Import controls were very gradually liberalized in the late 1960s and early 1970s. However, even in June 1974 less than 30% of items in the tariff schedule were in the free licensing regime. Import tariffs were somewhat reduced in the early 1970s, but average nominal tariffs continued to be rather high (48.5% in 1973).

Fiscal austerity was certainly not part of the story, either. Indeed, global fiscal deficits increased with respect to the low levels of 1964-1965, stabilizing around 3% of GDP in the late 1960s and early 1970s. Moreover, since the current income of the public sector increased -- due to the succession of

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16/ Foreign agencies argued for greater <u>temporary</u> flexibility -- see Lopez (1987) -- but opposed <u>permanent</u> flexibility, i.e., the crawling peg. In fact, as comes out very clearly from Lleras (1967), the system established in March 1967 was expected to be a temporary dirty floating of the exchange rate (similar to that already experimented in 1933-1935 and in 1957) but soon evolved into a crawling peg.

reforms adopted from 1963 to 1968 and to the favorable fiscal effects of rising imports --, government expenditure increased significantly as a proportion of GDP and government investment as a share of total fixed capital accumulation during the boom years (See Table 4).

The greatest difference with respect to the phase of external strangulation was the availability of external financing, a point which will be amply documented in the following section. Indeed, capital inflows were crucial in the early part of the boom, as the current account deficit shot up from 1967 to 1971, due to repressed investment demands of imported goods which had accumulated during the years of foreign exchange strangulation. By 1971 the external deficit reached, as a proportion of exports, a new post-war record (See Figure 3) Improved terms of trade, non-traditional export expansion and reduced import demand rapidly corrected these disequilibria in the following years (See Table 2). Moreover, since non-traditional exports still represented a minor proportion of GDP in the late 1960s and even in the early 1970s, it is quite difficult to argue that the boom was in any sense export-led. Rather, given the former comments, it seems that, at least in its first phases, it was an externally-financed Keynesian recovery. In the early 1970s, the significant improvement in the external accounts played a larger role in sustaining the expansion.

The boom came abruptly to an end in 1975, due the contractionary fiscal policies adopted to reduce the inflation rate which had shown up in 1973 and 1974 (See Figure 2). Falling coffee prices and the effects of world recession on non-traditional exports had initially an adverse effect on external accounts. However, the Brazilian frost of mid 1975 led to a rapid rise in real coffee prices, which peaked in 1977. The major preocupation of economic authorities was then how to manage five consecutive years of booming coffee exports and current account surpluses. Since it was decided that the coffee sector would no play the major role in the stabilization effort (real domestic coffee prices were increased significantly in the early part of the boom, to a large extent to accelerate technical renovation of plantations), fiscal austerity was pushed forwards, particularly in public administration. In the external front, devaluation was temporarily suspended in 1977, leading to significant appreciation of the currency for the first time since the crawling peg had been established (See Figure 3). Economic authorities also decided to accelerate the import liberalization process, to strengthen controls on capital inflows and to defer the maturity of foreign exchange certificates to reduce the monetary effect of reserve accumulation 17/.

17/ Economic policies in this period have been amply documented by Sarmiento (1982), Jaramillo (1979) and Ocampo and Reveiz (1979).

The economy did not perform very well compared to the previous boom, except in 1978, when extraordinary harvests temporarily reduced inflation rates, creating a windfall gain for all wage earners (See Figure 2). Slower expansion affected in particular manufacturing production -- which, for the first time in the post-war period grew at a slower rate than aggregate GDP-- and commercial agriculture, and led to a significant reversal of efforts to diversify the export structure (See Tables 2 and 3). These (mild) "Dutch-disease"features explain most of the slowdown with respect to the 1967-1974 boom. Nonetheless, due to slower population pressure, GDP per capita continued to expand at a fast rate 18/.

Deterioration of economic conditions was dramatic in the early part of the 1980s. As figures 2 and 3 show, the economy entered the worst recession of the post-war period, as it accumulated the highest external and fiscal deficits and (as we will see in the following section) most of its current foreign debt. Rapid import liberalization (by 1982, 70.8% of all items in the tariff schedule could be imported under the free licensing regime and the average tariff rate had been reduced to 26%) and further revaluation of the currency in the early 1980s, in the face of a collapse of coffee prices in 1980, explain the rapid deterioration of external accounts. The fiscal deficit was the

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18/ The Dutch-disease hypothesis has been suggested in particular by Edwards (1984) and Thomas (1986).

result of an expansionary government investment program and rapid increase in public sector wages (largely to compensate reductions in the 1972-1977 period) combined, in the central goverment, with tax benefits in 1979 and leniency in tax administration. The contractionary effect of deteriorating external accounts was stronger than the expansionary effect of fiscal policy. This was the single most important explanation of the strong recession that developed 19/.

Adjustment to existing disequilibria was implemented in two phases. The first relied on a traditional (by Colombian standards) combination of gradual devaluation, stronger exchange and import controls, larger direct export subsidies and gradual correction of fiscal imbalances by a series of tax reforms. These policies, which were adopted in 1983 and during most of 1984, led to a reversal of current account disequilibria, a weak turnaround of fiscal imbalances and a recovery of economic activity. In 1985 a more radical program was implemented, which centered on a fast cut in the fiscal deficit and rapid devaluation, combined with gradual import liberalization. External and fiscal disequilibrium were further reduced as economic growth slowed down 20/. The short coffee boom of 1986 accelerated the improvement of balance of payments and fiscal

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19/ Ocampo (1986) and Lora and Ocampo (1986).

20/ Ibid., and Junguito (1986).

accounts and supported a recovery of economic activity (See Figures 2 and 3).

III. EXTERNAL FINANCING AND AID

A. The Evolution of Global Debt

Table 5 provides approximate estimates of the evolution of the foreign debt of Colombia in the post-war period, at some critical turning points. Some important qualifications of the data should be made. First, some debts are excluded from the table. Particularly some private commercial obligations and the short-term liabilities of public enterprises and the National Coffee Fund are excluded. As an approximate guess, excluded items never represented more than 10 or 15% of the total foreign debt of Colombia; exclusions do, however, matter for estimations of net flows in specific periods, as we will see shortly. Secondly, financial assets owned by Colombians abroad -- which should be added to gross international reserves in the calculation of the net debt -- are also excluded. Finally, since the book value of bonds exceeded by large amounts their market value in the early years, the corresponding figures in 1945 and 1956 had been estimated at their *ex-post* amortizacion costs, taking 1970 as a correct figure.

The estimates presented identify four major periods in the evolution of the Colombian foreign debt. The first (1945-1956) coincides with the first boom of the post-war period. During these years, Colombia evolved from an initial equilibrium between external assets and liabilities to a moderate debt (one year of exports for the gross debt and 70% for the net debt). Moreover, most of the debt accumulation was private, confirming, as was pointed out in the previous section, that it was mainly associated with private import demand. In the following period (1956-1970), debt continued to accumulate both in absolute and relative terms. By 1970 the net debt exceeded two years of exports (the peak of the net debt/export ratio was reached in 1971, when it was close to three years of exports of goods). However, in contrast to the previous period, most the additional debt was contracted by the public sector. In the following period, which covers most of the 1970s, Colombia's gross foreign debt increased at a rate comparable to world inflation and slower than export expansion. Actually, the net debt decreased rapidly as a proportion of exports and by 1982 (when it was its minimum) it represented only four months of exports of goods. A rapid accumulation of gross debt started, again, in 1979 (1981 for the net debt). As can be clearly seen in Table 5, most of the outstanding external liabilities of the country were contracted in the past eight years. Although the public debt has grown at a faster rate, private liabilities also increased at a rapid pace; this is particularly true if 1978-1982 is taken as a reference, as we will see in the next section. By 1986, after declining from its peak 1984-1985 levels, the net debt represented close to two years of exports, a level which is expected to remain for the rest of the decade 21/.

B. A Closer Look at the Sources of External Financing

Table 6 takes a closer look at the sources of external financing. A more detailed breakdown of sources (which includes direct investment and short-tem credits to the central bank) and phases is provided. During the 1946-56 period, this table confirms that three-fourths of total financing went to the private sector (including direct investment). In public sector financing, commercial banks and suppliers played a very important role 22/, but the World Bank was already the leading government financier. The 1957-61 period can be correctly classified as a phase of conversion of private into public debts, particularly in the form of government obligations with the U.S. Export-Import Bank and Banco de la República short term liabilities with the IMF and other institutions. With the birth of the Alliance for Progress, bilateral and multilateral agencies

21/ See a more complete account of the evolution of the Colombian foreign debt since 1970 in Perry et al (1981); Villar (1983b); "Notas editoriales", Revista del Banco de la República, November 1986; and Coyuntura Económica, April 1987.

22/ Most of credits to the public sector from these institutions were directeed to the newly-created public oil company (Ecopetrol) and government-supported steelmill (Paz del Río). In 1952 and 1953, for example, of total credits used by the public sector (excluding the World Bank and U.S. Ex-Im Bank) for US$55 million, US$46 went to those two companies. See Banco de la República, Informe Anual del Gerente a la Junta Directiva, 1952/53, p. 209, and 1953-54, p. 148.

took a leading role in Colombia´s external financing. The leading financier in 1962-1966 was AID, followed by the World Bank. It should be pointed out, however, that much of financing by AID was counterbalanced in this period by the need to repay the medium-term credits contracted with US Ex-Im Bank during the years of conversion of commercial debts.

Starting in 1967 several factors combined to increase the effective availability of external capital. Increasing financing from AID and IDB was not counterbalanced in 1967-1970 by repayments to the Ex-Im Bank, thus strongly increasing net lending to the public sector. These factors were reinforced in the early 1970s by larger loans from the World Bank and by the government´s access to commercial bank lending. On top of this process, the domestic financial system was able to borrow abroad on a increasing scale in the late 1960s and early 1970s.

The data from multilateral and bilateral donors (Table 7) confirms the significant increase in external financing to Colombia after 1967, with a leading role being played in 1967-1970 by US bilateral lending (AID) and the IDB, and in 1971-74 by the World Bank, the IDB and non-US bilateral agencies (some of their credits being oriented, however, to the private sector). What is more interestin, the data from Table 7 confirms the significant increase in official development assistance after 1967, channelled mainly through AID and the IDB.

