REPORT ON THE COLOMBIAN CAPITAL MARKET

Submitted by

ALFONSO MANERO

to the

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Washington, D.C.

July 1952

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street, N.W.,
Washington, 25, D. C.

Office of the Vice President

July 15, 1952.

My dear Mr. Ambassador,

It gives me pleasure to transmit to you a report on the Colombian Capital Market which has been prepared by Mr. Alfonso Manero, partner of Glore, Forgan & Company, investment bankers in New York, at the request of your Government and the International Bank for Reconstruction and Development.

The Bank has studied the report with great interest and believes that the various measures which Mr. Manero proposes are deserving of the most careful consideration by the Government of Colombia. It is our sincere hope that the Government will not only give the report full consideration, but will also give it the widest possible circulation for study by the public.

The creation of a well functioning capital market is described in the report as a necessarily slow process. In our opinion, this point should be emphasized. We feel that it is most important that the selection of proper policies and the establishment of adequate institutions should be accompanied by a gradual process of educating the Colombian public to accept savings in monetary form and to select among the various instruments of financial investment those forms which are best suited to the specific needs of the various types of investors.

The suggestions contained in the report should be of great assistance in the attempts of your Government to further the economic progress of your country and the Bank stands ready to assist in their implementation.

Sincerely yours,

(Signed) R. L. Garner

His Excellency Cipriano Restrepo-Jaramillo,
Ambassador of Colombia,
2128 LeRoy Place, N.W.,
Washington, D. C.

Attachment.

June 30, 1952.

Mr. R. L. Garner,
Vice President,
International Bank for Reconstruction and Development,
1818 H Street, N.W.,
Washington, 25, D. C.

Dear Mr. Garner,

I am sending you herewith, for transmittal to the Colombian Government, a report on the Colombian capital market which I prepared at the joint request of the Government of Colombia and the International Bank for Reconstruction and Development.

The report is the result of a visit of several weeks to Colombia. There I had the opportunity of acquiring firsthand knowledge of the financial institutions, the market for public and private securities, and the financial practices of business enterprises. I discussed many problems which I encountered with officials of the Government, various Government institutions and the Central Bank, with representatives of the banking community and with industrialists and businessmen. I received from them full cooperation and valuable information, and I should like to take this opportunity of expressing to them my sincere appreciation.

In the report, I recommend certain measures which, in my opinion, are necessary to increase the flow of capital into productive private enterprises. Also, I advance various suggestions for the improvement of the internal debt structure of the Colombian Government, and for the creation of a broad market for public securities. I focused my atten-

tion particularly on Government securities and financing of industrial activities because I feel that in these two sectors remedial action is particularly urgent. The concentration of my proposals on these two sectors does not imply, however, that further improvements in other sectors of the capital markets, such as agricultural credit and mortgage financing, are less important. It is in these fields, however, that the Economic Development Committee has made certain recommendations and I trust that the Government will pay close attention to them.

Although I am confident that the implementation of the various suggestions in this report will bring about substantial improvements in the structure and the functioning of the Colombian capital market, I realized throughout my study that the creation of a capital market which will serve all the needs of the fast-growing Colombian economy, will take considerable time. No combination of specific measures can immediately bring about those changes in institutions and attitudes which are required. The development of a capital market through which savings can be channelled to their most productive use is a gradual process; but I am convinced that this process can be speeded up by proper policies and through the cooperation of the financial and industrial interests with the Government.

I hope that the recommendations which I have formulated in this report will receive the close attention of the Colombian Government and of the financial and industrial interests of the country. I have taken the liberty of suggesting in the report that the Colombian Government should seek the assistance of the International Bank for the implementa-

tion of some of my recommendations. I hope that your institution will extend this assistance. If, in this connection, my own services are required I should be glad to give to the Colombian authorities and to the International Bank whatever aid I can offer.

I remain,

Sincerely yours,

(Signed) Alfonso Manero

Attachment

REPORT ON THE COLOMBIAN CAPITAL MARKET

I. Summary of Findings and Recommendations

The purpose of this report is to make a survey of the conditions that prevail today in the field of investment financing in Colombia, to determine in what respects existing institutions and current practices are deficient, to propose such concrete steps as will increase the flow of capital into productive private enterprise, and to suggest measures which will foster a market for public securities.

In the first section of the report the recommendations are summarized. The second section analyzes and comments on the operations of the financial institutions through which savings are channelled into the hands of Colombian industrial and commercial enterprises, and to the national and departmental governments and municipalities. The analysis is based on data and information which various government agencies, other official institutions, and private business firms furnished for the purpose of this report, and on material presented in the Report of the Survey Mission sponsored by the International Bank and in the Final Report of the Colombian Economic Development Committee. In the last section of the report, a number of recommendations are presented for the development of a sound capital market through which funds can be channelled to their most productive use.

Throughout this report an attempt has been made to isolate as much as possible the problem of investment financing from its wider setting in the framework of general monetary and fiscal policies. But it is obviously impossible to discuss it without reference to the broad problems of the Colombian economy and its growth. Investment financing is not a subject conducive to one or two simple cure-all recommendations which might be expected to

solve permanently and over-night the ever-present problem of capital scarcity. The development of a capital market which will serve both private enterprise and the Government sector is a slow and tedious process which must be adapted to the special circumstances of Colombia and the constantly changing needs of her economy. It presupposes, above all, the pursuit of sound but flexible monetary and fiscal policies. Intelligent tax policies and effective controls of public expenditures are essential if public investment and the expansion of private business are to complement each other. The report shows that these pre-conditions for economic progress have not prevailed in Colombia and that some deficiencies continue in both the private and the public sector of the economy.

In the last two years, however, good progress has been made. Inflationary tendencies have been arrested and external balance has been achieved. At the same time, Colombia has gone through a process of stock-taking of her resources and is now in a better position than ever before to formulate a program for economic development and to carry it out successfully.

This report deals with a specific aspect of the wider problem of economic development. It is concerned with the problem of financing of long-term private investment and of raising funds from non-inflationary sources for public investment expenditures. But even the field of investment financing is not completely covered. Nothing is said about private foreign investment; credit operation of departments and municipalities are hardly touched upon; only passing reference has been made to the financing of the Paz de Rio Steel Mill; and no recommendations have been formulated regarding agricultural and mortgage credit. Moreover, several of the suggestions advanced in this report are presented in general terms because

their implementation presupposes factual information which only the Colombian authorities can obtain, and decisions which only the Government can make.

Nevertheless, I am confident that this report will assist the Colombian authorities in the solution of some of the major financial problems of their economy. The salient features of the suggestions advanced in the last part of the report are summarized below. They represent attacks, from different angles, on the focal problems of the scarcity of capital and the need for more economic utilization of the capital resources which are available to the Colombian economy. Their successful implementation will depend on the cooperation of the Government, and its agencies and institutions, with private business and financial interests. It is my sincere hope that this cooperation will be forthcoming as it was in connection with the work of the Economic Development Committee.

Summary of Recommendations

1. Commercial banks, insurance companies and industrial interests should take the initiative in the establishment of a Finance Corporation to supply medium- and long-term funds for industrial enterprises. If necessary, the Government should provide a part of the financial resources of the Corporation from its accumulated surplus, and efforts should be made to obtain additional funds from abroad.

2. Private corporations should review their dividend policies and strengthen their internal financial structure. They should attempt to raise additional capital through the issue of bonds and preferred stock.

3. The part of the public debt held outside the Central Bank and Government institutions should be refunded by issues which private financial

institutions and insurance companies are willing to hold on a voluntary basis. The terms of the refunding operation should be determined after consultations between the Government and the financial interests of the country. The administration of the public debt should be transferred to the Banco de la Republica.

4. The Government should issue short-term certificates of indebtedness for the investment of idle funds of financial institutions and industrial corporations.

5. The Government should issue savings bonds with special lottery features which would make them attractive to savers in low and medium income groups.

6. The Government authorities should continuously attempt to gain the confidence of private savers and financial institutions in its obligations. Its aim should be to develop gradually a wider market for public bonds. The maintenance of orderly conditions in the market for Government securities is a function of monetary management; therefore, the Stabilization Fund should be divested of its other functions and its operations should be left to the discretion of the Central Bank.

II. The Structure of Business and Government Investment

1. Introduction

The Economic Survey Mission sponsored by the International Bank for Reconstruction and Development, and the Economic Development Committee have prepared detailed estimates of the national accounts and of the volume of private and public investment. Both groups reached the conclusion that in the course of the postwar years the overall level of investment in Colombia has been quite high, and that per capita income has been growing steadily. The following table shows a breakdown of gross capital formation and an estimate of the gross national product.1/

Table I

Estimates of Gross Capital Formation and Gross National Product in 1950
(Millions of Pesos) 2/

	Private	Public	Total	% of Total
Commerce	106	-	106	12.1
Agriculture	60	13	73	8.3
Transportation	165	117	282	32.2
Industries	102	-	102	11.7
Mines	20	-	20	2.3
Public Utilities	10	60	70	8.0
Housing	183	-	183	20.8
Government Buildings	-	26	26	3.0
Miscellaneous	14	-	14	1.6
Total Capital Formation	660	216	876	100.0
Gross National Product			6100	
Capital Formation as % of Gross National Product			14.3	

1/ Gross capital formation is the sum of all private and public investment outlays for plants, equipment, housing, public works and the accumulation of inventories, without allowance for depreciation; the gross national product is the sum total of all goods and services produced in the economy.

2/ 1 peso = U.S.$0.40.

The percentage of total resources going into investment compares rather favorably with that of many other countries, and is probably among the highest in Latin America. Moreover, the fact that more than two-thirds of total investment was made by the private sector of the economy, from private resources, indicates that the Colombian business community has at its disposal a large volume of private savings.

Nevertheless, the Final Report of the Economic Development Committee has pointed out that further improvements can be made regarding the composition of investment. Investment in industry and agriculture came to only 20% of the total. On the other hand, there was excessive investment in housing, mostly for upper-income groups, and in merchandise inventories, which account for almost one-half of investment expenditures in industry and commerce combined. The Report of the Economic Development Committee also comments on the relatively large amounts invested in the field of transportation which did not, however, prevent a deterioration of the transport system. Private investment in transportation consisted largely of imports of passenger cars.

The unsatisfactory composition of investment in the postwar period has been partly the result of temporary causes, the most important among them being the inflationary price increases which occurred between 1945 and 1950. It is only natural that during a period of rising prices private individuals and business firms should attempt to minimize losses which holdings of money and fixed-interest securities entail in an inflation. Moreover, they try to exploit the opportunities for rapid capital gains by investing their savings in inventories of foreign and domestic merchandise, and in real estate and land whose value is likely to increase in step with

the rising price level. The change in monetary policy which took place in the Fall of 1950 has succeeded in stemming the tide of inflation and thus has removed some of the incentive to invest in merchandise and real estate.

