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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON THE
PROPOSED LOAN
TO THE
REPUBLIC OF COLOMBIA

April 5, 1951

6. In view of the urgent need for the immediate improvement of Colombia's principal roads, and of the fact that such a project must necessarily form an important part of any development program for Colombia, the Bank decided that it should make an exception to its general principle of awaiting completion of the Committee's work before considering any projects in Colombia.

7. The Bank concluded, however, that the larger program favored by the Ministry of Public Works might commit a disproportionate amount of Colombian resources to highways before the total requirements of the over-all development program being formulated by the Committee were known. It accordingly informed the Colombian Government that it was prepared to consider financing the foreign exchange costs of the three-year emergency highway project as recommended by the Economic Development Committee without, however, committing itself on the remaining two years of the five-year program.

8. On February 10, 1951, the Bank sent a group to Colombia, headed by Mr. Burland of the Loan Department, to discuss a loan for the three-year emergency project.

9. The Republic of Colombia, through the Minister of Public Works, made formal application for a loan on February 8, 1951. A revised application was handed to Mr. Burland in Bogota on March 7, 1951. The Colombian Ambassador to the United States has been authorized to execute the Loan Agreement on behalf of the Colombian Government.

PART II - DESCRIPTION OF THE PROPOSED LOAN

Borrower

10. The Borrower would be the Republic of Colombia, a member of the Bank.

Amount

11. The amount of the loan would be \$16.5 million, or the equivalent in other currencies.

Purpose

12. The proceeds of the loan would be used to provide the Borrower with the foreign exchange required for the carrying out of the project described in Schedule 2 to the draft Loan Agreement.

13. In substance the project consists of:

- (a) the construction of approximately 155 kilometers of new highways to provide connecting links in the trunk highway system;

- (b) the reconstruction and rehabilitation of about 2,906 kilometers of existing trunk highways; and
- (c) the establishment and maintenance of repair shops for the servicing of the equipment to be purchased with the proceeds of the proposed loan and for the training of Colombian personnel in the repair and use of the equipment and in the function of highway maintenance.

14. The total cost of the project is estimated at 90.1 million pesos (equivalent to \$46.2 million), 57.9 million pesos of which would be in local currency. The amounts to be appropriated specifically for the project have been set at 15% in excess of estimated total costs so that a reserve for contingencies will, in effect, be provided.

15. Work on two portions of the project has been contracted for and is already under way. The foreign exchange costs of such work incurred prior to the effective date of the loan, presently estimated at about \$1.1 million, are to be eligible for payment from the proceeds of the loan.

Terms

16. The loan would bear interest at the rate of 3-7/8% per annum, including the statutory commission of 1%.

17. The commitment charge would be 3/4 of 1% per annum and would accrue from the effective date of the loan or from May 15, 1951, whichever is the earlier.

18. The loan would be amortized by equal semi-annual payments of principal and interest of about \$1,357,000, commencing November 15, 1954, and calculated to retire the loan by maturity on May 15, 1961.

19. I consider that the proposed schedule for the repayment of principal and the rate of interest and other charges in connection with the proposed loan are reasonable and appropriate.

Legal Instruments and Legal Authority

20. Appendix I contains drafts of the following documents:

- (a) A Loan Agreement between the Bank and the Republic of Colombia.
- (b) A letter from the Minister of Public Works of Colombia to the Bank explaining the limits of highway work to be carried on in addition to, and during the period of, the Bank-financed project. (see paragraph 35 below)

21. The proposed Loan Agreement would be entered into on behalf of the Republic of Colombia pursuant to Law No. 90 of December 16, 1948. A decree of the President and Council of Ministers would approve the Loan Agreement,

and would modify the schedule of investment priorities set forth in Law No. 90 so as to authorize the use of the proceeds of the loan for the highway project described in the draft Loan Agreement.

PART III - APPRAISAL OF THE PROPOSED LOAN

Technical Justification for the Loan

22. A technical appraisal of the project to be financed by the Bank loan is attached as Appendix II. (No. Loan 124).

23. Colombia is particularly dependent upon her highways. Many hundreds of communities are not accessible by other means and major traffic flows, even between the capital and the more important interior cities, are dependent on highway transport for some part of the journey. Highways are generally the most suitable means of providing surface transport over Colombian terrain.

24. At present there are about 20,300 kilometers (12,586 miles) of roads in Colombia of which 12,000 kilometers are national highways and 8,300 departmental roads. The usefulness of the system today is severely curtailed because of:

- (a) important gaps in the system;
- (b) excessive grades, improper alignment and inadequate bridges; and
- (c) excessive deterioration resulting from improper maintenance and accentuated by excessive rains during the past two years.

25. The construction of the proposed connecting links and the reconstruction of deteriorated sections of the major trunk roads of the country would remedy the more important deficiencies of the present system and would substantially reduce transport costs.

26. The establishment of strategically located repair shops, and the training of local Colombian personnel in highway maintenance and the use and repair of equipment, should assist the Ministry of Public Works in carrying out its stated intention of introducing an effective system of highway maintenance. The reorganization of the Highway Department, completed this year, and the sending of Colombian engineers for training in the U.S. under the Bureau of Public Roads, should also contribute toward the likelihood of effective maintenance after completion of the project.