During the coffee boom of the 1970s, two major changes in external financing can be noticed. The first was phasing out of AID lending. In fact, the government officially stated that Colombia did not need any further support from AID. This resulted in a sharp decline in official development assistance and, with some lag, in negative net flows from this agency (See Tables 6 and 7). The second was the stringent policies adopted to control net borrowing by the domestic financial system, as an essential part of the strategy to control the accumulation of international reserves 23/.

The boom of external financing in 1979-82 was balanced between the private (direct investment and all forms of borrowing) and the public sectors. What is equally interesting, for the first time commercial banks and suppliers took a leading role in government financing, representing 68% of total net public sector borrowing during the period. With the advent of the debt crisis, Colombia continued to have an acceptable but conditional access to external financing. However, foreign funds were increasingly biased to direct investment by multinationals on the large mining projects (coal and oil) and on multilateral and bilateral lending to the government. The collapse of capital markets has thus given new dimensions to the role of official lending and even assistance (see Table 7) in a country which has

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23/ See Jaramillo and Montes (1977).

reached a higher stage of development than that typical in the 1960s and continues to have, by Latin American standards, a fair access to world capital markets.

It should be pointed out, however, that the data used to estimate net lending for 1983-1986 tends to overestimate by large amounts effective financing, due to the increasing importance of unregistered debt in recent years. According to balance of payments statistics, net borrowing by Colombia (excluding the short term debt of the central bank but including movements in registered short term assets of Colombians abroad) was only US$2.829 millions and not US$5.233 as Table 6 indicates. Indeed, according to this alternative estimate, the net private debt (i.e., the debt net of assets abroad) decreased US$1.405 millions in 1983-1986, while public borrowing increased US$4.234 million. The former figure is actually quite similar to the change in gross international reserves during the period. This helps to point out some similarities and differences between the recent experienced and the 1957-1961 crisis. In the absence of adequate international reserves, the government was forced in the 1950s to convert private into public debt in refinancing operations. The high international reserves in 1982 led to a different strategy, by which the Colombian government used a significant part of international reserves to pay accumulated private liabilities.

C. Shorter-term Movements of Public Borrowing

Available data on annual changes in the public debt contracted and disbursed and on lending and development assistance by major bilateral and multilateral donors provide additional information on the evolution of Colombia's access to capital markets and foreign aid in the post-war period. As Table 8 indicates, only in 1952 -- or 1951 and 1952, if net commitments rather than disbursements are used as the relevant variable-- did the Colombian public sector borrowed abroad on a significant scale prior to the 1957 crisis. As public debt contracted during the renegotiations of the late 1950s are excluded from the calculations, Table 8 does not show any significant increase in lending in that period.

Three decades of low public borrowing were abruptly interrupted in 1961 and 1962 with the advent of the Alliance for Progress. As it was pointed out in Section II, the rapid growth of the foreign debt during these years actually encouraged the growth of a sizable fiscal deficit. In the following years, lending decreased and became increasingly conditional on negotiations with the IMF, AID and the World Bank. Net commitments were significantly reduced over previous peak levels. Net disbursements also fell from its 1962 peak, but remained at 1961 levels, benefitting partially from credits contracted during the first years of the decade.

The extraordinary growth of public sector borrowing abroad in the late 1960s can be clearly seen in Table 8, confirming the role of foreign financing in the 1967-1974 boom. Information on net lending and development assistance by bilateral and multilateral donors also registers a spectacular growth in the late 1960s (See Table 9). Data from both sources also show the slowdown in net borrowing in the mid 1970s, followed by the extraordinary growth of public debt beginning in 1979.

D. Prospects

Colombia's current account deficts are expected to be moderate in the next few years, despite low coffee prices and increasing service deficits (See Table 10) 24/. Favorable prospects are partly related to the exchange rate adjustments of recent years -- which have led to a rapid growth of industrial exports and a reduction in import demands -- but more importantly to long-term investments in energy, which have paid handsomely in the last few years in terms of oil discoveries. In fact, raising fuel exports and falling oil imports explain more than 60% of the expected net change in the trade balance between 1981-1984 and 1987-1990 (the oil balance is expected to run annual surpluses of US$1.398 million dollars in the rest of the decade, compared to

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24/ Although Table 10 reproduces official projections, it should be pointed out that alternative estimates give a fairly similar picture. See, for example, Coyuntura Económica, March 1987, pp. 71-79.

annual deficits of US$335 million in the early part of the 1980s).

However, booming amortizations of the medium and long-term foreign debt of the public sector, particularly with commercial banks, will keep the gross financial requirements of the country at fairly high levels. Annual amortization of this debt will be four times higher than those typical in the early part of the decade. As direct investment flows will not increase (official projections on the matter are, in fact, rather optimistic) and other private and short-term public debt flows will be negative, net disbursements of medium and long term loans for the public sector must <u>increase</u> over the levels typical of the early 1980s if international reserves are expected to remain at present levels. Moreover, as net financing from commercial banks is expected to be nil, this can only be made compatible with growing net borrowing from multilateral and bilateral institutions (See also Table 10). Thus, the increasing dependence on official lending typical of the last few years will become even more important in the rest of the decade.

The risks and costs implicit in this strategy have been subject to a heated academic and political debate in recent months 25/. Commercial bank resistance to grant new credits

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25/ See, for example, the papers included in <u>Debates de Coyuntura Económica</u>, No. 6, June 1987.

continues to be the overriding constraint. While the Colombian government has been successful in 1985 and, more recently, in 1987, in obtaining "jumbo" loans for about US$1 billion each, this has only been possible after long and painstaking negotiations, which have involved general and specific conditions on economic policy. Furthermore, there is no guarantee that the banks will be willing to grant similar loans on an annual basis in the next few years. Increasing dependence on multilateral institutions faces, on the other hand, growing limitations due to the shortage of funds by these institutions (particularly the Inter-American Development Bank) and increasing macroeconomic and sectorial conditionality. The problem is further complicated by the fact that project financing is an inefficient way to obtain funds which are largely needed to roll over the debt contracted in the late 1970s and early 1980s. In this context, it is natural that some sectors find increasingly attractive the possibility of a global renegotiation of the debt or, at least, of the liabilities of the public sector with commercial banks. The government has refused to consider this alternative attractive and continues to attempt a complete normalization of the relations between Colombia and the international banking community.

E. The Sectorial Use of External Resources by the Government

The use of external resources by the government was quite concentrated in the two favorite sectors of the World Bank--transportation and hydro-electric -- and in telephone communications (Table 11). Agriculture and manufacturing also played a role in this phase. In agriculture lending was directed to the government-owned Caja Agraria to support domestic credit. This type of use of external resources had been tried in 1940, when the first US Ex-Im Bank credit was extended to Colombia; an important proportion of bond issues in the late 1920s had also financed the (then private) agrarian mortgage banks. Public borrowing for the manufacturing sector was mainly directed to the newly created government oil company (Ecopetrol) and for the development of the government-supported Paz del Rio steelmill.

In the late 1950s and early 1960s most lending was of a program rather than a project type. These credits included those obtained from U.S. Ex-Im Bank and other agencies in the late 1950s in the renegotiation of the private commercial debt. An important precedent of practices which became common under the Alliance for Progress was the 1958 US$78 million Ex-Im Bank loan which (as the first loan contracted with this Bank in 1940) financed both imports from the U.S. and, through the counterpart domestic resources generated in the process, fiscal transactions. This pattern was amply used in the various AID "program loans", the first two of which were signed in April and December 1962, for a total of US$90 million.

In the mid 1960s, program loans from AID actually had a reduced net financing effect, due to the need to repay the medium-term loans contracted with Ex-Im Bank in the previous period. Electricity and transportation took again the leading role in public external borrowing. Agriculture and manufacturing became, once more, important recipients of foreign aid. In the former case, the old lending programs to Caja Agraria were joined by similar programs with the recently-created Agrarian Reform Institute (INCORA) and the Cattle-Raising Bank (Banco Ganadero). These loans also served as predecessors for those received by the Development Funds, created at Banco de la República to rediscount loans extended to the private sector by commercial and development banks. The first of these loans was signed in late 1964 with AID to finance the Fondo de Inversiones Privadas. Aside from this type of activities, government housing construction for the middle and popular classes,particularly through the Instituto de Crédito Territorial, which had received external financing for the first time in 1961, became increasingly important in the mid 1960s.

In the last years of this decade, program loans from AID assumed a leading role in public sector financing. Although electricity and transportation continued to absorb high proportions of foreign credits, an interesting feature of this period and the early 1970s was the increasing sectoral diversification of project financing. Agriculture and the

Development Funds received much larger financing than in the past. Manufacturing and communications also increased the use of external resources. An additional innovation of the period was the opening of external financial institutions to the provision of credits for social services; this type of financing remained, however, very limited.

An important characteristic of the 1970s was the access to syndicated loans from commercial banks for budget financing and general development programs. This type of borrowing became, in a sense, the substitute for the program loans from AID and reached high proportions during the 1979-1982 borrowing boom. During the recent crisis this type of financing received a hard blow. Few substitutes have in fact appeared. The only interesting exception have been the recent World Bank loans to finance imports for export activities and agricultural development and the IDB industrial credit. Both of them had many similarities with their Ex-Im Bank and AID predecessors.

An additional trend since the mid-1970s was the increasing concentration of foreign borrowing in the energy sectors-- electricity and, more recently, oil and coal mining --. Transportation and the purchase of military equipment (included in "others") seem to be the only activities which have been able to compete successfully for external resources (many of the general purpose loans of 1979-1982 were in fact directed to the ambitious road-development program of the period). Social services continued to be discriminated and important activities in the borrowing programs of the 1960s and early 1970s--agriculture and manufacturing, in particular -- almost disappeared from public sector external borrowing. Development credits also significantly reduced their relative share in net disbursement with respect to the late 1960s and early 1970s.

F. The Domestic Effects of External Savings

Conventional criticisms of aid and external savings include the argument that they are substitutes for domestic savings and are thus partially used to finance consumption rather than investment. In turn, it is often argued that they encourage the relative growth of the public sector and capital-intensive activities. In the Colombian context 26/, it has also been claimed that external borrowing biases the composition of public investment away from desirable activities (social services) and that it increases the import-content of public investment. The latter point is related, in turn, to rigidities introduced by project financing on the ability to use public investment to smoothen the domestic effects of external fluctuations.