Aside from these temporary factors causing a distortion of the investment pattern and thus preventing an allocation of capital for purposes most conducive to a balanced growth of the economy, there are more permanent causes for the concentration of private investment in tangible assets and for speculative purposes. Traditionally, the main sources of large incomes and wealth have been ownership of rural and urban property, and participation in commercial activities including both domestic and foreign trade. This tradition has retarded the growth of manufacturing industries. Only in the last two decades has there been a noticeable development of the industrial sector of the economy, primarily in textile and shoe manufacturing, in breweries, tobacco and food processing, and, more recently, also in cement, rubber tire, sugar and chemical production. But in most industries, the individualistic traits of the Colombian businessman asserted themselves in the form of business ownership by individuals or single families, and ownership of corporations by a large number of shareholders developed only in the last few years.

The development of financial institutions and the methods of financing business enterprises reflect the agricultural and commercial traditions of the Colombian economy. Commercial banking has developed considerably and, by and large, the 14 commercial banks of Colombia serve well the legitimate needs of Colombian commerce for short-term financing. In the field of long-term financing, however, grave deficiencies exist. Industrial enterprises have been financed almost exclusively by the sale of stock and by the plowing-back of profits. This method of financing has been made easy by

the large profits which many of the corporations have shown in the last ten years. These profits were to a considerable extent the result of inflationary price increases and a rapidly rising consumer demand. There is, however, no organized capital market where the Colombian industry can obtain funds for capital investment and expansion.

The only major savings institution is owned and controlled by the Government and most of its resources are used to provide funds for the Government-owned mortgage bank or for the Government itself. The Government has found it necessary to establish various public institutions to finance public investment and investment in the manufacturing sector, but the bulk of the capital requirements of industrial enterprise has come directly from private investors without the benefits of such institutional arrangements as investment banks or finance corporations.

It is not surprising that with this one-sided institutional framework and the traditional distrust of public financial operations, the national Government, the Departments and the Municipalities have been successful only to a limited extent in their attempts to supplement tax and customs revenues through borrowings from financial institutions and private investors. Legislation to make the purchase of various types of public securities compulsory has only made the situation worse.

This report is primarily concerned with the institutional aspect of savings and investment in Colombia. The brief description of existing institutions and the recommendations for their further development are presented in the belief that the time has come to put private and public investment on a sounder basis, thereby laying the foundations for a gradual change in attitudes and in business and financial usages.

2. Commercial Banks

There are 10 Colombian and four foreign commercial banks operating in Colombia. As of December 1951 these institutions showed gross assets of 1,102 million pesos with deposits of 767 million, savings accounts of 14.7 million and capital and reserves of 117.6 million. Their investments in securities and real estate amounted to only 75.8 million. The largest part of their assets, 701.4 million pesos, consisted of loans and discounts. Until 1950, banks were generally permitted to lend money for a maximum of one year only. Since then, five-year loans have been permitted but only for the purpose of "financing an important national economic development". In 1951, the permission to make medium-term loans was further broadened and industrial loans expanded somewhat.

Commercial banks are authorized to invest in (1) Federal, Municipal and Departmental bonds without any limit on the amount, provided the issues are regularly serviced; (2) up to 10% of their capital and reserves, in foreign government securities or industrial and commercial bonds; (3) up to 20% of their capital and reserves, in mortgage bonds issued by the Central Mortgage Bank; (4) up to 10% of capital and reserves, in common stock of the Central Bank; (5) up to 5% of their capital and reserves, in shares of Almacenes Generales de Deposito (General Warehouses); (6) in shares of the Central Mortgage Bank and in shares of the Paz de Rio Steel Mill without any limit; and (7) in real estate for the bank's own use, and for a period of two years in property acquired through foreclosures.

The banks are compelled by law to maintain an excess reserve (encaje adicional) of up to 5% of their sight and term deposits in bonds of the Caja de Credito Agrario paying 4% and maturing within six months. In addition,

they must invest 5% and 10% of their reserve requirements in 4% Internal Unification bonds (Dinu) and in 6% National Economic Defense bonds (Denal), respectively. (The legal reserve requirements of commercial banks amounted to 12% of demand deposits until January 1952, when they were raised to 15%; the increase is to be accomplished gradually through a ½% rise every six months.) On the basis of total deposits of 767 million pesos, compulsory holdings of Dinu and Denal bonds amounted to 13.8 million pesos at the end of June 1951. Commercial banks are not permitted to buy for their own account common stocks other than those indicated above.

The 14 banks owned, as of July 1951, approximately 35 million pesos in national, 4 million in departmental, and 5 million in municipal bonds, or a total of 44 million out of the 67.6 million reported as held in their investment portfolio. The banks' investment of 35 million in national Government obligations amounted to about 5% of their deposits.

Outstanding bank credits as of July 1951 were as follows:

to Commerce	43.7%
Industry	27.2%
Cattle raising	9.2%
Agriculture	7.2%
Construction	2.6%
Official institutions	5.1%
Other	5.0%

Although these figures may not accurately reflect the actual use of borrowed funds, they indicate that commercial banks are an important source of finance for industrial enterprises. In fact, aside from private capital subscriptions, commercial credits are virtually the only means of financing industrial inventories and working capital. As a result, short-term commercial credits have been resorted to by industrial corporations to carry inventories and to finance operations often upon the understanding by the

lending institution as well as by the borrowers that credits would be renewed. In this roundabout way, commercial credit has become an imperfect substitute for long-term industrial capital.

3. Corporate Finance

The most widely used method of financing industrial enterprises in Colombia during the last 25 years has been the sale of common stock in privately-owned corporations. The distribution of common stock among investors has reached a relatively high degree of development. The stock market is closely followed by a large number of people, including businessmen and members of the middle class.

The Bogota Stock Exchange lists 96 stock issues covering a wide diversity of industrial and financial activities, including 9 banks, 4 insurance companies, 1 airline, 12 textile mills, 5 cement works, 4 sugar mills, 3 beer breweries, 3 hotels, 3 rubber factories, 2 leather factories, 2 railroads, 2 electric companies, 6 food processing firms, 5 oil companies, 1 moving picture house, 1 drug store, 3 soft drink producers, 1 match factory, 1 shipping concern, and 1 glass factory. A record of the number of stockholders in each of the companies listed on the Exchange indicates that there are 16 companies with over 1,000 individual stockholders each, of which Coltejer (textiles) has nearly 14,000 and Consorcio Bavaria (beer) nearly 20,000 stockholders. At the end of 1949, the total number of stockholders was 83,000. This figure includes, however, a certain proportion of double-counting of owners of stock in more than one corporation. The number also fails to reflect the fact that many corporations are closely held by one or more families, with a small number of "stray" shares owned by outsiders.

The total par value of listed stock amounted to approximately 616

million pesos on June 30, 1951, and their market value to 1,076 million pesos. This sum not only greatly exceeded the value of listed bond issues, but also the total of all the federal, departmental and municipal debt, which amounted to 474 million pesos.

Transactions in listed stocks during 1951 totaled 19,727,000 shares with a market value of 95.0 million pesos, compared with 101.7 million pesos in 1950.

The following table presents the amounts of paid-in capital of the most important corporations in Colombia in 1940 and in 1951:

Table II
Capital Structure of Selected Colombian Corporations

	January 1940 Paid-in Capital	June 1951 Paid-in Capital	Increase %
Banks			
Banco de la Republica (Central Bank)	$ 11,735,800	$ 16,953,800	44
Banco de Bogota	6,000,000	20,000,000	233
Banco de Colombia	3,690,000	7,664,780	108
Banco Comercial Antioqueno	3,000,000	15,000,000	400
Cement			
Compania de Cementos Diamante	3,229,880	5,949,230	86
Fabrica de Cemento Samper	3,807,520	15,000,000	294
Beer			
Consorcio de Bavaria	23,860,760	176,200,000	638
Leather			
Empresa Colombiana de Curtidos	900,000	6,000,000	567
Manufacturas de Cuero "La Corona"	307,520	1,800,000	485
Electric Power			
Compania Electrica de Bucaramanga	600,000	1,200,000	100
Empresas Unidas de Energia Electrica	4,713,000	13,447,750	185
Insurance			
Compania Colombiana de Seguros	1,500,000	3,600,000	140
Tobacco			
Compania Colombiana de Tabaco	5,433,520	10,968,710	102
Textiles			
Calceteria Pepalfa	368,300	2,783,785	656
Coltejer	1,800,000	42,394,385	2,255
Tejidos de Occidente	300,000	5,162,048	1,721
Compania de Samaca	450,000	2,000,000	344
Fabricato	1,800,000	16,500,000	817
Panos Colombia	620,000	1,500,000	142
Alicachin	488,603	3,059,165	526

The table indicates that in the last ten years the capital of Colombian corporations has increased very rapidly. The increase was particularly striking in the case of manufacturing enterprises, especially in the textile industry.

The increase in corporate capital was accomplished through the sale of new stock, generally to old stockholders on very favorable conditions, and the distribution, free of charge, of shares from accumulated reserves. In some instances, the offer of new stock was made particularly attractive by the advance declaration of a dividend payable on the new stock. The cost of such dividend payments was charged to special reserves or to the receipts of premium payments on new stock. Indicative of these practices is the following composite record of 14 manufacturing concerns in the textile, cement, beer, tobacco, food, metals and chemical industries.

Table III

Financing of Capital Expansion of 14 Selected Colombian Industrial Corporations
(Thousands of Pesos)

Paid-in Capital, December 31, 1945	63,226
" " " " 31, 1950	119,587
Increase in five years	56,361
Financed by:	
Stock dividends	5,077
Subscription at par	20,326
Par value of stock sold at a premium	30,956
Total	56,361
Amounts paid by stockholders:	
Subscription at par	20,326
Par value of stock sold at a premium	30,956
Premium paid	35,999
Total cost	87,283

During the same five-year period, dividend payments amounted to 177,264,000 pesos. An analysis of the annual reports and balance sheets of several textile corporations which has been made for the purpose of this report gives an indication of the financial practices which prevail in this industry but which by no means are confined to it. Most of the companies distributed as dividends 66% to 85% of their net earnings almost every year since 1935. The high dividend payments stimulated high quotations for the shares of the companies and enabled them to sell new shares to their shareholders which had an additional inducement to buy in the form of attractive subscription rights. Subscription rights were offered to stockholders practically every six months from 1941 to 1951, in general at prices above par but somewhat below market quotations. The companies applied the sales proceeds of the new stock to the capital account and the premiums to various types of reserves. In the aggregate, the sale of new stock amounted to almost 50% of the amounts that the companies had disbursed as dividend payments.

A practice which appears to be widespread and which in other countries is generally not accepted as good corporate practice, is the declaration in advance of a dividend payable on stock about to be offered for subscription. In some cases, corporations vote stock dividends and charge their cost to a special reserve or to the receipts from sales of stock at a premium.

Auditing practices appear to be deficient in many instances. Many corporations do not use the services of outside auditors. Neither the Colombian pertinent laws nor the Bogota Stock Exchange regulations require the services and certification of accounts by independent public accountants. The prevalent practice is to appoint an auditor from the corporation's own

staff at the annual stockholders' meeting.