27. In the opinion of the Bank's engineering staff, the Colombian highway project is technically sound and justified. Completion of this project would relieve to a large extent transportation bottlenecks in Colombia, which are a major handicap to the country's continued economic development.

THE ECONOMIC SITUATION IN COLOMBIA

28. A short report on the economic position of Colombia with special reference to the proposed loan has been prepared by the Economic Department and is attached. (Appendix III).

29. On the whole, the main sectors of the Colombian economy have been developing satisfactorily, and, despite some adverse conditions, both agricultural and industrial production are now at relatively high levels. Receipts from coffee exports, the chief source of Colombia's foreign exchange income, were higher in 1950 than in 1949, and are likely to be higher still in 1951, while earnings from other traditional exports are steady. Coffee prospects are good, at least for the next five to six years. Execution of an integrated development program such as that now being considered by the Economic Development Committee should give rise to new exports, thus lessening Colombia's dependence upon coffee, and increase domestic output of commodities now being imported.

30. Since October 1950, inflation has been brought under control and the cost-of-living index has steadied. The fiscal position of the Government has improved; a budget surplus was achieved in 1950 and one is expected in 1951.

31. In March 1951, restrictions on imports were reduced and the system of exchange rates was simplified. A new rate of Ps.\$ 2.50 to the U.S. dollar was established for all foreign payments and all foreign exchange proceeds other than those from coffee exports, which will be converted at Ps.\$ 2.1 per U.S. dollar.

32. Service on Colombia's present external debt will be \$23.1 million in the peak year of 1952, an amount equal to just over 5% of foreign exchange receipts on current account in 1950. The service on this debt will fall to \$6.5 million by 1960. Colombia should not experience difficulty in meeting considerably larger service payments than those required for the existing debt and the proposed loan.

Political Situation

33. After a period of political tension which culminated in the declaration of a State of Siege and dissolution of Congress, Laureano Gomez, the Conservative Party leader, was elected President of Colombia on November 27, 1949. The Liberal Party did not present a candidate for the presidency and Liberals refrained from voting. President Gomez was inaugurated on August 7, 1950.

34. While the internal situation has been somewhat unsettled ever since the disturbances of April 1948, and the State of Siege has not yet been lifted, I do not believe that this should prevent the Bank from making the proposed loan. The project has been recommended by a non-partisan Committee of outstanding Colombians and there is general agreement that it is one of the most important steps to be taken in any program of development.

Prospects of Fulfillment of Obligations

35. In the past, Colombian efforts in the field of highway development have not been entirely effective because, instead of concentrating on a few operations at a time and successfully completing them, the responsible authorities have undertaken work simultaneously on a great many different sectors on an inadequate scale. As a step in remedying this situation:

- (a) the Minister of Public Works has cancelled all but a few of the contracts for highway work not within the project; and
- (b) the Government has agreed (in a letter attached as Appendix I) not to embark upon any major highway works, other than those included in the project, until after completion of the project.

36. The execution of the project would be carried out by a number of competent engineering firms under contract with the Borrower. The maintenance shops established and equipment purchased with the proceeds of the loan are to be under the control of the contractors during the term of the contract and are to be turned over to the Colombian authorities in sound operating condition when the work is completed.

37. Section 2.03 of the draft Loan Agreement provides that contracts for the carrying out of the project and for the purchase of the goods are to be satisfactory to the Bank.

38. The obligation of the Borrower to provide the funds needed to cover the local currency costs, including a reserve for contingencies, is specifically provided in Section 4.08 of the draft Loan Agreement. Funds for the first year of the project are already covered by the 1951 budget of the Ministry of Public Works. The appropriations required for the remaining years of the project will not present a difficult problem for future budgets.

39. As pointed out in the economic section, the prospects for Colombia's balance of payments position are favorable. They indicate that provision of the amounts of foreign exchange required for the interest on and amortization of the proposed loan should be well within Colombia's capacity.

40. In the light of the above considerations, it is my opinion that the Borrower would be in a position to meet its obligations under the proposed loan, and that in making this loan, the Bank would be acting prudently in the interest of the Republic of Colombia and of the members of the Bank as a whole.

41. Appendix IV contains a recommendation of the proposed loan by the Statutory Loan Committee provided for in Article III, Section 4, Paragraph (iii) of the Articles of Agreement.

PART IV - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

42. I am satisfied that the proposed loan would comply with the requirements of the Articles of Agreement of the Bank.

43. I am also satisfied that, in the prevailing market circumstances, Colombia would be unable to obtain elsewhere a loan of the amount required on reasonable terms.

PART V - RECOMMENDATIONS

44. I recommend that the Bank make to the Republic of Colombia a loan of \$16,500,000 for a term of ten years with interest (including commission) and commitment charge at such rates and on such other terms as are specified in the draft Loan Agreement attached as Appendix I.

Eugene R. Black
President

April 5, 1951