Some evidence on the effects of external on domestic savings are presented in Figure 4 and Table 12. Savings data from Banco

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26/ See Londoño and Perry (1985).

de la República National Accounts for the period 1950-1980 are used. Unfortunately, DANE National Accounts for recent years cannot be used, as definitions are not consistent with previous data. As seems evident from Figure 4, oscillations of the aggregate savings rate in Colombia have been mainly affected by private rather than public savings. In turn, the evolution of the current account deficit (external savings) have been mainly associated with fluctuations of private savings.

The simple econometric estimates presented in Table 12 confirm these appreciations. The effects of external savings in two different periods -- of foreign exchange "shortage", 1950-1969 27/ and "abundance", 1970-1980 -- on private, government and total savings rates are estimated. Additional independent variables include the share of urban non-wage in total income and the average tax rate 28/. As can be seen, there is some evidence of substitution of domestic private for external savings in the period of foreign exchange shortage. On the contrary, there is

27/ The early years of this period were not strictly speaking of foreign exchange "shortage". However, as pointed out in part II, the underlying conditions were of excess demand for imports. Thus, in the econometric estimates they are included as part of a global period of dollar shortage.

28/ Previous studies -- particularly Ocampo et al (1985)-- found that savings rates for urban non-wage income ("urban surplus") are significantly higher than those for urban wage and rural income. This study also failed to find any significant effects of interest rates and other traditional variables on savings in Colombia.

also evidence of a positive association between external and domestic public savings. The overall substitution seems rather large in the early period (slightly under 50% when other independent variables are included). However, since the government has been throughout the period the major recipient of external resources, the particular link between domestic and foreign savings is subject to dispute. A plausible explanation is simply that an exogenous deterioration of the terms of trade (or in export income in general) generates both falling private savings and a current account deficit, both of which increase the need for external resources. An external boom has the opposite effect 29/.

Complementary between government and external savings has also been shown by studies on the determinants of public investment in Colombia. According to Perry et al. (1981), Londoño and Perry (1985) and Perry and Cárdenas (1986), inflows of foreign capital have multiplied effects on public investment, as international financial institutions usually require te generation of counterpart funds to finance the domestic component of capital expenditures. Econometric estimates indicate that an additional dollar of external resources induces US$1.20 of public investment. Gómez and Thoummi (1986) have recently

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29/ Ocampo et al (1985) also found a significant association between domestic private savings and export income. This finding is consistent with this interpretation of the link between domestic and external savings.

criticized this conclusion, arguing that public investment has basically reflected in the past policy decisions of different governments and has been inelastic to capital flows. Nonetheless, econometric results obtained by these authors indicate that the marginal effect of an additional dollar disbursed on public investment was close to one in 1967-1973 and greater than one in 1974-1983. These results are consistent with the view that government savings and external resources are complements rather than substitutes in Colombia.

A closer look at the interrelations between external resources and government savings and investment since 1960 indicate that the positive association between these two variables is largely related to the 1967-1974 boom. As it was pointed out in Section II, during the first phase of this boom there was a significant increase in taxation which, as Figure 4 shows, was reflected in rising government savings. Domestic resources then complemented increased external funds to generate a spectacular boom of public investment. In the early 1960s and in the first years of the 1980s, on the contrary, large inflows of foreign resources were associated with rapidly falling government savings (not shown in Figure 4 for the recent period). Evidence of substitution between external and domestic resources for these periods is only partial, as the rapid deterioration of public sector savings was soon reversed. On the other hand, it is clear in both cases that external resources did generate a public sector investment boom. In macroeconomic terms, it may be argued that, in the absence of a domestic savings effort, the growth of public investment was reflected in both periods in a sharp deterioration of the current account with the rest of the world.

The positive association between external savings and government investment is consistent with the view that large increases in foreign lending have encouraged in the past the relative growth of the public sector. Table 4 in fact indicates that the periods of relative growth of public administration and enterprises in Colombia -- the late 1960s, early 1970s and the early 1980s -- have been associated with large inflows of external capital. Foreign resources have also been channelled primarily to capital-intensive activities, such as hydro-electricity, road-building and recently large-scale mining. It is unclear, however, what the correct causal link between external resources and relative public sector growth is -- i.e., whether the supply of the former has induced the latter or rather whether the second phenomenon has increased the demand for external resources. It may be argued that the second of these interpretations is probably closer to the facts. According to this interpretation, the relative growth of the public sector can be explained mainly by the demand for highly elastic social services and capital-intensive infrastructural and recent mining activities, which increased the need for both domestic and external resources for the public sector. Indeed, there is rather overwhelming evidence which indicates that the Colombian public sector is not large by international standards and is actually below international patterns, both in terms of expenditure and employment 30/.

Biases introduced by the lending policies of leading international financial institutions on the composition of public expenditure have probably been more important that the aggregate effects previously mentioned. Indeed, it may be argued that the lack of external finance for the social services and some other activities, combined with the domestic counterpart funds required by foreign financial institution, have crowded out desirable government expenditure in these services and activities. The argument is not totally convincing, however. In the 1960s the clear bias of World Bank and IDB lending towards infrastructural expenditure was counterbalanced by AID program lending, as Table 13 indicates. Thus, it may be argued that lending institutions complemented each other. There was also an increasing diversification of foreign resources in the late 1960s, as pointed out above and is confirmed by data on World Bank lending in Table 13. In the 1970s and early 1980s, syndicated loans for general budget or global investment financing substituted AID lending program. Substitution was imperfect, however. This

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30/ See, for example, Misión de Finanzas Intergubernamentales (1981, Ch. II) and Echeverría (1985).

factor, renewed biases by the two major multilateral lenders towards electrical power generation and the reduction of lending to domestic activities which was important in the 1960s (agriculture, manufacturing, housing development, etc.) may explain some of the distortions in infrastructural development in Colombia. Thus, as the country has significant excess capacity in electricity generation, which places considerable burdens on government finances today, it lacks adequate water and sewage systems, education, health and even electricity distribution networks in many small cities and rural areas.

Project vs. program lending have introduced other problems, which became increasingly important in the 1970s and early 1980s. The first is the import-bias generated by project financing. Generally, this type of external resources only covers the import component of specific projects. There are reasons to believe that the <u>availability</u> of this form of lending actually increases import demand by the public sector, as there is no medium and long term financing to purchase domestic capital goods. Indeed, from a macroeconomic point of view, it would be necessary to finance the imported component of domestic capital goods production in order to have an adequate substitute for external project financing. Moreover, protection margins permitted by multilateral institutions are usually insufficient to compensate for the overcosts incurred by tariffs on raw materials and intermediate goods. Until very recently (late 1984, when an 8%

across the board tariff surcharge was established), government imports were free of tariffs. Finally, public sector contracting rules usually require domestic firms to bid in local currency (the legal tender), while foreign firms are allowed to bid in their own currencies. This operates as an additional disadvantage, as Colombian firms have to include a provision for the effects for expected devaluation and inflation on their costs. For these reasons, there has actually been strong negative protection for domestic capital goods manufacturing.

From a macroeconomic point of view, project financing generates additional problems. At times of foreign exchange shortage, net external resources should finance an increasing proportion of domestic expenditure. Additional gross resources are also needed to pay for debt amortizations. On the contrary, in periods of foreign exchange abundance, some domestic resources should be used to pay for imports. This problem was not very important in the 1960s and early 1970s, as AID program financing, syndicated credits to finance general budget expenditure and external resources for domestic-cost-incentive sectors were available (agriculture, housing constructions and even social services). The problem became crucial in the mid 1970s and particularly in the 1980s. During the coffee boom of the former decade, as the government was trying to reduce the accumulation of international reserves, many public enterprises continued to use foreign credits in the absence of alternative domestic financing. In turn, the lack of mechanisms similar to AID program general budget financing, the lack of external resource to finance domestic-cost-intensive projects, growing amortization costs and the refusal of the Colombian government to renegotiate its foreign debt have generated increasing financing difficulties in the past few years. These problems have slowed down social desirable projects to rehabilitate regions subject to political violence and, more recently, to erradicate absolute poverty.

G. The Qualitative Effects of Foreign Assistance on Economic Policy-Making

Foreign advisors and assistance had significant effects on the development of governmental institutions and on economic analysis and policy in Colombia. The most important precedent in this regard were the two Kemmerer Missions of 1923 and 1931, which resulted in the development of modern central banking system and fiscal practices in the 1920s and in the tax reforms of the early 1930s. In the post-war period, the first World Bank Mission, headed by Lauchlin Currie, presented the first development plan and overall analysis of the Colombian economy. Soon after the Mission, the first steps were taken to establish planning committees, the first one of which was the Committee on Economic Development led by Currie, which did productive work, particularly in the transport sector.

In the late 1950s additional foreign Missions contributed to the understanding of Colombian economic and social conditions. The Lebret Mission published the first comprehensive report on social conditions in the country. A joint ECLA-FAO Mission presented the first global analysis of production conditions in the coffee sector, as part of a comparative study of the major producing countries. ECLA also provided in the late 1950s a new overall treatment of Colombian economic conditions. The most important development was, however, the drafting of the first official development plan of the country. The plan was presented in 1960 by the recently created National Planning Department, using extensively ECLA advise. The Harvard Advisory Missions in the following years helped to strengthen considerably the planning capacity of the Department. Simultaneously, a stock of highly-trained economists was slowly built in the 1960s and early 1970s with foreign official and private support. The accumulation of domestic expertise led to the drafting of the first Colombian-made economic plans in the late 1960s and early 1970s : <u>Planes y Programas de Desarrollo, 1969-1972</u>, <u>Plan de Desarrollo Económico y Social, 1970-1973</u> and <u>Las Cuatro Estrategias</u>. The last of the aforementioned plans was strongly influenced by Lauchlin Currie, who had become a Colombian citizen at the time. Simultaneously, the accumulation of a growing stock of economists improved the quality of economic analysis at other governmental institutions, and at universities and research centers.