The volume of public information available about the financial position of corporations is limited. The Banco de la Republica and the Stock Exchange issue periodical reports on corporations but only the paid-in capital and reserves and the amounts of dividend payments are published. Financial statements of listed corporations are available at the Stock Exchange but the financial results of corporate activities are seldom published and, in many cases, stockholders do not receive annual reports.

Table IV gives an indication of the yield of shares during the year ending June 30, 1951 of 22 leading corporations whose operations were analyzed for the purpose of this study.

Table IV

Yield of Shares of 22 Selected Colombian Corporations in 1950-1951

	Percent of Market Value of Stock	
	Range	Average
Banking	11.4 - 13.2	12.3
Insurance	10.3	10.3
Tobacco	10.3	10.3
Beer	12.2 - 13.6	12.9
Textiles	12.4 - 15.6	14.0
Food Processing	12.2	12.2
Cement	11.0 - 14.0	12.5
Various	12.4 - 14.4	13.4

Dividend payments in 1950 and 1951 were virtually the same as those prevailing in earlier years, although stock prices had declined, on the average, by one-third. Only toward the end of 1951, rapidly declining earnings of some corporations, particularly in the textile industry, made it necessary to reduce dividend payments.

In the second half of 1951 the stock of 14 of the 22 corporations sold substantially above their book value. In some instances, stock prices

were four times the book value. It must be realized, however, that as a result of price increases over the last few years, and particularly of the devaluation of the peso, replacement values are substantially larger than book values. The combined effects of high dividend payments and the lack of any method of financing other than the issue of new stock are only partly reflected in corporate balance sheets. In most instances, accumulation of reserves and undistributed profits were substantial; for example, in the case of the 14 selected industrial corporations they amounted to 207 million pesos compared with a paid-in capital of 120 million pesos. It must be realized, however, that only a very small fraction of the reserves was in liquid form, since they had been used for the expansion of productive facilities, and the financing of inventories of raw materials and finished products. Therefore, industrial corporations had to rely to an increasing degree on short-term commercial credits to meet their working capital requirements. The composite balance sheet of the 14 industrial corporations, for instance, shows that between 1945 and 1950 short-term liabilities (comprising liabilities to banks, accounts payable, taxes payable, and dividends payable) rose from 18 to 26% of the balance sheet total. It must be added, however, that one of the reasons for the limited liquidity of corporate reserves is the lack of suitable investment outlets, since Government, departmental, municipal or mortgage bonds do not offer sufficient liquidity for the investment of short-term funds.

Corporate bonds are virtually unknown in Colombia. There are only two issues of industrial bonds listed on the Bogota Stock Exchange; one is an 8½% issue of the Consorcio Bavaria brewery, which seems to be closely held since, in the fiscal year 1950/51 the total turnover in these bonds on the

Stock Exchange amounted to only 500 pesos. The other is an issue of the Bogota Power Company which was originally privately owned but was recently acquired by the City.

4. The Bogota Stock Exchange

The Bogota Stock Exchange (Bolsa de Bogota S.A.) was established in 1928 as a private corporation with a capital of 1,600,000 pesos composed of 160,000 shares of 10 pesos each. According to the statutes and regulations of the Exchange, the objectives of the corporation are (a) to give protection to the public in the purchase and sale of securities; (b) to avoid undue speculation in listed securities; (c) to offer to the public authentic data regarding companies whose stocks are listed; (d) to create a market in the securities of Colombian companies and thus enhance the credit standing of such companies in Colombia and abroad.

The Exchange is administered by a Board of Directors, which in turn appoints a manager, a secretary and an auditor. The number of seats is limited to 40; proceeds from the sale of seats go into a special fund. In order to become a member of the Exchange, it is necessary to own at least 200 shares of common stock of the corporation, to be accepted by the Board of Directors of the corporation, and to deposit a guarantee of 1,000 pesos, or the equivalent in negotiable securities.

The listing of securities on the Exchange is subject to the approval of the Board of Directors and management of the Exchange, provided the following conditions are fulfilled:

(1) the paid-in capital of the corporation must be at least 50,000 pesos; (2) the corporation must submit copies of its charter and statutes, a list of directors and officers, and a balance sheet; (3) the corporation must agree

to submit to the Exchange for publication its financial statements, notices of drawings, dividend payments, stock offers and subscriptions, etc; and (4) it must pay a listing fee of 1/20 of 1% of the paid-in capital, such payment to be not less than 200 pesos and not over 500 pesos.

The Exchange is authorized to deal in commodities and in foreign currencies. Actually, dealings in foreign exchange are relatively small, and there are no commodity transactions.

The number of corporations whose stocks are listed on the Exchange rose from 49 in 1939 to 96 in 1951. The capital and reserves of these concerns rose from 140 million to 773 million. The number of shares of the 96 companies total 153 million of which 71 million are Consorcio Bavaria (brewery) and 8 million Coltejer (textile) shares. The value of stock transactions has shown a remarkable growth since 1942, as illustrated by the following table.

Table V

Stock Transactions on Bogota Exchange, 1942-1951

Year	Millions of Pesos
1942	31.7
1943	61.0
1944	72.9
1945	86.1
1946	140.4
1947	100.7
1948	79.2
1949	103.4
1950	101.7
1951	95.0

During the year 1951, 19,727,000 shares were bought and sold of which 18,969,000 were industrial shares and 758,000 stocks of financial institutions. Dealings in Consorcio Bavaria and Coltejer shares amounted to almost 14,000,000 shares or about two-thirds of the total volume.

In addition, 23 bond issues were listed, but only 17 of them were actually traded. Of these, eight were Government bonds and bonds of Government institutions. Four were department bonds, one was a municipal issue, two industrial, and two were obligations of the Bogota Country Club. The volume of bond transactions was small. The turnover in Government bonds was 7.7 million, in mortgage bonds 8.4 million, in department and muncipal bonds 4.7 million, and in all others 0.2 million pesos.

5. Savings and Mortgage Institutions

One of the most noteworthy features of the Colombian financial structure is the fact that all long-term credit institutions of importance, among them the Colombian Savings Institution (Caja Colombiana de Ahorros) and the Central Mortgage Bank (Banco Central Hipotecario), are Government-owned and, to a large extent, managed by Government-appointed personnel.

A. The Colombian Savings Institution

The Caja Colombiana de Ahorros was established as an autonomous institution in 1931. The entire capital of 8 million pesos is subscribed and paid in by the Government.

From 1936 to 1949, the Caja, operating with a network of 200 branches throughout the country, had a virtual monopoly of savings operations in Colombia and was the recipient of more than 80% of all savings deposits in the country. Recently the Government removed certain restrictions against the operation of savings accounts by commercial banks and some of them have opened savings departments. The bulk of savings in the country, however, is still in the hands of the Caja. At the end of 1951, it held 114 million pesos of savings out of a total of 137 million.

Table VI shows the number, size and distribution of the deposits of

the Caja.

Table VI

Midyear	1946	1947	1948	1949	1950	1951
Number of Accounts (thousands)	368	433	483	540	574	633
Amount of Deposits 1/ (millions)	84.5	98.5	102.7	112.7	108.9	122.5
Size of Accounts (thousands)						
Less than 2 pesos	11	11	13	12	10	9
2 to 100 "	194	238	284	333	380	417
101 to 500 "	47	57	57	59	51	61
501 to 1000 "	13	15	15	17	15	18
1001 to 2000 "	9	10	10	12	11	13
2001 to 5000 "	6	7	7	8	8	10
5001 to 7500 "	2	2	2	2	2	2
Over 7500 "	-	-	1	1	1	1
Special Accounts	86	93	94	97	96	102

The data indicate that saving habits are quite widespread among the Colombian population and that savings bank deposits are by far the most important form of savings for the lower and middle classes. They also reveal that the number of small savers has grown substantially in the course of the last five years, and that their funds constitute a relatively large share of total liquid savings of the economy.

The financial resources of the Caja de Ahorros are the most important non-inflationary source of borrowing by the Government, the departments, municipalities, and public financial institutions.

At the end of September 1951, the investment portfolio of the Caja de Ahorros amounted to 111.6 million pesos. It was composed as follows:

1/ Including demand and special deposits, mostly of public institutions.

Government bonds and notes	46.6	million	pesos
Departmental bonds	12.7	"	"
Municipal bonds	2.8	"	"
Mortgage bonds	34.1	"	"
Bonds (cedulas) of the Agricultural Credit Institute	9.3	"	"
Bonds of the Territorial Credit Institute	5.5	"	"
Private bonds	0.5	"	"
Total	111.6	"	"

The composition of the investment portfolio conforms to standards of safety and liquidity of most advanced countries. It must be realized, however, that the lack of an active market for public securities and mortgage bonds, of which the entire portfolio consists, makes the Caja de Ahorros highly illiquid and dependent on the support of the Central Bank whenever withdrawals exceed new deposits. This was amply demonstrated during the banking crisis which followed the disturbances of 1948.

The Caja de Ahorros, as well as the other savings banks, are under certain legal compulsions in the investment of their assets. From 1942 to 1949, savings banks were obliged to invest out of their total deposits:

20% in National Economic Defense bonds (Denal),
20% in 6% Treasury bonds, and
10% in bonds of the Territorial Credit Institute, a financial institution of the Government.

Two decrees of 1949 and 1950 provided that the investment in Denal bonds and in Treasury bonds must be liquidated over a period of 18 months and the proceeds reinvested in cedulas of the Banco Central Hipotecario (mortgage bonds); up to 40% of any increase in deposits since 1949 must also be invested in these mortgage bonds, and any deficiency in this investment must be applied to the purchase of bonds of the Paz de Rio Steel Mill.

Compliance with the provisions of the decrees is likely to be

difficult since it is doubtful whether the market can absorb the 24 million of Denal and Treasury bonds held by the Caja de Ahorros.

B. Other Savings Institutions

Aside from the Caja Colombiana de Ahorros there are only three other savings banks in operation. They are the Circulo de Obreros, with deposits (at the end of 1951) of 7.4 million pesos, the Prevision Feminina (deposits 0.2 million), and the Union Obrera y Campesina (deposits 0.2 million). Two commercial banks, the Banco de Colombia and the Banco Industrial Colombiano operate savings departments. Their savings deposits amounted to 14.7 and o.5 million pesos, respectively, at the end of 1951.

C. Central Mortgage Bank

The Central Mortgage Bank (Banco Central Hipotecario) is the oldest and most important Government-owned financial institution in the field of long-term financing. It was founded in 1913 as an autonomous Government organization. Its capital was recently increased from 10 million pesos to 17 million. The Bank is administered by a board of directors, one member of which is appointed by the Government, one by the Banco de la Republica, four by the commercial banks and one by private shareholders. All obligations (cedulas and titulos) issued by the Bank are guaranteed by the Government.

The principal functions of the Bank are: (1) to grant mortgage loans on a basis of 50% of the assessed value of property, with maturities up to 20 years and interest rates 2% higher than the Bank's obligations; at present, these pay 6 and 7%; the Bank does not, however, make construction loans; (2) to grant industrial loans of up to 5 or 6 years term, secured by collateral mortgages on industrial machinery, land or buildings, with interest

at 7½%; (3) to grant mortgage loans on public utility plants owned by municipalities; (4) to act as agent for the administration of urban property; and (5) to deal in real estate.

