

THE WHITE HOUSE

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WASHINGTON

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ACTION

February 27, 1970

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger //k

SUBJECT: Proposed 1970 Economic Assistance Program for Colombia

In the memorandum at Tab A, Secretary Rogers requests your approval to negotiate an economic assistance program for FY 1970 with Colombia totalling \$98.5 million, almost the same level provided last year. Colombia is one of the countries listed in NSDM 10 for which your approval of the AID program is required.

Overall Colombian economic performance has been good. The 7% growth rate achieved last year is expected to continue this year. High coffee prices will continue to bring high export earnings to Colombia, thus increasing foreign exchange available to finance imports necessary for continued high growth.

Secretary Rogers argues for maintaining a high aid level in 1970 in order to

- facilitate an even higher rate of growth (i. e., 7.5%) and
- permit more investment in long-range, structural reform programs in agriculture and education.

Our aid is provided within the framework of a multilateral Consultative Group chaired by the World Bank, and is designed to support Colombia's own development program. Based on preliminary discussions the Colombians have held with the Consultative Group, State/AID is confident the GOC is prepared to undertake a development program in 1970 which would warrant a substantial US aid level.

There is general agreement among the agencies that Colombia has used our aid effectively, and that it has the leadership and the competence to continue to do so. In the memorandum at Tab B, however, Budget Director Mayo raises two issues concerning the program level and the method of releasing our aid funds.

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Program Level - Mayo believes that Colombia's economic requirements can be met at a program level of \$78.5 million, \$20 million lower than recommended by Secretary Rogers. In view of the continuing buildup of Colombia's foreign exchange reserves, resulting largely from high coffee prices, Mayo and Secretary Kennedy express some doubt about the need for a \$40 million program loan, as proposed by Secretary Rogers. Mayo recommends cutting the program loan to \$30 million.

Mayo also questions Secretary Rogers' proposal to increase our sector loans in agriculture and education from \$25 million in 1969 to \$40 million in 1970. He points out that the Colombian Government does not plan to increase its own budgetary allocations in these sectors. Colombia has one of the lowest ratios of tax receipts to GNP in Latin America, and its public investment budget depends heavily on external financing. Thus, Mayo is concerned that a high unilateral increase in our input makes it easier for the GOC to avoid putting more of its own resources into its investment budget. He therefore recommends sector loans be limited to \$30 million.

My own feeling is that Mayo's argument against a sharp increase in the sector loans is sound--our aid should not become a disincentive for the GOC's self-help--but I do not concur in his recommendation to trim \$10 million from the program loan. Secretary Rogers' proposal is already \$20 million below last year's program loan level, and a further reduction would, in effect, seem like punishment for good performance.

RECOMMENDATION

That you approve a program level of \$88.5 million, with sector loans held to \$30 million. JK/m/KB

Alternatively, approve Secretary Rogers proposal for \$98.5 million _____
approve Mayo's proposal for \$78.5 million _____

Release of Funds - In the past, AID released its loans to Colombia in three installments, following reviews of GOC performance. Secretary Rogers proposes that we make two releases in 1970, to reflect our "mature partnership" approach. The second release would follow a performance review with the new Colombian Administration, soon after it takes office in August.

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Budget Director Mayo suggests it would be more consistent with a mature partnership to discontinue completely the system of releasing our aid in installments, since it implies a threat of withholding funds. He notes that we are the only party in the Consultative Group which uses this release system. Moreover, making release of our loans contingent on a performance review shortly after the new Administration takes office may be politically unwise, since it forces us to confront or endorse the new Administration at the outset. On balance, I concur with Mayo's judgment that it would be appropriate to make a decision now to support the Colombian economic program for the entire year, rather than release our funds in installments.

RECOMMENDATION

That you approve a single release of AID loan funds to Colombia.

Approve *R/mi*

Disapprove _____

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