Other foreign Missions also played an important role in the late 1960s and early 1970s. The Taylor and, more importantly, the Musgrave Mission has significant effects on the analysis of the Colombian tax system and on the reforms implemented in the 1960s and 1974. The ILO Mission on employment, headed by Dudley Seers had, on the contrary, little impact on economic policy. In later Missions, foreign advisors have actually operated only as heads of fundamentally Colombian endeavors. In this regard, the more recent Richard Bird Mission on intergovernmental finances (1980-1981) and the Chenery Mission on Employment (1985-1986) should be mentioned. Finally, although the periodical analyses of the Colombian economy made by the World Bank did not have a similar impact to the 1950 Currie report, at least two of them were published in the country and made important contributions to ongoing economic debates : the Avramovic report of 1970 and the more recent study by Thomas (1986).

A significant effect of foreign assistance was also the development of an extensive evaluation and follow-up of public investment projects, practices which were almost unknown in the country up to the 1940s. Moreover, these new practices improved planning at the national level, but also in the descentralized government agencies and in local governments and enterprises (particularly in large cities). In fact, as the World Bank 1972 evaluation of its activities in Colombia argued, this institutional-building effect was one of the great virtues of project-financing in the 1950s and 1960s. Table 14 shows, in fact, the much larger use of World Bank and IDB resources by agencies different from the central national government. AID lending was, on the contrary, strongly concentrated in the national government and more recent commercial bank lending also had a similar though weaker bias. Finally, institutional building effects associated with project financing included new public bodies which were created to coordinate efforts in the two favorite sectors of the World Bank. In this regard, the creation of Interconexión Eléctrica, S.A. (1968), the National Tariff Board (1968), the National Road Fund (1967) and the National Electrical Financing Company (1982) are the most important cases.

IV. CONCLUSIONS

Foreign assistance was successful in Colombia in the development of a sizable public infrastructure, in providing foreign exchange in the late 1950s and most of the 1960s, in supporting the 1967-1974 boom and in helping to build a system of modern economic analysis, planning and policy making. Moreover, there is no evidence that it adversely affected domestic savings efforts or induced an overexpansion of the public sector. Some evidence has been presented, however, to show that it increased relative public investment in sectors where foreign resources were more easily available, induced a higher than optimal import coefficient of public expenditure and generated since the mid 1970s some inflexibilities in foreign exchange management.

The macroeconomic conditions which led to a relative "success" in the late 1960s and early 1970s are particularly instructive. Foreign agencies led the country in contradictory and even harmful directions in the 1960s. They financed a rapid increase of the fiscal deficit in 1961-1962, contributed to foreign exchange strangulation in the following years and precipitated a major collapse of the Colombian economy in 1966. The policies which led the country out of the crisis were the result of autonomous Colombian decisions, even in confrontation with major donors in 1966-1967. They included the crawling peg, generalized exchange controls, stable export incentives and global import controls, which were only very gradually liberalized in the following years. These policies accelerated the process of import substitution and export diversification which had been based since the late 1950s on the permanent effects of the 1957 devaluation and the protection and export promotion policies adopted soonafter. Thus, it was the peculiar mix of "orthodox" and "heterodox" policy instruments -- the combination of the World Bank and ECLA, to mention two institutions which were quite influential on Colombian policies-- which led to structural adjustment to external disequilibria in the 1960s and to fast growth after 1967.

In recent years multilateral and bilateral institutions have become essential to Colombia, though for reasons completely different from those typical in the 1960s and early 1970s. Particularly, these agencies have been crucial to maintain an open access of the country to world capital markets after the outbreak of the Latin American debt crisis. The fundamental question at present relates to the possibility of designing new forms of program lending or vehicles to finance domestic-cost-intensive government expenditure. Otherwise the country will face increasing financing difficulties in the following years and would be led into an open refinancing of its foreign debt.

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TABLE 1

MAJOR SOCIAL AND ECONOMIC INDICATORS AROUND CENSUS YEARS, 1951-1985

	1951 a/	1964 b/	1973 c/	1985 d/
A. Population				
Total (millions)	11.5	17.5	22.9	27.9
Intercensal growth rate	2.2% e	3.2%	3.1%	1.6%
% urban f/	38.7	52.0	59.3	67.2
B. Education (Population 15 years or older) g/				
None	41.9%	27.1%	20.8%	12.4%
Primary	48.6	58.6	54.5	48.8
Secondary h/	8.8	13.2	21.9	32.7
University	0.7	1.1	2.6	6.1
C. Illiteracy rates (Population 10 years or older)				
Urban f/	21.3%	14.4%	9.9%	7.2%
Rural	50.5	40.6	31.1	23.4
Total	38.5	26.6	17.7	12.2
D. Expected life at birth (years)				
Urban	-	59.4	60.9	63.8
Rural	-	56.0	56.5	58.3
Total	48.7	58.6	59.8	62.1
E. Child mortality				
Urban	-	76.4%	68.5%	53.5%
Rural	-	95.3	91.6	81.0
Total	-	81.0	74.1	60.9
F. Employment structure (% of workers)				
Primary sector	55.5%	48.9%	35.2%	33.8%
Manufacturing & construction	15.8	17.1	22.4	21.4
Services	28.7	34.1	42.5	44.8
G. GDP structure (1975 prices)				
Primary sector	36.8%	32.0%	26.2%	23.9%
Manufacturing & construction	20.2	15.4	26.1	25.0
Dynamic services i/	10.7	13.0	15.4	18.3
Other services	32.2	31.5	32.4	32.7

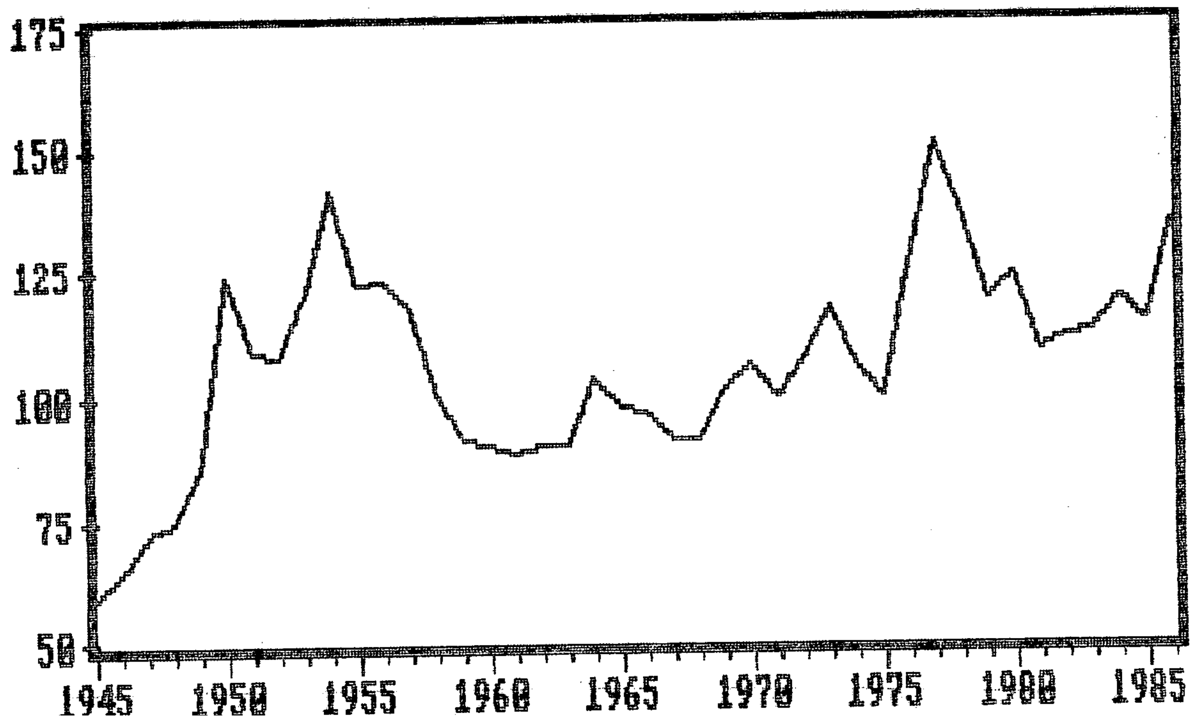
a/ 1950-54 for GDP structure.
b/ 1966 for expected life and child mortality rates; 1960-64 for GDP structure.
c/ 1971 for expected life and child mortality rates; 1978 for employment structure; 1970-74 for GDP structure.
d/ 1981 for expected life and child mortality rates; 1984 for employment structure; 1980-4 for GDP structure.
e/ 1938-51 Intercensal period.
f/ Refers to population living in the municipal heads.
g/ Refers to population with some education at the indicated level.
h/ Includes technical education.
i/ Public services (electricity, gas and water) financial activities, transportation and communications).

:

SOURCES : A, B, C : Census data.
D. E : 1951 - Vivas (1987); Others - Flores et. al (1987).
F : Mision de Empleo (1986).
G : National Accounts, Banco de la Republica (1950-70) and DANE (1970-86).

FIGURE 1

TERMS OF TRADE
(1975=100)



Source: National Accounts of ECLA (1945-1950), Banco de la República (1950-1970 and DANE (1970-1984). 1985-1986: ECLA foreign trade indices.

TABLE 2
ECONOMIC INDICATORS DURING MAJOR PHASES OF THE ECONOMIC CYCLE, 1945-85
(Annual growth rates)

	1945/6 1954/5	1954/5 1966/7	1966/7 1973/4	1973/4 1979/80	1979/80 1984/85
Export quantum	2.0%	3.2%	5.7%	6.3%	0.7%
Purchasing power of exports	10.8	0.3	8.5	7.9	-0.2
Import quantum	10.8	0.6	6.5	7.3	0.8
Production for the domestic market	5.8	4.7	6.5	4.7	2.6
Industrial production	9.1	5.3	7.9	4.6	1.0
GDP	5.0	4.4	6.4	5.0	2.3
GDP per capita	2.4	1.2	3.3	3.1	0.8
GDP per capita at end-years (US dollars at 1975 prices and exchange rates)	373	429	538	648	674

SOURCE : National Accounts of ECLA (1945-50), Banco de la Republica (1950-70) and DANE (1970-85); Population estimates based on Census data.