The Bank obtains working capital through the sale of mortgage bonds, industrial bonds, and capitalization certificates (cedulas de capitalizacion). The outstanding amount of mortgage loans has been increasing steadily from 53 million pesos in 1946 to 111.5 million at the end of 1951. The mortgage loans were almost entirely financed by the issue of mortgage bonds or cedulas. These cedulas mature in 5 to 20 years; originally, they carried a 6% coupon, but recently the rate was raised to 7%. The total amount of cedulas outstanding at the end of 1951 was 95.9 million pesos. Also outstanding were industrial bonds amounting to 10.7 million pesos. These issues, which were made for the first time in 1947, were used to finance industrial loans in approximately the same amount.

The 7% 20-year cedulas are listed and traded on the Bogota Stock Exchange. During 1951, dealings in these bonds amounted to 8.4 million pesos or about 9% of the total then outstanding. During 1951, the quotations fluctuated between a high of 87 and a low of 85; at the end of 1951, the bonds were quoted at 85.97.

The compulsory investment features of the two recently enacted decrees directing savings banks to invest up to 30% of their deposits (and insurance companies 15% of their reserves) in cedulas of this Bank, will give this institution a very substantial source of working funds. Apparently, the purpose of this legislation is to enable the Mortgage Bank to improve its method of mortgage financing. At present, the Bank does not pay cash to the borrower when it buys a mortgage; instead, it delivers mortgage cedulas

on a peso for peso basis after applying certain discounts and other charges. It is up to the borrower to dispose of these cedulas in the open market. Since the cedulas sell at about 86%, the borrower obtains in cash 83 to 84% of the amount for which he has given a mortgage.

In spite of the compulsory purchases of mortgage bonds by savings banks and insurance companies, the market for these securities has not improved. Data for 1950 indicate that in that year three institutions held approximately 65% of all of the mortgage cedulas issued by Banco Hipotecario. The Compania Colombiana de Seguros held 8 million pesos, the Banco de la Republica 22.2 million, and the Caja de Ahorros 36.6 million.

In addition to the mortgage and industrial bonds which the Bank issues, it also sells cedulas de capitalizacion. These cedulas are a special type of savings bond which are paid for in installments. The paid-in amounts bear interest at less than 4%, but the cedula is made attractive by a lottery feature. If the cedula is drawn, the purchaser obtains the face value thus winning the difference between the amount deposited plus accrued interest and the face value. Cedula purchases have increased steadily in recent years, rising from 8.3 million pesos in mid-1947 to 14.8 million in June 1949.

Similar cedulas are issued by the Sociedad de Capitalizacion y Ahorros Bolivar but the amount of the issue is insignificant.

In addition to real estate mortgages and industrial loans, the bank also holds a sizeable portfolio of securities. The investment account amounted to 37.5 million pesos in June 1950 but declined to 22.5 million by the end of 1951.

6. Other Public Institutions

In addition to the Savings Institution and the Central Mortgage Bank,

the Government has established a series of other financial institutions. Some of these public entities are credit institutions proper; others combine certain administrative and entrepreneurial functions with financial activities. In the aggregate, they are of considerable importance because they have become a significant source of investment credits. In this section, a brief description of the most important institutions and their operations is presented.

A. Agricultural Credit Institution

The Caja de Credito Agrario, Industrial y Minero, commonly known as Caja Agraria, was established by Government decree in 1944. It is the main source of agricultural credit; it also finances irrigation projects and the purchase of cattle and of agricultural machinery and equipment.

At the end of 1951, the capital and reserves of the Caja amounted to 66.2 million pesos. The stock of the Caja is almost completely owned by the Government; only an insignificant number of shares is held by the Coffee Growers Federation (Federacion Nacional de Cafeteros) and private individuals.

Until the autumn of 1951, the Caja was compelled to invest certain portions of its capital and reserves in Government obligations. As of June 30, 1950, these investments totaled 13.8 million pesos, but they had declined to 2.9 million at the end of 1951. The Caja was also released from the obligation to hold 2.3 million pesos of stock of the Banco de la Republica. The Caja is permitted to accept sight and term deposits which at the end of 1951 amounted to 36.7 million pesos. The largest part of its resources it obtains, however, through the sale of short-term notes bearing a 4% coupon and maturing in six months, and through the issuance of long-term obligations bearing a 5% coupon. Most of these securities are owned by the Caja de Ahorros and other

financial institutions. The total of the Caja's short- and long-term obligations outstanding from 1946 to 1951 follows:

	(Thousands of Pesos)
December 1946	31.5
1947	46.7
1948	64.7
1949	91.9
1950	105.9
1951	125.4

The Annual Report for 1950 of the Caja stated that the distribution of the securities issued by that institution was as follows:

Notes:

A. Discounted at Banco de la Republica:

	(Millions of Pesos)	
30 days	9.0	
90 "	24.5	
180 "	3.7	
240 "	3.8	
360 "	18.7	
Total		59.7

B. Owned by other institutions:

30 days	4.8	
90 "	16.2	
180 "	10.2	
Total		31.2

Long-Term Bonds:

Owned by the Caja de Ahorros	9.2	
Owned by others	5.0	
Total		14.2
Total		105.1

As indicated before, commercial banks are compelled to maintain 5% of their sight and 30-day deposits invested in short-term obligations of the Caja Agraria.

Total loans granted by the Caja Agraria amounted in December 1951 to 172.8 million pesos. According to information about earlier (mid-1950) data, about 56% of all loans went to agriculture, 44% for cattle raising, and less than 1% for industrial and mining enterprises. Approximately 75% of all agricultural and cattle loans were short-term, the remainder medium- and long-term. There were more than 130,000 individual loans with an average amount of less than 1000 pesos. The largest number of loans was between 1000 and 5000 pesos. Loans in excess of 50,000 pesos were made only to rural producers' cooperatives.

The importance of the Caja in the field of agricultural credit is indicated by a tabulation in its 1950 annual report, according to which its loans accounted for 54% of all credits granted to private agricultural producers. Besides, it was the principal source of credit for rural producers' cooperatives (5.3 million pesos) and for rural communal improvements (7.8 million). It also financed irrigation projects, in which it had invested, in mid-1950, 6.7 million pesos. The concentration of short-term maturities in the Caja's loan portfolio shows, on the other hand, that a large proportion of the demand for long-term agricultural credit remains unsatisfied.

B. Industrial Development Institute.

The Instituto de Fomento Industrial was created in 1940. Its authorized capital is 10 million pesos. The paid-in capital as of June 30, 1951 was 6 million pesos, of which the Government contributed 5 million and the Central Mortgage Bank 1 million.

The purposes and functions of the Institute are to plan the establishment of new industries utilizing basic national resources, to cooperate in the development of new industries, and to reorganize existing enterprises.

The law provides that the Institute can only invest in bonds or common stock of corporations with the approval of 4 out of 7 of its board members and upon the recommendation of its technical experts. It must have suitable representation on the Board of Directors of enterprises in which it makes an investment. The Institute may invest up to 50% of its capital in industrial bonds which it can rediscount with the Central Bank. The obligations and bonds of industrial enterprises sponsored by the Institute may be guaranteed by it.

The Institute is authorized to secure funds through the sale of bonds, but it has not been able to sell its securities to the public. In 1942, it issued 1.5 million pesos of 20-year 4% bonds of which 794,200 pesos were outstanding on June 30, 1951. All of these bonds were held by the Banco Central Hipotecario. The Mortgage Bank also held 5,266,000 pesos of a 1946 bond issue of 6 million pesos. This issue was authorized in connection with the establishment of the Paz de Rio Steel Mill. The Institute, on the other hand, owned some Government and department bonds, which aggregated 780,000 pesos.

The Industrial Development Institute was originally charged with the preparatory research and the financial responsibility for the establishment of the Paz de Rio Steel Mill, but in 1948 the Institute was ordered to divest itself of the new enterprise. It continued, however, to finance various other industrial enterprises. The investment of the Institute includes participation in various chemical companies, a tire factory, lumber mills, paper factories, coal mines, sea fishing, meat packing plants, etc. In June 1951, the investment in industrial enterprises amounted to 10.5 million pesos. Profits from these investments amounted to 400,000 pesos, which sum was used to write off losses resulting from previous operations.

From the record of the Development Institute, it becomes clear that its operations have stimulated investment in the industrial sector of the economy, particularly in fields which private business had not entered before. However, the inadequacy of the financial resources at the Institute's disposal prevented it from playing a major role in the industrialization of the Colombian economy. Compared with the overall expansion of industrial activity in the last ten years, its contribution has been minor. Nevertheless, the experience gained by the Institute in the field of industrial and market research should prove of value both to the Government and private industry in the future.

C. Territorial Credit Institute

The Instituto de Credito Territorial is a Government-controlled semi-autonomous institution, the purposes of which are the financing and construction of low-cost urban and suburban housing. It was created by a law passed in 1938, but did not become active until 1945, when major financial resources were made available to it.

Beginning in 1945, all corporations and individuals with taxable net earnings in excess of 10,000 pesos were compelled to invest 5% of their earnings in bonds of the Institute. The taxpayers obtained for two-thirds of their investment 20-year bonds (series A) and for one-third 30-year bonds (series B), both bearing interest at 3%. The proceeds of series A were to be used to finance urban real estate development, series B for suburban construction. Since these bonds were negotiable, the public sold them steadily in the open market and their price declined to about 35. The Institute was then authorized to purchase the bonds in the open market, but even substantial purchases brought the quotation only to 42. In 1949, a decree modified the

1945 law and eliminated the 5% compulsory investment in Institute bonds. It substituted for it a 2½% tax on excess income the proceeds of which are turned over by the Treasury to the Institute as a capital contribution.

In connection with the allocation of tax receipts to the Institute, and in anticipation of further income from the same source, its capital was raised in 1951 from 26.1 million to 200 million pesos, 62.5 million of which are reported as paid in. In addition to its own capital, the institution also acquired substantial amounts through the sale of bonds. At the end of 1951, the following amounts were outstanding:

	(Thousands of Pesos)
3% 20-year bonds, issued 1947-49 (series A)	18,350
3% 30-year bonds, issued 1947-49 (series B)	9,644
6% bonds, issued 1942 (series C)	750
5% bonds, issued 1947 (series D)	5,615
Total	34,359

The 6% issue was made in 1942 and sold to private investors. Originally, an amount of 1 million pesos was issued, but 250,000 pesos have been retired. The entire 5% issue of 1947 of 5,910,000 pesos was sold to the Caja de Ahorros; 295,000 pesos have been repaid so far.

The 3% series A and B bonds are listed on the Bogota Stock Exchange. Their average quotations in 1951 were 38.22 and 38.33, respectively. The volume of dealings was slightly more than 1 million pesos.

7. Insurance Companies

There are 32 insurance companies operating in Colombia. Three of them are Colombian, the rest are American, Canadian and British. The three Colombian companies had, as of December 31, 1950, capital and reserves of 13.1 million pesos while the foreign companies had 17.5 million pesos.