TABLE 3

FOREIGN TRADE COEFFICIENTS AND STRUCTURE, 1945-84

	1945-9	1950-4b/	1955-9	1960-4	1965-9	1970-4	1975-9	1980-4
A. Coefficients a/								
Exports/GDP	21.6 %	19.0 %	17.8 %	16.5 %	15.8 %	14.9 %	15.1 %	14.2
Imports/GDP	16.7	21.4	18.4	16.3	15.5	16.8	16.0	19.1
B. Export Structure c/								
Coffee	72.1 %	78.7 %	76.2 %	68.9 %	61.0 %	50.5 %	57.9 %	48.7
Gold (non-monetary)	5.6	2.7	2.5	2.8	1.7	1.8	2.7	6.4
Oil and fuel oil	14.6	13.6	14.3	16.1	13.5	6.9	3.9	6.6
Other primary				9.1	15.0	19.8	16.6	19.0
Manufacturing d/	7.7	5.0	7.0	3.1	8.7	21.0	18.8	19.3
C. Import Composition								
Consumer goods		14.6 %	9.4 %	7.3 %	7.9 %	9.9 %	13.2 %	11.9
Intermediates		44.4	50.2	45.2	48.0	51.1	46.4	40.4
Oil and derivatives		4.3	3.2	1.9	0.5	0.4	5.6	12.3
Capital goods		36.5	36.6	44.0	41.9	38.4	34.7	35.8
Others		0.2	0.6	1.6	1.7	0.2	0.1	-

a/ Goods and services, 1975 prices

b/ Excludes 1950 for import composition.

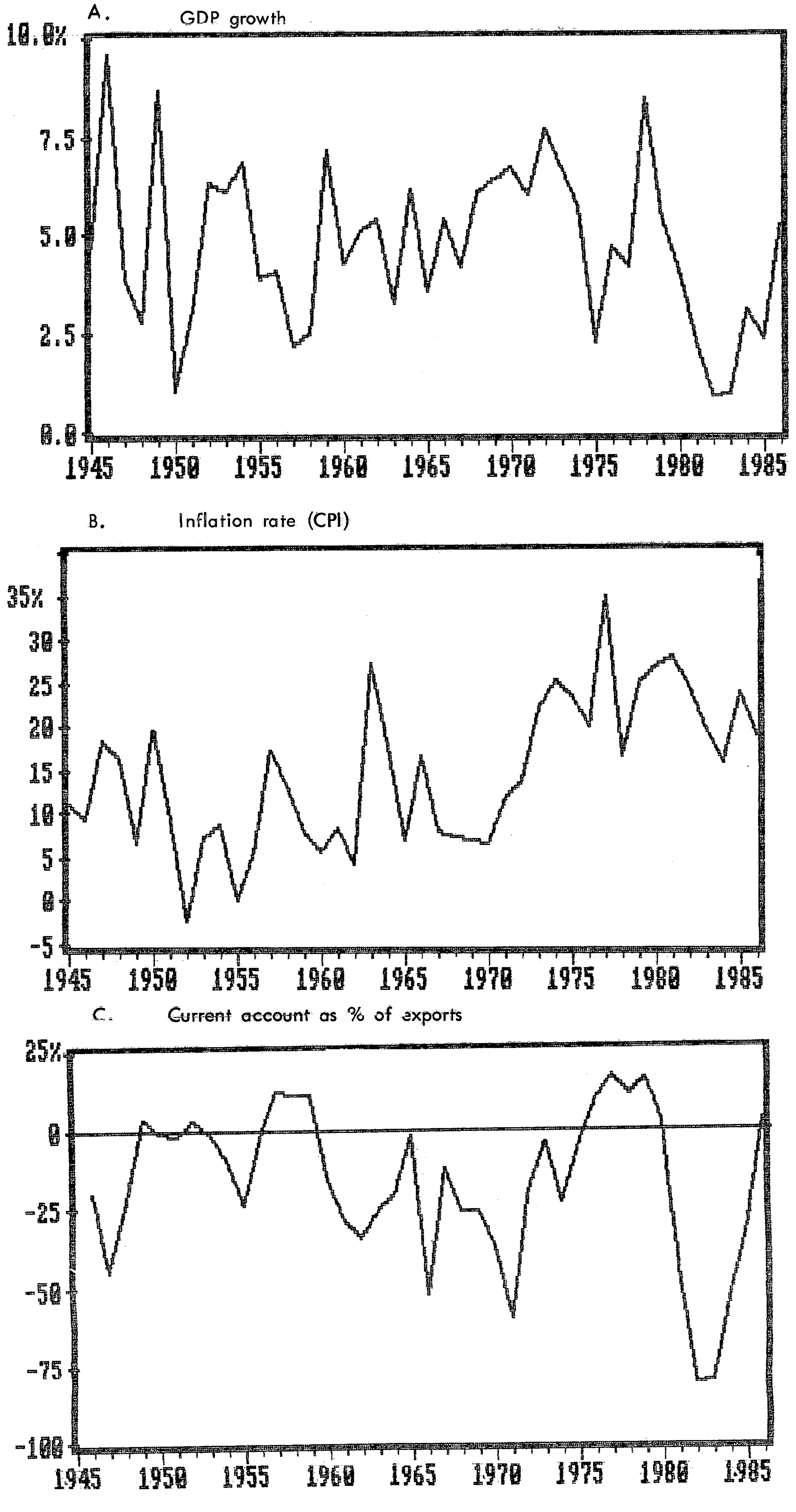
c/ Goods and non-monetary gold.

d/ SITC 5-8

SOURCES: A: See Table 2
B, C, D : DANE, Anuario de Comercio Exterior and Revista del Banco de la Republica.

FIGURE 2

MAJOR MACROECONOMIC INDICATORS



Sources: A. National Accounts of ECLA (1945-1950), Banco de la República (1950-1970) and DANE (1970-1986)

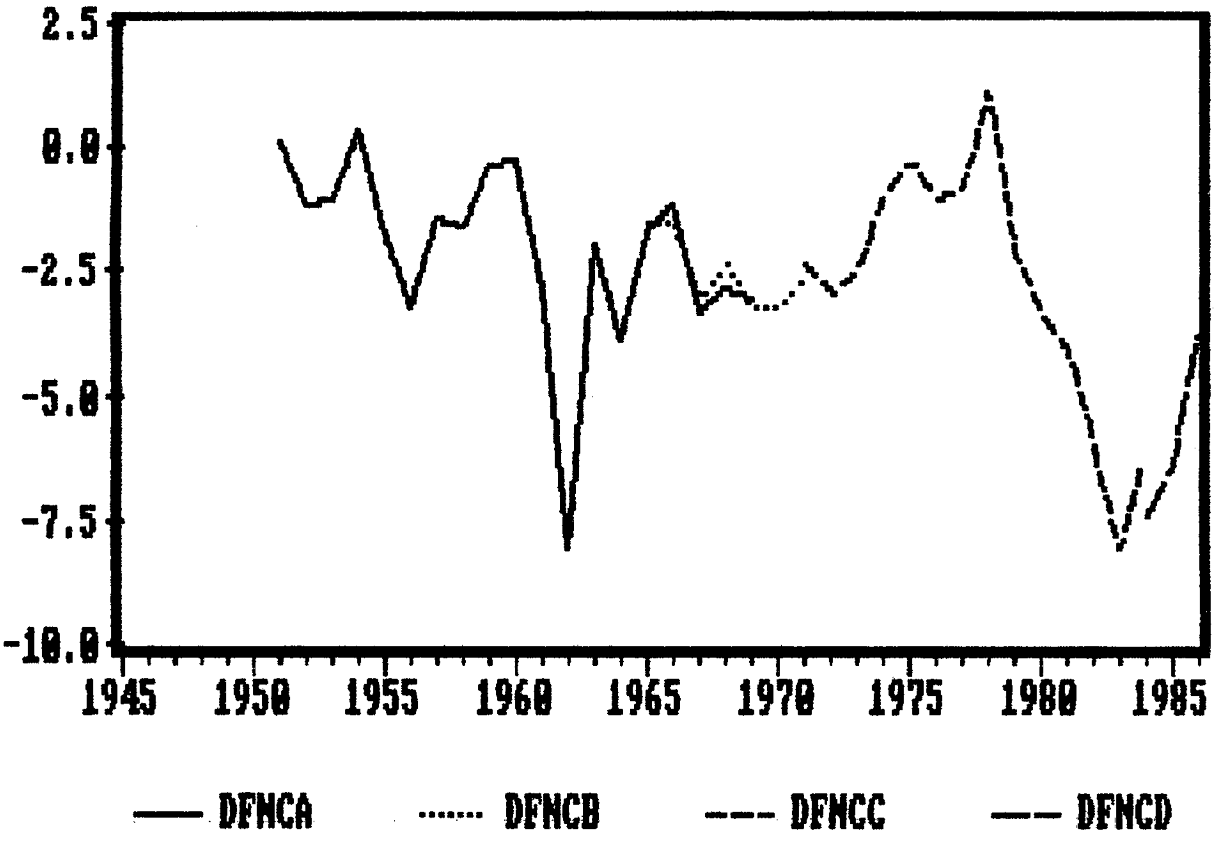
B. CPI, low income groups. Bogotá (1945-1954); national index (1954-1986), Annual averages