The Compania Colombiana de Seguros and its life-insurance subsidiary, the Compania Colombiana de Seguros de Vida, the largest group in the country, together had gross assets of 84.3 million pesos as of October 31, 1951. Technical reserves of all of the 32 companies at the end of 1950 amounted to 65.2 million pesos, and other reserves to 9.2 million pesos. Insurance issued by all of the companies amounted to 6,636.8 million pesos at the end of 1950, compared with 4,859.0 million at the end of 1949, or an increase of 36.6%.

A breakdown of the amounts underwritten indicates that life insurance has developed much less than fire, transport, and automobile insurance which together account for 5,742.7 million pesos, or almost 87% of the total. Life insurance amounted to 538.8 million pesos, or 8% of the total.

The amounts of premium collections show the growth of insurance, and its importance as a potential source of capital and investment funds.

Table VII

Premium Collections, 1946-1950
(Millions of Pesos)

Year	Amount
1946	24.9
1947	33.4
1948	42.8
1949	50.8
1950	65.7

The Colombian Insurance Law contains certain regulations regarding investments by insurance companies, distinguishing between compulsory and authorized investments. The statutes provide that insurance companies must invest:

(1) 15% of their total assets in Government bonds, of which an amount equal to at least 10% of the technical reserves must be invested in Denal

(National Economic Defense) bonds;

(2) 10% of their total assets in bonds of the Caja de Credito Agrario, or in industrial bonds issued by the Banco Central Hipotecario; and

(3) 10% of their technical reserves in mortgage bonds or mortgage loans.

The insurance regulations further stipulate that the companies must invest all of their funds in Colombia with the exception of 15% of their assets, which may be invested abroad.

The insurance companies are permitted to invest, at their discretion, in (1) municipal and departmental bonds; (2) bonds and stocks of Colombian industrial corporations; (3) cedulas of the Mortgage Bank, bonds issued by the Caja de Credito Agrario, and the Banco Central Hipotecario; (4) term deposits in commercial banks; (5) up to 15% of their total assets or 25% of their technical reserves, whichever is greater, in foreign government obligations; (6) urban real estate up to 30% of their assets; (7) mortgage loans up to 30% of capital and reserves in amounts not to exceed 50% of the assessed value of the mortgaged property if it produces revenue, and 40% if it does not; (8) loans with a 30% margin having as collateral Government bonds, mortgage cedulas, foreign government obligations, or insurance policies.

Investments of insurance companies increased from 36 million pesos in 1946 to over 90 million pesos in 1950; their participation in private financing (i.e. holdings of bank and industrial shares, and commercial loans secured by mortgages or securities) rose from 15.7 million in 1946 to 48.4 million in 1950 or over 300%. Investments in real estate mortgages, placed either directly or through the purchase of mortgage bonds, represented an important part of investments, i.e. almost 30%.

The insurance companies have acquired some importance as a source of

investment capital, particularly for real estate and public expenditures; investment in commerce and industry has also been of significant proportions. It is questionable, however, whether it would be sound policy for insurance companies to expand their industrial investment portfolio (of 25 million pesos) as long as it must necessarily consist of common stock, the value of which may fluctuate widely. The issuance of corporate bonds would of course offer an investment outlet not subject to this objection.

8. Public Securities

Having presented a brief description of the various financial institutions and their operations we now proceed to a discussion of the public debt as represented by the issues of the national Government and Government entities, the departments, and the municipalities.

A. Government Bonds

In a study prepared by the Budget Office of the Ministry of Finance, the internal debt of the Colombian Government outstanding as of September 30, 1951, was reported at 392.5 million pesos. According to reports of the Treasury, the total internal debt amounted to 376.5 million pesos at the end of 1951, but this figure does not include all of the items listed in the report of the Budget Office; the difference in the total is also partly due to some payments which were made between September and December. The description and analysis of the government debt which follows have been based on the report of the Budget Office since the report contains more complete information than that available for later dates.

The Government debt consists of four types of obligations. By far the largest is made up of 56 bond issues mostly of long and medium maturities. Their total amounts to 310.2 million pesos. The list of all outstanding

issues together with other pertinent information is shown in Appendix I.

The second type of debt is represented by 23 different contractual obligations of the Government to banks, Government institutions, departments, etc. Like the public issues, these debts are regularly serviced by the Government, but their ownership is not transferable. The total amount of the contractual debts amounted to 70.3 million pesos. A list of the contractual debts is also shown in Appendix I.

The third type consists of contractual obligations of the Government which technically have not been incorporated in the public debt and for which interest and amortization service have not been formalized. This "floating debt" includes debts to various departments, to the national railroads, and small amounts payable to the United States Government for war surplus purchases, and to the Magdalena Fruit Company in settlement for a railroad rental arrangement. The last two amounts are payable in United States dollars. At the end of September 1951, the total amount of the floating debt was 10.0 million pesos.

As a fourth category, the report of the Budget Office lists a "perpetual consolidated and irredeemable debt" of 2.1 million pesos. This debt which is also called "nominal rent", is a debt in name only. The amount outstanding is the basis of certain Government contributions to educational, welfare and religious institutions. The Government's obligation to make these payments goes back to 1861; in later years it was modified several times. Actually, the interest payments on this "nominal debt" are annual Government grants to these institutions which presumably would be made even if the contractual obligation did not exist. Therefore, the "nominal debt" is not discussed here. The floating debt is also not considered further in this

report since it has only an indirect bearing on the public debt transactions of the Government.

The most important issues of Government and Government-guaranteed bonds are the following:

Table VIII

Selected Bond Issues of Government and Government Institutions, September 1951

Issues	Interest Rate	Year of Issue	Year of Maturity	Amount (thousands of pesos)
Unification Bonds (Dinu) Series A	6%	1941/46	1971	31,534
National Economic Defense Bonds (Denal) Series A, B, C, D	6%	1943	1973	19,748
Treasury Bonds	6%	1944	1974	22,244
" " Series A and B	6%	1945	1975	31,595
" " " C	6%	1946	1976	13,892
Municipal Development Bonds, Series F, G, H, I	6%	1945/48	1965/68	16,815
Territorial Credit Institution Bonds	6%	1947	1977	12,581
Agricultural Credit Bonds, Series A, B, C, D	5%	1947	1977	9,339
Territorial Credit Institution Bonds, Series D	5%	1950	1970	5,615
Unification Bonds (Dinu) Series B	4%	1941/46	1971	18,446
Salt Mine Bonds, Series A	4%	1942/50	1971	32,899
" " " " B	3%	1942/50	1971	34,018
Territorial Credit Institution Bonds, Series A	3%	1947/49	1967/69	18,472
Territorial Credit Institution Bonds, Series B	3%	1947/49	1977/79	9,682
Total				276,880

The contractual debt includes several large amounts. The largest obligation is a debt which the Government incurred in connection with an Export-Import Bank loan to the Agricultural Credit Institution for the financing of irrigation projects. Indirectly, it is thus a foreign debt. The amount outstanding at the end of September 1951 was 17.4 million pesos. Other large items are 4% Treasury notes of 6 million pesos, and payment

certificates of 10 million pesos issued in connection with the Inter-American Conference of 1948. These obligations are held by the Stabilization Fund, the Banco de la Republica, and by the Colombian Savings Institution. Other obligations of this type are debts incurred in connection with capital subscriptions of the Government to power stations of the Institute for Water Supply and Electric Development (7.1 million pesos) and capital contributions of the Government to the Agricultural Credit Institution (5.0 million pesos). Interest rates of these obligations vary from 2% (for the capital subscription to the Caja Agraria) to 8% (on mortgage loans of railroads on which the Government assumed the debt service). The average interest rate is somewhat lower than on bonds, but the annual debt service is relatively higher since most of the obligations are of medium maturities with large annual amortization payments. The debt service amounted to 10.3 million pesos in 1951, or 14.4% of the total amount outstanding.

The following table shows a breakdown of the various bond issues by interest rates:

Table IX

Interest Rates and Interest Costs of Internal Debt

Interest Rate	Amount Outstanding (Millions of Pesos)	% of Total	Computed Interest Cost (Thousands of Pesos)
6%	161.6	52.1	9.7
5%	27.8	9.0	1.4
4%	53.2	17.2	2.1
3%	64.2	20.7	1.9
No coupon	3.2	1.0	-
Matured or called	0.1	-	-
Total	310.2	100.0	15.1

The average interest rate is 4.88%. The bulk of the low-interest

issues, such as the 4% and 3% salt mine bonds of 1941, is entirely held by the Central Bank; the only substantial low-rate issues held outside official institutions are the previously mentioned 3% bonds of the Territorial Credit Institution. Aside from these issues, the interest cost of bonds held by the general public and private institutions is considerably higher than the average.

As to the maturities of the various issues, the following table indicates that the largest concentration occurs in the longest terms. Almost 90% of all issues become due after 1966. The present maturity composition is largely fortuitous, however, since it is merely the result of the fact that in 1941 a large proportion of the then outstanding debt was refunded in the form of two-30-year issues, and that in 1943 another 19.8 million of 30-year bonds were issued.

Table X

Maturity Composition of Internal Debt

Maturity	Amounts Outstanding (Millions of Pesos)	% of Total
To 5 years (1956)	5.9	1.9
10 " (1961)	9.0	2.9
15 " (1966)	21.8	7.0
20 " (1971)	134.7	43.5
25 " (1976)	87.5	28.2
More than 25 years	51.2	16.5
Matured or called	0.1	-
Total	310.2	100.0

The maturity composition and the relatively low average interest rate stand in sharp contrast to the annual cost of servicing the debt. In 1951, the service including amortization payments as well as interest, amounted to 34.8 million pesos, indicating that amortization payments came to al-

most 20 million pesos, or more than 6% of the amount outstanding. The debt did not, however, contract by the same amount since new borrowings were made at the same time.

The detailed data shown in Appendix I confirm the general impression that the present composition of the Government debt does not reflect any systematically formulated and enacted policy. There is, for instance, no connection between the interest rate level and the maturity composition. The longest maturities include issues of 3, 4, 5, and 6%.

In view of these deficiencies it is not surprising that the market for Government bonds is rather confused and poorly organized. The Bogota Stock Exchange lists only eight Government bond issues aside from the mortgage bonds of the Banco Hipotecario. The volume of transactions in these bonds, their average prices, and their yield during 1951 are shown in Table XI.