C. Banco de la República

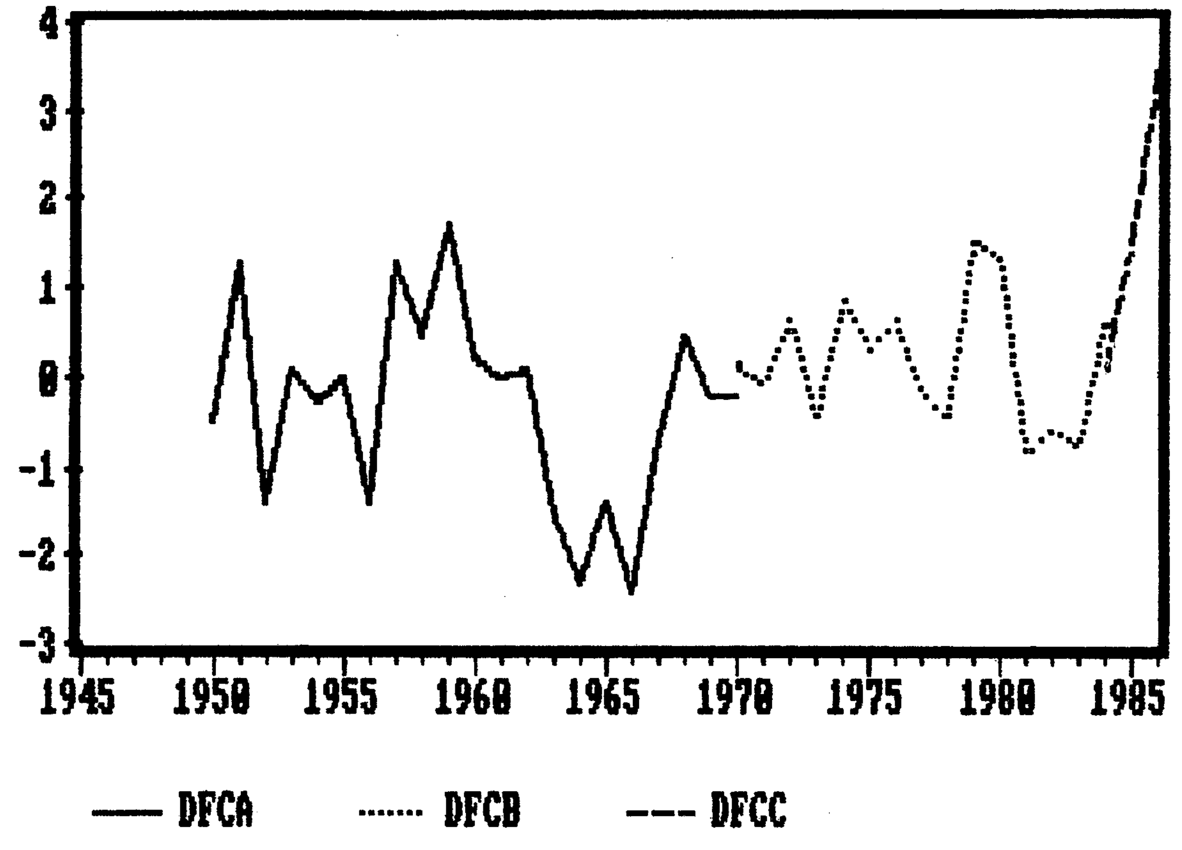
FIGURE 3

MAJOR POLICY VARIABLES

A. Consolidated public sector deficit (% GDP)



B. Coffe sector deficit (% GDP)



C. Real Import exchange rate (1967=100)

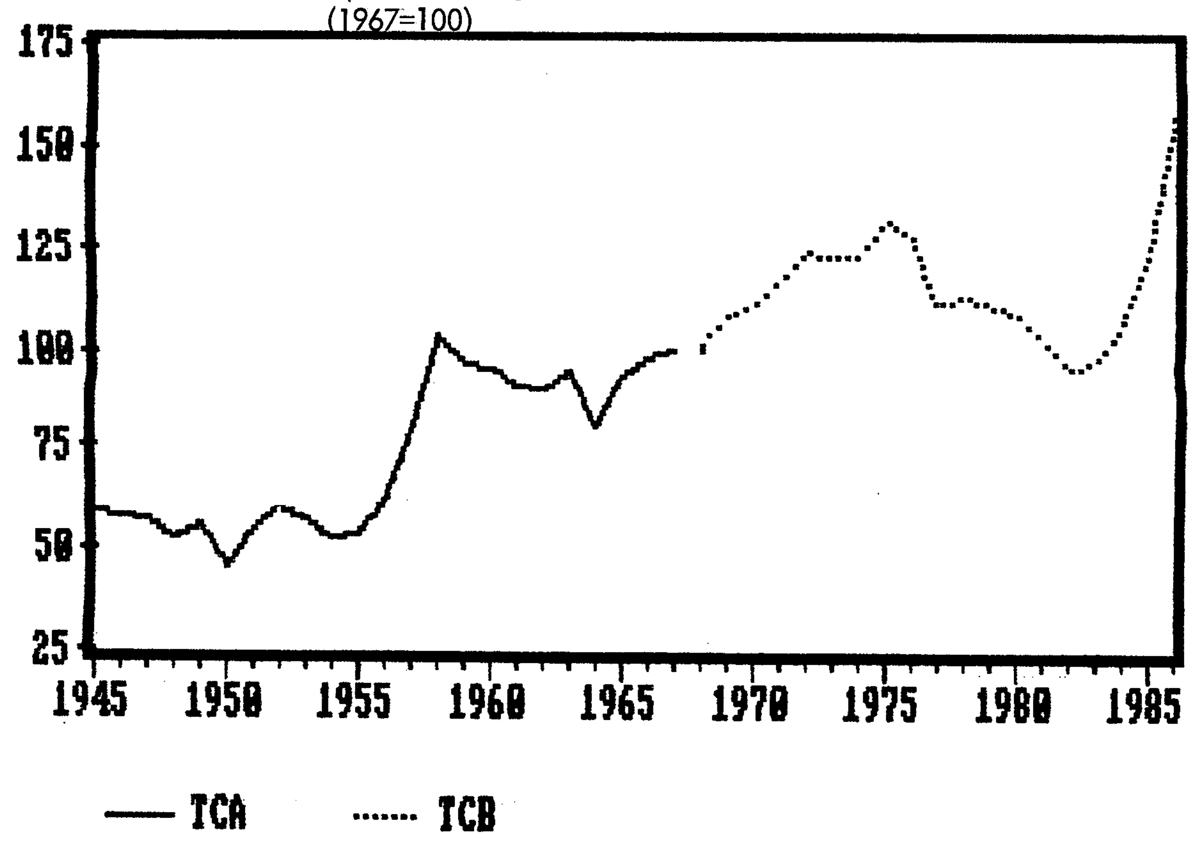


TABLE 4
SHARE OF THE PUBLIC SECTOR IN ECONOMIC ACTIVITY
(Share in GDP and fixed investment at current prices)

	Current Incom (% of GDP)	Total Expenditure (% of GDP)	Government Investment (% of Fixed Investment)
A. Banco de la Republica National Accounts a/			
1950-1954	11.4% b/	9.7% c/	15.9%
1955-1959	12.1	10.9	20.5
1960-1964	11.3	11.7	19.2
1965-1969	14.3	14.1	26.7
1970-1974	16.3	17.6	29.6
B. DANE National Accounts d/			
1970-1974	20.1% e/	22.1% f/	32.1%
1975-1979	21.1	21.8	36.0
1980-1983	22.9	28.4	46.0

a/ Public administration.
b/ Current income before deductions for interests on public debts.
c/ Current expenditure + public construction.
d/ Includes non-financial public enterprises, but excludes the National Coffee Fund.
e/ Property rents + taxes + Social Security contributions + fines + value added of non-financial public enterprises.
f/ Current income + Fixed Investment - Savings.

TABLE 5

GLOBAL EVOLUTION OF COLOMBIA'S FOREIGN DEBT, 1945-1986

(Million dollars)

	1945	1956	1970	1978	1986
Public debt a/					
Bonds b/	74	58	21	45	46
Loans c/	54	153	1.298	2.851	11.446
Total	128	211	1.319	2.896	11.492
Banco de la Republica(short-term)	-	10	106	11	34
Private	45	382	457	1.164	3.249
Total gross debt	173	603	1.882	4.071	14.775
Gross international reserves	177	144	258	2.493	3.511
Net debt	- 4	459	1.624	1.578	11.264

a/ Includes medium and long-term borrowing by Banco de la Republica and publically-guaranteed private loans. 1945: contracted debt. 1956-86 : debt outstanding.

b/ Estimated in 1945 and 1956 at ex-post amortization costs. 1970-86: book value of the debt.

c/ Estimated in 1945 on the basis of 1956 debt and net change in private liabilities according to Banco de la Republica balance of payments statistics. 1956 : commercial debt. 1970-86 : direct private debt + external liabilities of the domestic financial sector.

SOURCE: Banco de la Republica, except amortization of government bonds in in 1950-69, taken from World Bank (1972).

TABLE 6

MAJOR SOURCES OF EXTERNAL FINANCING, 1946-1986
(Millon dollars)

	1946-56	1957-61	1962-66	1967-70	1971-74	1975-78	1979-82	1983-86
Direct private investment a/	121	8	144	178	116	156	721	2.526
Domestic financial sector b/	238	138	49	146	438	- 45	1.070	- 536
Non-financial private borrowing b/	65	6	396	163	143	171	1.216	335
Public sector c/								
U.S. Export-Import Bank	7	115	- 103	22	- 10	- 13	34	500
AID	-	2	235	282	205	23	- 65	- 84
World Bank	60	35	149	115	208	189	596	1.202
Interamerican Development Bank	-	-	27	105	120	109	223	753
Other bilateral and multilateral commercial banks an supliers	51	- 30	53	23	289	298	2.174	2.297
Bonds	- 15	13	- 13	- 11	33	- 22	- 22	23
Total	102	109	362	557	901	676	3.182	5.434
Banco de la Republica (short-term)								
IMF	25	40	24	5	- 94	-	-	-
Others	10	52	- 3	- 47	7	- 8	- 9	32
Total	35	92	21	- 42	- 87	- 8	- 9	32
Total financing	560	78	972	1.002	1.511	950	6.180	7.791
Memo items :								
Change of gross reserves	- 33	26	- 27	113	179	2.057	2.400	-1.381
Current account deficit	444	7	709	695	1.050	(982)e/	3.840	5.467
Exports d/	5.040	2.640	2.722	2.627	4.488	9.999	14.694	16.291
Current deficit/Exports	8.8%	0.3%	26.1%	26.5%	23.4%	(9.8%)e/	26.1%	33.6%
Total financing/Exports	11.1%	3.0%	35.7%	38.1%	33.7%	9.5%	42.1%	47.8%

a/ According to balance of payments statistics

b/ 1946-70 : balance of payments statistics. 1971-86: change in outstanding debt

c/ Includes Banco de la Republica medium and long term borrowing and publically-guaranteed private loans.1946-9:Ex-Im Bank disbursements according to balance of payments statistics, amortizations accordding to debt tables published by Banco de la Republica; commercial and supplier's net credits refer to changes in contracted debt;bond amortization according to debt tables. 1950-66 : net disbursements according to World Bank (1972). 1966-86 : change in outstanding debt. There is a break in the series in 1970; comparable data is always used.

d/ Exports of goods + non-monetary gold.

e/ Current account surplus.