Table XI

Government Bond Transactions of the Bogota Stock Exchange 1951

Issue	Volume of Transactions (in 1000 pesos, nominal value)	Average Quotation (%)	Yield to Maturity
National Economic Defense Bonds (Denal) 6% 1943-73	2,767.4	97.21	6.25
Unification Bonds (Dinu) 4% 1941-71	977.1	94.92	4.40
Unification Bonds (Dinu) 6% 1941-71	524.8	91.17	6.85
Territorial Development Institute Series A 3% 1947/49-1967/69	1,795.6	38.22	10.65
Territorial Development Institute Series B 3% 1947/49-1977/79	1,028.5	38.33	9.20
Treasury Bonds 6% 1944-74	622.5	81.81	7.75
" " 6% 1945-75	2,512.8	81.13	7.80

The table indicates that activity in the Government bond market is very limited; the market value of all transactions is less than 8 million pesos, compared with 95 million for stock transactions. The wide spread in

the yield of the various issues is in part a reflection of the small number of transactions. But the main reason for this picture of disorganization is the fact that only a small proportion of the listed issues is privately held, and that the holdings of financial institutions and insurance companies are compulsory. Occasionally, the compulsory portfolios have to be adjusted in accordance with legal requirements; depending on the direction of these adjustments the market is thus either temporarily glutted, and prices decline, or unsatisfied demand drives the quotations up.

The broadening of the market for Government securities outside financial institutions and insurance companies has been impeded by the previously mentioned decree of 1947 which forced taxpayers to purchase certain amounts of 3% bonds of the Territorial Credit Institute, which are now traded at approximately 60% below par. The decree was repealed in 1949, but at the same time the purchase of stock of the Paz de Rio Steel Mill was made virtually compulsory. A new decree provided that taxpayers could avoid payment of a 2½% surtax on corporate and individual income if an equivalent amount was used for the purchase of Paz de Rio stock and the taxpayer signed an affidavit renouncing his right to sell or transfer the stock until the company begins operations. The requirement that the Steel Mill stock must not be sold at present prevents a repetition of the experience which taxpayers had with the Territorial Credit bonds. But there is no question that the decree has unfavorable effects on the willingness of private investors to purchase and hold Government securities.

The disorganized state and the narrowness of the market for Government securities is in part also due to the ineffectiveness of official interventions in the market. Although more than one-half of the total public debt is held

by the Central Bank, the Stabilization Fund, the Government-owned Caja de Ahorros, and other public institutions, the purchases and sales of these institutions have not been able to stabilize the market and even less to attract private investors into it. The maintenance of orderly conditions in the Government bond market is the task of the Stabilization Fund (Fondo de Establizacion) which was created in 1940 with a capital of 10 million pesos of which the Government contributed 9.6 million, and the Banco de la Republica 400,000 pesos. The Fund is operated as a separate entity under the direct supervision of the Central Bank. The resources of the Fund have been increased periodically through an allocation of 5% of the annual profits of the Banco de la Republica, through further deposits of the Government (16 million pesos at the end of June 1951), and compulsory deposits of importers in connection with the issuance of import licences. These deposits amounted to 43.5 million pesos in mid-1951. The Stabilization Fund has been charged with additional responsibilities such as the administration of enemy property. Besides, its resources have been used to finance, wholly or in part, specific projects of the Government and other public entities. As a consequence of these various operations, but primarily because of the rapid increase in Government borrowings, the resources of the Stabilization Fund have proved completely inadequate. According to information published by the Central Bank, the Fund held on April 30, 1951, 39.1 million pesos of Government bonds, 8.0 million department bonds, and 14.2 million municipal bonds.

Almost 40% of the Government debt is held by the Banco de la Republica whose report for the fiscal year 1951 showed that it held 129.8 million pesos of Government bonds and other obligations, 4.2 million mortgage bonds of the Central Mortgage Bank, and one million of "other" securities, or a total of

135 million. This total includes the two entire issues of Salt Mine bonds, a large proportion of the Unification bond issues (Dinu), and 7.2 million of Paz de Rio Steel Mill bonds.

It appears exceedingly difficult to obtain comprehensive information about the amount of Government obligations held by public and private financial institutions other than the Central Bank, and by non-institutional investors. The following amounts were held during the last year at various dates by some of these institutions:

	(Millions of Pesos)
Colombian Savings Institution (Caja de Ahorros)	52.1
Insurance companies	25.1
Commercial banks	11.2
Agricultural Credit Institution (Caja Agraria)	9.7
Central Mortgage Bank (Banco Hipotecario)	6.2
Industrial corporations	5.9
Total	110.2

These sums, together with the holdings of the Central Bank and the Stabilization Fund, account for over 80% of the total of 310 million pesos outstanding at the end of September 1951.

B. Department Bonds

The debt of Colombian departments consisted of 40 issues of 13 separate departments with a total value at the end of June 1951 of 33.7 million pesos. Most of these issues bear interest at 7%; maturities range from one to sixteen years.

Table XII

Department Debt, June 30, 1951

Department	Amounts Outstanding (Thousands of Pesos)	% Rate	Maturity
Antioquia	7,667.5	7 and 6	1954/67
Atlantico	490.6	7	1953/54
Bolivar	785.9	6	1955
Boyaca	2,459.1	7	1953/66
Caldas	6,018.0	7	1952/66
Cauca	517.1	7 and 6	1964/66
Cundinamarca	4,648.4	6 and 6½	1954/57
Huila	976.1	7	1964/65
Narino	106.2	7	1955
Santander	7,028.3	7	1959/68
Tolima	1,908.5	6 and 7	1953/64
Valle del Cauca	992.6	4 and 6	1956/61
Caqueta	83.8	7	1965
Total	33,682.1		

Department debts have been steadily declining in recent years. Most of the issues outstanding were directly negotiated with and purchased by the Colombian Savings Institution, the Central Mortgage Bank, insurance companies, commercial banks and the Stabilization Fund. At the end of 1951, the Caja de Ahorros held 12.7 million pesos of department bonds, the Stabilization Fund 8.0 million, and the Credito Hipotecario 3.2 million.

Only six of the 40 various issues are listed on the Bogota Stock Exchange. There were no transactions in two of them during 1951, and the turnover in the remaining four was negligible. Quotations for 7% bonds were between 73 and 75.

C. Municipal Bonds

The municipal debt consisted of 44 separate issues of 12 municipalities in mid-1951 totaling 49.4 million pesos. Most of the issues are small. Only the obligations of the municipalities of Bogota, Medellin, Cali, and

Manizales exceed one million pesos.

Table XIII

Selected Municipal Bond Issues, 1951

Municipalities	Thousands of Pesos	Coupon Rate	Maturity
Armenia	155.0	4%	1961
Bogota	32,571.0	6%	1954/78
Calarca	102.0	4%	1960
Cali	3,683.0	7%	1961
Cucuta	562.0	4 and 6%	1957/62
Ibague	127.0	4%	-
Manizales	1,379.0	4 and 7%	1956/60
Medellin	10,280.0	6 and 7%	1954/66
Pereira	119.0	7%	1954
Popayan	216.0	6%	1956
Rio Negro	81.0	7%	1967
Sevilla	120.0	4%	1962
Total	49,395.0		

Only one of these issues - a "Pro Urbe" 6% bond of the City of Bogota - is traded on the Stock Exchange. As in the case of department bonds, most of them are held by a small group of financial institutions and insurance companies. The Stabilization Fund holds 14.2 million pesos of municipal bonds.

III. Suggestions for Remedial Action

1. Introduction

The recommendations which are outlined in some detail in the following pages propose various ways and means by which a stable and reliable capital market might be established in Colombia. It would, of course, be futile to expect that the implementation of one, or several, of these recommendations will eliminate at once all the obstacles which now stand in the way of the most productive utilization of the capital resources of the Colombian economy; the creation of a capital market is a slow and gradual process which is bound to take many years. But I am certain that the measures which I suggest would be steps towards a gradual improvement of the present unsatisfactory condition. If the continuous growth of production and economic welfare is to be attained on the basis of private initiative - a policy to which the Government has committed itself on numerous occasions and which was strongly endorsed in the Final Report of the Economic Development Committee - the implementation of the recommendations advanced in this report are essential to the balanced and stable growth of the Colombian economy. In the last two years, the Colombian authorities have succeeded in stemming the tide of inflation, and in eliminating a large part of the system of direct controls over the country's international transactions. An environment has thus been created in which a more rational pattern of capital investment can be developed. It now seems possible, and eminently desirable, to supplement these policy changes be measures designed to strengthen the institutional mechanism of business investment and public credit operations, and to change those practices of private business and of the Government which still impede the free flow of investible funds into the most desirable channels.

2. Financing of Private Investment

As indicated in earlier sections of this report, commercial banks, savings institutions, and insurance companies have so far played only an insignificant role as sources of funds for medium- and long-term investment in private business enterprises, although legislation aiming at the utilization of funds of commercial banks for medium-term loans was passed in 1950 and 1951. As a result of the unavailability of investment funds from institutional sources, old and well-established manufacturing corporations have relied for additional capital primarily on their own earnings and on the issue of new stock, while the establishment of new enterprises has been impeded by a lack of loan or equity capital. Commercial banks have shown, with a great deal of justification, a preference for concentrating on short-term operations in the field of commercial transactions, while savings institutions and insurance companies have invested their funds in real estate, mortgages, and Government or Government-guaranteed securities. The provisions of the two decrees which were enacted upon recommendations of the Economic Development Committee, apparently did not make the field of medium-term investment sufficiently attractive to commercial banks, particularly since they coincided with the establishment of credit ceilings for commercial banks, and because of the requirements, introduced at the same time, that importers had to make a deposit with the Stabilization Fund whenever they applied for import licenses. Moreover, the Colombian commercial banks lack experience in the field of medium- and long-term loans for industrial enterprises since traditionally they have concentrated on the financing of commercial transactions.

There is a great deal to be said in favor of the practice of commercial banks of concentrating on short-term lending. This practice, permits flexibility of operation and facilitates the adjustment of bank credit to

business conditions. There is, on the other hand, an urgent need to provide medium- and long-term funds for new enterprises, particularly in the steadily developing manufacturing sector of the economy. Since the bulk of private financial resources of the country is concentrated in the commercial banking system, commercial bank credit has been utilized in part to provide manufacturing enterprises with permanent working capital. In form, this credit is largely short-term. But it seems quite clear that in many instances these credits cannot be collected without endangering the operations of the borrowers and, indirectly, the interest of the lending institutions themselves since the inventories and the equipment financed by these credits cannot be readily liquidated.

Thus, commercial banks have been forced by developments in Colombia in the last few years to enter the field of investment financing, so to speak, through the back door. It is undesirable that commercial banks should expand this sort of operation and it is therefore essential that a sounder and more appropriate institutional basis for the financing of manufacturing enterprises be established. At the same time, efforts should be made to overcome the present tendencies - which are a consequence of the commercial banks' justified hesitancy to engage in medium- and long-term operations - to restrict credit facilities to well-established enterprises thereby making it difficult, if not impossible, to establish new business ventures, particularly in hitherto unexplored fields.

It is my considered opinion that the solution of this problem should not be sought through direct intervention by the Government in the field of investment financing of private enterprises, and even less through Government ownership of new manufacturing establishments. My preference for private initiative in the financing of long-term investment should not be interpreted as a reflection on the operations of the Industrial Development Institute since

it is clear that the operations of the Institute have contributed to the extension of industrial activity into new fields which previously had not been exploited in Colombia. My reasons for proposing the establishment of a privately-owned and privately-managed institution to provide financial support for industrial enterprises on a businesslike basis are twofold. Firstly, I feel that a private financial institution would be more suitable than a Government agency in the Colombian economic environment where the largest part of the industrial sector of the economy is controlled by private capital and management. Secondly, I have come to the conclusion that the failure of the Industrial Development Institute to interest private capital in participating in its operations, through the sale of its shares or bonds, is a reflection of the deep-seated negative attitude of private interests towards commercial, financial, or industrial activities of the Government. Moreover, I believe that the possibilities of industrial development in Colombia offer a challenge and an opportunity to the private financial institutions of the country.

3. An Investment Finance Corporation

I therefore recommend that the leading commercial banks, insurance companies and industrial interests take the initiative in the establishment of a Finance Corporation whose purpose it would be to provide existing and newly created industrial enterprises with medium- and long-term funds. The equity capital of the proposed institution should be subscribed by commercial banks, insurance companies and private savings institutions, and to the extent possible, stock should be sold to individual private investors and to industrial corporations. The amount of equity capital which can be privately raised may be too small, however, to provide adequate resources to the Finance Corporation. In that case, the resources of the Finance Corporation might have to be

augmented by funds to be obtained from the Government and from abroad.

I suggest that the Government may be able to use 20 to 25 million pesos of the increased cash deposits of the Treasury with the Central Bank, which, according to the latest information, exceed 140 million pesos, as a contribution to the resources of the Finance Corporation. The contribution of the Government should take the form of a subscription of preferred or non-voting stock, or the purchase of bonds, to be issued by the Finance Corporation. The stock subscription or bond purchase could be made directly by the Government, or by making the necessary funds available to the Banco de la Republica which in turn would invest in the Finance Corporation on a preferred stock or loan basis; or the Government might choose, in accordance with the law regulating the activities of the Industrial Development Institute, to channel these funds through the Institute. If the latter method were adopted, the Government could complete its capital contribution to the Institute and make the remainder available to the Institute either as a loan or as an increase in its capital contribution, with the explicit stipulation that the funds be used by the Institute to make a loan or capital subscription to the Finance Corporation. Whatever method of financing is chosen, however, it should be clearly understood that the Finance Corporation, conceived as a private institution and not as a mixed enterprise with management shared by the Government and the private participating institutions, should not become subject to political influence.

In addition, it would be advisable to obtain foreign exchange resources for the institution. Foreign capital might become available in the form of a loan. Virtually all investment expenditures for industrial purposes involve purchases of equipment and machinery from abroad. According to the Report of the Currie Mission, the foreign exchange cost of industrial invest-

ment is close to 50% of total investment. Although Colombia at present enjoys a satisfactory level of foreign exchange reserves, it would appear inadvisable to cover the foreign exchange cost of an increased level of industrial investment entirely from current foreign exchange earnings or by drawing down reserves. Moreover, the availability of foreign funds would commensurately raise the level of resources available to the proposed institution, and thus to the Colombian economy. In view of the large foreign exchange cost of industrial investment, and of the desirability of increasing its total volume, foreign capital of the order of magnitude of 20 to 25 million pesos would appear appropriate.

In view of the unfilled need for long-term investment capital for industrial enterprises which has been estimated by the Economic Development Committee at 25 to 30 million pesos annually, I would estimate that the total resources of the Finance Corporation should initially be between 50 and 70 million pesos. With funds of this magnitude at its disposal, the proposed institution should be in a position to make up the deficiency of funds available for industrial investment. I do not anticipate, however, that the Finance Corporation would immediately make use of all its resources, since it is desirable that its normal operations be joint ventures with private capital. There are indications that at present a certain proportion of profitable investment opportunities remain unexploited because prospective investors do not possess sufficient funds to carry out their investment plans, although <u>some</u> capital is available to them. Presumably, additional private financial resources would enter the field of industrial investment, if the Finance Corporation were to provide funds for the same purpose. One may surmise that, on the average, loans from the Finance Corporation would be matched by additional private capital so that annual lending operations of, say, 15 million pesos would bring forth additional industrial investment of 30 million pesos. Thus, it may be concluded that the initial resources of the Finance Corporation will suffice for a period of four or five years if

the minimum level of industrial development proposed by the Economic Development Committee is to be attained.

In the course of this initial period, the Finance Corporation should be able to gain experience in the field of investment financing, and with it, the confidence of the Colombian private and institutional investors. If its operations are successful, it is probable that the scope of its activities will expand gradually. Initially, the Finance Corporation would have to rely on its capital subscription and borrowings for making loans and investments. It should attempt, however, to sell its security holdings to private investors as the opportunity arises, in order to replenish its supply of funds. The creation of a broader market for corporate securities presupposes, however, the introduction and observation of sound business practices by corporate enterprises themselves. Specific suggestions on this important subject are advanced in the next section of this report. The Finance Corporation should also be able to strengthen its capital structure by issuing its own bonds to private investors and by increasing its capital through further stock subscriptions, at a later date, from private sources.

The success of the Finance Corporation will depend primarily upon the selection of managerial personnel who are fully familiar with the Colombian economy and experienced in the field of investment financing. Since investment financing is substantially different from the operations of commercial banks and those of savings institutions, insurance companies, and industrial corporations, the stockholders should not attempt to interfere with the day-to-day operations of the Corporation but the board of directors should concentrate on the formulation of its general lending policies and on the supervision of its lending activities. The primary task of the management will be to lend financial assistance to enterprises in those sectors which at present are not yet fully developed, and to provide resources for the expansion of the operations

of business firms whose growth is impeded by lack of capital. Its aim should be to supplement the activities of commercial banks and not to compete with them.

I want to emphasize, however, that in spite of the inherent risk of all investment financing, the operations of the Finance Corporation should be guided by sound business principles. In view of the manifold investment opportunities which the Colombian economy offers, I anticipate that the operations of the Finance Corporation will not only fill an important gap in the structure of Colombian banking, but also that they will yield a rate of profit commensurate with the normal rate of return in banking and industry.

No attempt will be made to outline in detail the organization of the Finance Corporation. It should be emphasized, however, that great care will have to be taken to assure that the proposed institution will be suited to the requirements of the Colombian economy. I realize that some parts of my proposal may conflict with existing laws, and that special legislation may be required to establish the proposed Corporation. During my visit in Colombia, I was informed about a preliminary proposal for the establishment of an institution to make long- and medium-term loans to industrial enterprises. The proposal, which had been prepared by a special committee of the associations of bankers, insurance companies, and industrialists, has, in my opinion, considerable merit and may serve as a basis for the implementation of my recommendations.

The International Bank for Reconstruction and Development has assisted several member countries in the establishment of financial institutions of the type proposed here. Therefore, the Colombian authorities might well request the International Bank to make its experience available in the preparatory work for the establishment of the Finance Corporation, to assist in the selection of its management, and to advise on organizational problems.

4. Requirements of Sound Corporate Finance

Although private industrial corporations have grown rapidly in number and importance in the last decade, the difficulties of raising capital, particularly for new enterprises but also for "seasoned" corporations, have not been overcome. In the last two years, they have even become more pronounced, since profits are no longer large enough to assure both high dividend payments and means for further expansion. Many corporations find themselves without sufficient working capital because large dividend payments in previous years prevented them from accumulating adequate reserves; others which retained a larger part of earnings, are short of funds because they used their reserves for the purchase of equipment and large inventories.

This situation calls for remedial action in several respects. Since large dividend payments may result in a dissipation of corporate assets, a revision of the dividend policies of the leading corporations appears essential. A downward adjustment of dividend payments is, of course, looked upon with disfavor by stockholders, particularly since their attention has customarily been focused on the level of dividend payments rather than on the level and disposition of earnings. However, under present conditions, the owners of corporate stock must realize that their own interests will be served best by a gradual strengthening of the financial structure of corporate enterprise through the retention of a larger part of profits.

One of the reasons for the high level of dividend payments relative to corporate earnings has undoubtedly been the fact that dividend receipts are not subject to income taxation. On the other hand, tax-free depreciation allowances under existing tax legislation are relatively modest and corporations have no special inducement to retain as reserves more than a small proportion of the total of their earnings. I am reluctant to recommend a change in tax

legislation which would subject dividend receipts to taxation, since a tax on dividends would disrupt the principle of single taxation firmly established in Colombia. I would favor, however, a reconsideration of the provisions of the tax laws regarding the level of depreciation allowances. Tax legislation could provide an incentive for corporations (and non-incorporated business) to adopt sound financial practices, in the form of more generous depreciation allowances, contingent upon the use of the amounts corresponding to the increased depreciation for the building-up of reserves, and not for dividend payments.

Although information provided by the Bogota Stock Exchange indicates that the distribution of corporate stock is fairly wide, it clearly is in the interests of Colombian corporate enterprise and the rapid further industrialization of the country that investment in corporate stock should be made attractive to prospective new investors. In countries where the corporate form of enterprise is highly developed corporate laws are designed to protect the interest of all shareholders, irrespective of the size of their holdings. Among the devices used for the protection of shareholders are the auditing of corporate books by certified public accountants and the publication of detailed financial statements and annual reports. I suggest that the Colombian authorities investigate to what extent corporate practices are in accord with the spirit of existing laws and whether current legislation gives adequate assurances of safety and fair treatment to the shareholder. But remedial action by the corporations themselves may be even more important and effective than new legislation. Fair treatment of shareholders and good management-shareholder relations could substantially contribute to a broadening of the ownership of corporations.

An improvement in financial and accounting practices of corporations

and the modification of prevailing dividend policies also appear essential prerequisites for the soundness of the lending operations of the Finance Corporation. The granting of medium- and long-term loans by the Finance Corporation presupposes that the borrowing corporations pursue such financial practices as will assure the best possible utilization and safety of borrowed funds.

A promising remedy for the prevailing dividend policies of industrial corporations would be the issue of preferred stock or corporate bonds by corporations in need of capital for the expansion of their operations. Although it is clear that the bulk of industrial capital will continue to take the form of stock subscriptions, under the present circumstances reliance on issues of preferred stock and corporate bonds would effectively break the vicious circle created by the practice of maintaining high dividend payments in order to raise additional capital. In view of the uncertainty with respect to the ability of many corporations to resume dividend payments at the level of earlier years, the situation may be opportune for placing preferred stock and corporate bond issues at reasonable interest rates. Perhaps the preferred stock and bond issues could be made more attractive by making them convertible into common stock at the option of the owner after an interval of three or five years. In order to make corporate bonds competitive with stocks, it may be advisable to make the interest on such securities likewise tax exempt, or to tax them at a lower rate. In that case, the tax liability of the borrowing corporation could be adjusted accordingly.

In view of the price stability which has prevailed for almost two years in Colombia, and which it is hoped can be maintained by proper monetary and fiscal policies, it appears likely that savings institutions and insurance companies will be able to attract a larger volume of private savings than has

been the case in the past. These institutions may find it to their advantage to invest some of their funds in bonds of this type. It should also be possible to make use of the facilities of the proposed Finance Corporation to place preferred stocks and corporate bonds among institutional and private investors.