SOURCE : Banco de la Republica, except net disbursement to the public sector in 1950-66, taken from World Bank (1972). In this and following tables, then there are discrepancies in published statistics, the most recent figures are always used.

TABLE 7

NET RECEIPTS FROM BILATERAL AND MULTILATERAL DONORS, BY MAJOR AGENCIES AND PERIODS
(OECD data; million 1980 US dollars)

	Total net receipts					Official development assistance,net				
	1960-66	1967.70	1971-74	1974-78	1979-84	1960-66	1967-70	1971-74	1975-78	1979-84
A. Multilateral donors										
World Bank	562.1	253.8	468.0	281.7	1.095.3	-	-	-	-	-
Interamerican Development Bank	28.2	218.1	309.7	165.1	661.8	9.0	54.7	79.9	40.4	223.2
Others a/	64.1	23.3	25.5	29.9	11.3	9.7	4.9	9.7	0.9	-2.7
Sub-total	654.4	495.2	803.2	476.7	1.768.4	18.7	59.6	89.6	39.5	220.5
B. Bilateral donors										
USA	947.9	1.585.9	819.7	440.6	2.945.3	301.2	392.3	282.0	57.0	-107.0
Germany	13.2	44.5	20.0	185.0	196.2	4.2	18.6	34.6	57.0	130.3
Japan	0.4	14.5	198.1	-13.9	305.0	0.1	0.3	0.5	4.3	65.9
France		3.2	63.4	138.4	501.7	-	-	-	-	-
Italy	0.5	151.8	6.5	113.9	382.2	-	-	_	-	-
Others b/	-	-	-	-	-	1.6	6.3	26.1	50.7	101.4
Sub-total	962.0	1.799.8	1.707.6	863.9	4.330.4	307.1	418.1	343.2	169.0	190.5
C. Total	1.116.4	2.295.1	1.910.8	1.340.6	6.098.8	325.8	477.6	432.8	208.5	411.0

a/ International Development Association, International Finance Corporation and European Development Fund.

b/ Canada and Netherlands

TABLE 8

NET COMMITMENTS AND DISBURSEMENTS OF PUBLIC DEBT, 1945-86 a/
(Current dollars)

Year	(1) Net commitments	(2) Net disbursements	
		A	B
1946	3.2		
1947	-1.6		
1948	4.5		
1949	2.1		
1950	6.2	4.3	
1951	58.5	8.4	
1952	49.7	46.8	
1953	-10.9	-10.4	
1954	12.5	7.7	
1955	21.6	-0.6	
1956	10.1	19.5	
1957	28.6	-23.6	
1958	27.5	36.5	
1959	-3.5	17.5	
1960	27.3	- 4.2	
1961	148.2	65.9	
1962	228.2	107.9	
1963	103.3	63.7	
1964	128.5	64.1	
1965	129.0	77.3	69.0
1966	59.5	65.0	107.5
1967	144.4	91.4	79.4
1968	152.0	151.2	131.7
1969	401.9	130.0	150.0
1970	316.6		195.6
1971	276-		153-
1972	230		254
1973	403		296
1974	33		198
1975	224		250
1976	303		92
1977	346		217
1978	611		117
1979	976		560
1980	1.251		723
1981	1.236		989
1982	1.916		910
1983	844		880
1984	1.852		1.132
1985	1.941		1.342
1986	1.218		2.080

a/ Includes the medium and long-term debt of Banco de la Republica, and publically-guaranteed private debt.

SOURCES : (1) 1946-63: changes in total debt contracted (exclud bonds and renegotiations of commercial debt) minus amortization of public bonds. 1964-86: changes in the stock of total debt contracted. All series for Banco de la Republica. Up to 1970 the series of debt accord ing to lending agency is used. When there are changes in the series (1959, 1969 and 1970), consistent estimates are always used.

(2) A. The World Bank (1972). Excludes renegotiation of commercial debt in 1957-63 according to Ban de la Republica estimates.

B. Banco de la Republica; change in outstanding debt. There is a change in the series in 1970. The pre-1970 series is used to calculate the net flow that year.

TABLE 9

NET RECEIPTS FROM BI-AND MULTI-LATERAL DONORS, 1960-84
(OECD data; million 1980 US dollars)

	(1) Total	(2) Official Development Assistance
1960	-25.0	-12.5
1961	220.6	44.5
1962	241.3	43.9
1963	359.4	72.7
1964	326.3	52.3
1965	196.7	35.0
1966	297.2	90.0
1967	400.5	105.7
1968	475.5	111.2
1969	678.6	114.0
1970	740.5	146.7
1971	731.5	119.0
1972	526.6	101.8
1973	412.7	126.8
1974	240.0	85.2
1975	352.8	63.3
1976	336.8	55.5
1977	281.2	33.8
1978	369.8	56.0
1979	463.8	37.8
1980	762.3	73.2
1981	1.177.3	86.5
1982	1.447.9	79.4
1983	1.171.4	65.0
1984	1.076.0	69.2

TABLE 10

PROJECTIONS OF FOREIGN TRADE AND FINANCING NEEDS 1987-199
(Million dollars; annual averages)

	Memo items 1981-84	Projections 1987-90
A. Trade and services		
Exports a/	3.362	6.053
Imports	4.645	4.506
Trade balance	-1.283	1.546
Non-financial services and transfers	- 406	- 874
Financial services	- 682	-1.449
B. Financing needs		
Current account deficit	2.371	778
Public sector amortizations (medium and long-term)	395	1.510
Multilateral	142	393
Bilateral	75	196
Commercial banks	115	800
Bonds and suppliers	63	121
Total financing needs	2.766	2.288
C. Sources of Financing		
Direct investment	410	383
Other private (net)	107	- 60
Public sector (medium and long-term)	1.424	2.036
Multilateral	442	754
Bilateral	220	310
Commercial banks	629	799
Bonds and suppliers	135	174
Public sector (short-term, net)	119	- 21
Total financing	2.060	2.338

a/ Goods plus-non-monetary gold.

SOURCE : Republica de Colombia, Programacion Financiera 1987-1990, Bogota, May 1987, Tables 2 and 10.

TABLE 11

NET DISBURSEMENT BY SECTOR, 1956-1960
(Million dollars)

	1956 (Outstanding debt)	1957-62	1963-66	1967-70	1971-74	1975-78	1979-82	1983-86
General purposes a/	-	186.4	55.6	201.0	161	25	1279	-125
Electricity, gas and water	27.5	40.9	123.0	104.6	213	303	968	2082
Transportation	52.1	12.9	63.2	46.0	107	-12	139	745
Communications	29.2	-1.8	2.3	35.9	37	-1	131	30
Social services b/	-	-	5.0	23.6	72	66	79	111
Development credit	-	-	3.0	49.4	71	88	115	110
Agriculture	19.3	-15.9	31.5	83.3	91	-1	-13	22
Mining	- c/	-	-	-	-	-	200	1565
Manufacturing	19.3	-15.6	25.4	49.4				
Housing	-	11.8	34.8	4.8	90	83	100	801
Others	9.1	-7.5	13.3	-7.9				
Debt refinancing	-	-	-	-	59	125	184	93
Total d/	156.6	211.2	357.1 e/	590.3 e/	901	676	3182	5434

a/ Balance of payments loans and import financing up to 1970. 1971-86: General development programs and budg financing.

b/ Includes public administration since 1971.

c/ Credits for US$1.8 million for the coal sector included in "others".

d/ Excludes bonds up to 1970.

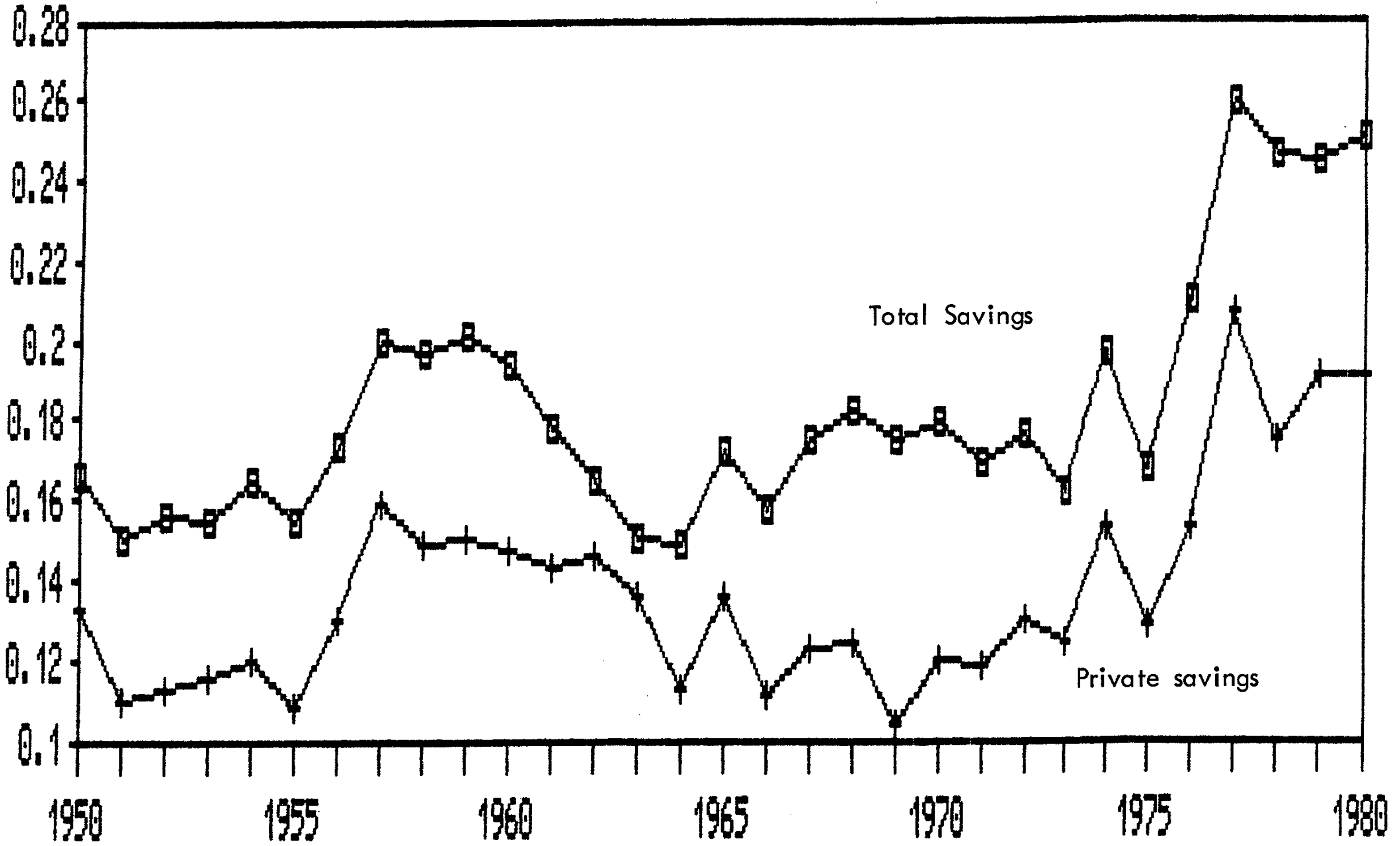
e/ There is a statistical discrepancy of US$22.5 million between the debt table by agencies and by sector (excluding bonds).

SOURCE : Banco de la Republica. Classifications are not strictly comparable before and after 1970.

Figure 4

Savings coefficients, 1950-1980

A, Total and private savings (% GDP)



B. Government savings and current account (% GDP)

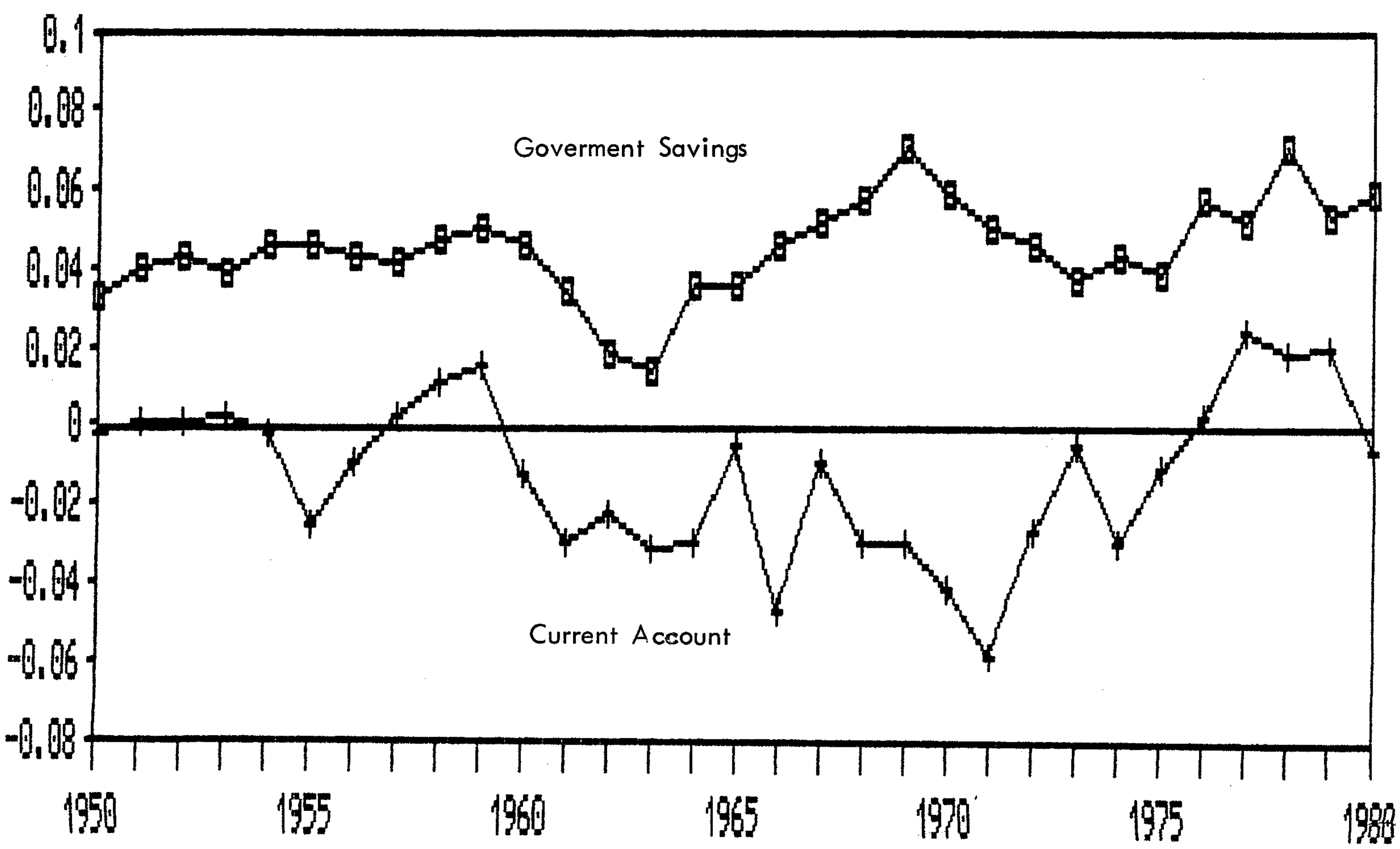


TABLE 12

DETERMINANTS OF THE DOMESTIC SAVING AND TAX RATES, 1951-1980
(t-statistic in parenthesis)

	Regression No.	Constant	1950-69	1970-80	Urban non-wage incom	Average tax rate	RHO	F-statisti
A. Private savings	1/	0.149**	-0.553**	-0.130			0.758	12.92
		(10.1)	(-2.50)	(-0.52)				
	2/	-0.123	-0.611**	-0.289	0.605*		0.613	10.63
		(-078)	(-2.68)	(-1.13)	(.72)			
B. Government savings	3/	0.048**	0.022	0.008			0.594	4.64
		(9.24)	(0.16)	(0.05)				
	4/	-0.016	-0.055	-0201		0.459**	0.459	8.76
		(-0.95)	(-0.47)	(-1.50)		(3.77)		
	5/	0.007	-0.063	-0.212	-0.056	0.469**	0.415	6.75
		(0.09)	(-0.52)	(-1.55)	(-0.27)	(3.31)		
C. Tax rate	6/	0.182	0.216*	0.323**	-0.042		0.926	46.49
		(1.54)	(1.99)	(2.57)	(-0.19)			
D. Total savings	7/	0.204	-0.373*	0.040			0.860	17.12
		(6.79)	(-1.71)	(0.16)				
	8/	-0.161	-0.443*	-0.082	0.846**	-0.146	0.739	11.61
		(-091)	(-1.89)	(-0.29)	(2.11)	(-0.40)		

* Significantly different from cero at 90% confidence level.

** Significantly different from cero at 95% confidence level.

TABLE 13

STRUCTURE OF LENDING BY MAJOR AGENCIES AND SECTORS
(% of total commitments by lending agency)

	1960s					1986		
	AID (1961-mid 1970)	World Bank 1949-65	World Bank 1966-65	IDB mid 1966-mid 1970)	Total Commitments Dec. 1970	World Bank	IDB	TOTAL
General purposes	74.3%	-	-	29.6%	25.4%	17.8%	-	14.0%
Electricity, gas and water	0.9	50.4%	35.3%	26.6	24.5	41.1	63.8%	34.5
Transportation	-	39.8	19.7	-	18.3	12.6	8.7	13.2
Communications	-	-	4.7	8.6	4.4	2.2	0.6	2.9
Social services	4.0	-	4.1	-	3.0	3.3	4.8	4.6
Development credit	3.2	-	18.3	24.9	4.9	9.8	4.4	4.0
Agriculture	13.7	2.4	17.8	-	11.1	6.9	0.8	2.5
Mining	-	-	-	4.3	-	1.7	2.1	12.3
Manufacturing	-	7.3	-	4.0	4.1	0.3	-	0.2
Housing and urban development	3.1	-	-	-	2.8	0.6	8.9	1.5
Rural development	-	-	-	-	-	2.0	5.4	1.4
Military	-	-	-	1.9	-	-	-	4.5
Others	0.6	-	-	-	1.5	1.5	0.5	1.4
Debt refinancing	-	-	-		-	-	-	2.9
Memo item								
Total commitments				229				
(Million dollars)	633	409	342		2.009	3.900	2.136	15.650

a/ Includes balance of payments loans, import financing, general development programs and budget financing.

SOURCE : 1960s : AID-Briefing Papers on U.S. Economic Assistance to Colombia, 1966, Table E and Espinoza (1970), p. 295.

World Bank - World Bank (1972), Annex Table 2.3
IDB - Espinoza (1970), pp. 304-5.
Total - Banco de la Republica, Informe del Gerente a la Junta Directiva, 1970-71, Tomo II, p. 152

1986 : Banco de la Republica.

TABLE 14

DESTINATION OF CREDITS ACCORDING TO BORROWING AGENCIES
(% of outstanding debts by lending agency)

	1970						1986						
	World Bank	IDB	AID	U.S.Ex-Im Bank	Others a/	Total a/	World Bank	IDB	AID	U.S. Ex-Im Bank	Other bilateral and multilateral agencies	Commercial banks and suppliers	TOTAL a
Central National Government	16.9%	10.7%	98.1%	1.8%	39.3%	51.2%	27.9%	18.2%	94.5%	0.2%	21.0%	44.3%	35.6%
Descentralized National Agencies	15.9	56.6	0.2	41.6	32.4	19.3	32.6	33.9	4.7	95.4	38.0	39.5	38.1
Local Governments and Agencies	49.1	28.4	-	11.6	17.9	20.4	26.9	41.2	0.5	4.4	39.9	14.3	21.7
Banco de la Republica	12.0	0.9	-	-	5.4	4.3	10.4	6.6	-	-	1.1	1.9	4.1
Private Sector with Public Guarantee	6.2	3.3	-	44.9	5.0	4.8	2.2	-	0.3	-	-	-	0.5
Memo item :													
Outstanding debt (Million dollars)	358	165	518	55	220	1.315	2.549	1.299	547	565	1.234	5.222	11.466

a/ Exludes bonds.

SOURCE : Banco de la Republica