5. Refunding of Public Debt

Having advanced some specific observations and recommendations on the financing of private industrial investment, I now turn to the field of public debt operations. In view of the many deficiencies in the present composition of the public debt, in its ownership, and in the Government bond market, I believe that only a general overhauling of the entire public debt structure with the objective of rehabilitating the market for public securities can remedy the situation.

The administration of the public debt has become exceedingly cumbersome as a result of the multiplicity of issues which have been floated in the course of the last ten years, in many instances without regard to conflicts of yield, maturity, amortization provisions, etc. An incidental consequence of the complexity of the public debt picture is that even the Government finds it difficult to maintain complete records of the amounts outstanding. The Public Administration Mission which prepared a report on the reorganization of the executive branch of the Government of Colombia, was informed that "it is impossible to establish a definite figure for outstanding debts in less than two months" and that the Debt Service Section "is dependent for some of its data on the Banco de la Republica".

It is obvious that no single type of issue can satisfy the requirements of all investors, private and institutional. But in the interests of an improved and less expensive administration of the public debt, and in view of the

desire to create an active market for public securities, it appears advisable to limit the number and types of issues.

There is, at present, no general market for public securities in Colombia. Aside from the large holdings of such securities by the Central Bank, the Stabilization Fund, and the various Government institutions, the bulk of all public bond issues is held by insurance companies and commercial banks, largely on a compulsory basis. As indicated before, the legal requirement to purchase and hold certain types of public securities has discouraged many investors from entering the bond market. At present, it appears impossible to repeal the law stipulating compulsory holdings. I believe, however, that serious consideration should be given to a partial repeal of existing legislation so that financial institutions and insurance companies will not have to increase their compulsory holdings pari passu with an increase in their capital and reserves.

The major aim of the refunding operation which I have in mind would be to replace these issues which insurance companies, savings and banking institutions are at present forced to hold, by securities which these institutions are willing to acquire and hold, on a voluntary basis, so that the need for compulsory investment in public securities will gradually disappear. In order to shape these issues to the specific needs of the various institutional investors, it appears desirable to propose at least three different issues: one with a maturity of approximately 5 years; one of 8 to 12 years; and a long-term issue of 20 to 25 years. I am not in a position to make definite proposals regarding the relative size of the three issues, but on the basis of the data presented in the second section of this report it appears that the total amounts of the three issues should be between 100 and 125 million pesos. This amount is sufficiently large to permit the conversion of all national bonds held by the insurance companies, the commercial banks, industrial corporations and the Stabilization Fund.

On the basis of the bond rates presently prevailing in Colombia, I would recommend securities with a coupon rate of 6 to 6½%, the higher rate applying to the longest issue. To make the refunding issues more attractive than the bonds outstanding at present, I suggest sinking fund provisions along the following lines.

(i) The Government will retire each year 2% of the total amount of each issue in the following manner:

(a) It will purchase up to one half of the required amount of each issue in the open market, provided the bonds are available at par plus accrued interest or less;

(b) in addition, the number of bonds required to complete the 2% amortization will be drawn by lot with a premium of 15 to 25 points, plus accrued interest.

(ii) The Government will have the right to purchase bonds in excess of the stipulated sinking fund requirements, at par or below, plus accrued interest.

Several questions must be resolved before any refunding operation can be undertaken. They pertain to the maturities of the conversion issues, the amount of the premium on drawn bonds, and the purchase price of the bonds which are to be refunded. I suggest that on all these questions the Government consult with representatives of the large institutional bondholders, as soon as it has formulated its tentative conversion plans. The selection of the issues which are to be refunded should be left largely to the institutional investors. Likewise, the selection of the maturities of the new issues should take into account the preference of the various institutional investors, although the Government should aim at a maturity compostión similar to the prevailing one. It should be noted in this connection that the proposed sinking fund and premium feature make longer maturities more attractive than

shorter ones since the chances of amortization at a premium increase with the length of the maturity. The exact amount of the premium should be decided on after the proposed consultations.

I am reluctant to make any specific recommendation as to the prices at which the issues made eligible for refunding will be accepted by the Government. In view of the large number of issues outstanding and the wide differences in their yield, this is a complicated and delicate question the solution of which will have to be sought in the course of the proposed negotiations. I merely wish to suggest that the decisive factor for the setting up of the refunding offers should not be the face value of the bonds in question but their market value since it appears likely that the present holders of bonds, particularly those of the Territorial Credit Institute which were issued at 3% rate, are not the original purchasers. Moreover, the additional improvements in the organization of the Government bond market which I propose, may be considered at least a partial compensation for the capital loss which may be incurred by some of the present holders of low interest bonds.

In connection with the conversion, provision should also be made for the complete retirement of the 12 matured issues which are still listed in the Government's debt records. The final call of the outstanding bonds should be advertised and a time limit should be set for the submission of the obligations. Bonds which are not turned in should be declared void. The issues to which this recommendation pertains are listed as "residual issues" in Appendix I.

In order further to strengthen the acceptability, on a voluntary basis, of the new issues by institutional investors - and perhaps gradually also by private investors - I attach great importance to the possibility of disposing of a part of the present holdings of the Stabilization Fund in connection with the conversion. I am of the opinion that because of the lack of

a reasonably well-organized bond market, there is need for an institution which would be responsible for the maintenance of orderly conditions in the public securities market. Elsewhere in this report (see Page 66) I offer some specific suggestions on the reorganization of the Stabilization Fund and its absorption by the Banco de la Republica. In this context I wish to emphasize, however, that it appears clearly in the interests of the Government and of the institutional owners of Government securities that at all times sufficient funds be available if any official intervention in the market is to be successful. In order to provide funds for this purpose without an expansion of the total money supply, I suggest that the possibility be explored that in the course of the proposed conversion insurance companies and savings banks, and other institutional investors which can forecast with reasonable accuracy the flow of investible funds at their disposal, commit themselves to purchases in the future until the Stabilization Fund is sufficiently liquid to be considered a genuine and firm safeguard against undue fluctuations in the bond market.

The Government on the other hand should commit itself to a policy of refraining from the issue of new domestic securities over and above the volume of annual amortization payments, at least for a limited period, and with the exception of certain other issues which I suggest below. Such an undertaking by the Government would be in line with the policy recommendations advanced in the Final Report of the Economic Development Committee.

The aim of the operation should be to refund the issues presently in the hands of the public, or held by the Stabilization Fund. Issues entirely or largely held by the Banco de la Republica should not be refunded at present. Perhaps at a later date if and when the situation warrants it, a second conversion operation could be undertaken with the objective of making the bond holdings of the Central Bank also more attractive for institutional and private investors.

As a further measure designed to lay the foundations for a genuinely free market for public securities, I propose that the administration of the public debt be transferred from the Debt Service Section of the Ministry of Finance to the Banco de la Republica, and that the Central Bank be appointed fiscal agent for all outstanding issues. As fiscal agent, the Central Bank should have the right to use the general account of the Treasury for making contractual interest and amortization payments on the public debt without prior authorization by the Government. The Central Bank should also administer all sinking funds in accordance with the provisions of the various bond issues. Although I realize that so far interest and amortization payments have been properly executed by the Government authorities, I attach considerable psychological importance to this transfer of authority to the Banco de la Republica since it lends emphasis to the concept that the contractual obligations which the Government undertakes in its debt operations represent a first lien on the funds of the Treasury. Moreover, I believe that such an arrangement will greatly simplify the administration of the public debt, particularly since almost half of the total amount outstanding is held by the Banco de la Republica itself and by the Stabilization Fund which the Bank administers.

6. Short-Term Debt Certificates

The refunding issues of Government securities which I suggested in the preceding paragraphs should go a long way towards improving the market for public securities, and should take care of the foreseeable requirements of savings institutions and insurance companies for long-term investment outlets in Government securities. However, there are, in my opinion, other opportunities for broadening the market for Government and Government-guaranteed securities which should be given careful consideration by the Colombian authorities. The purpose of such securities is to mobilize idle funds and to

attract capital of private investors into the market for public securities.

At present, the volume of short-term issues of public securities is rather limited. As shown in Table X, less than 5% of total outstanding securities mature within five years. Assuming that the refunding issues which I proposed above will leave the maturity composition of the outstanding issues more or less unchanged, I feel that there are reasonably good prospects for the Treasury to obtain funds on a short-term basis. At present, the Treasury can call on the Central Bank for short-term borrowings up to an amount of 8% of budget receipts. I do not propose that the right of the Treasury to engage in short-term borrowing operations be increased, but I believe that attempts should be made to rely more heavily upon funds available in commercial banks and industrial corporations.

For that purpose, I recommend that an issue of short-term certificates of indebtedness with maturities of 3, 6, 9, and 12 months and with interest rates of 3 to 4% per annum be continually available for purchase. The experience of many countries shows that there always exists a float of temporarily idle funds held by commercial banks as well as by non-banking corporations, partly because of seasonal fluctuations in the demand for bank loans and partly because of the necessity of accumulating funds for periodic disbursements such as tax or dividend payments. In view of the short-term nature of these certificates, and the high liquidity which they must have, the sales proceeds of the certificates would constitute only a relatively minor contribution to the volume of funds available to the Government for current or capital expenditures. As a matter of sound fiscal practices, the sale of the certificates should not induce the Government to expand its expenditures, since the increase in the Treasury's cash holdings is offset by an increase in short-term liabilities.

Nevertheless, I believe that the issue of such certificates would

have several beneficial effects. In the first place, it would curtail the amount of excess reserves which some of the commercial banks hold and which occasionally interfere with the efficient operation of monetary controls. Obviously, the lack of an outlet in which cash holdings could be invested provides a strong incentive for commercial banks to expand loan operations as much as possible; the availability of an interest-bearing short-term paper would make it less costly to withhold funds from unsound investments.

Secondly, the debt certificates, together with medium-term bonds, would be most suitable for the transitional investment of reserves of industrial corporations. As I pointed out before, many industrial corporations have failed to devote a sufficiently large part of their earnings to a strengthening of their reserves and their working capital. Undoubtedly, one of the reasons for the insufficient accumulation of reserves in liquid form has been the fact that no instrument has been available in which corporations could invest their reserves. Short-term debt certificates would be ideally suited for the purposes of corporate enterprises as well as of large private business firms since such certificates would permit the investment of idle funds which must be accumulated in anticipation of dividend and tax payments. A safe and at the same time liquid outlet for corporate funds would perhaps also have a beneficial effect upon the widespread policy of converting cash into excessive inventories.

Thirdly, the gradual introduction of short-term debt certificates into general use by business enterprises might be expected to improve the regularity of tax collections. If the issues are timed in such a way as to let their maturities coincide with tax payment dates, business firms may be more ready to discharge their tax liabilities on time. The same effect could be achieved if the certificates were made acceptable for tax payments at face

value plus accrued interest in lieu of cash.

The advantages which the Government would derive from the sale of short-term certificates are indirect only since because of the short-term nature of the certificates, the funds which the Government obtains from their sale cannot be initially considered as an increase in funds available for an increase in expenditures. But insofar as the sale of certificates takes the place of borrowing from the Central Bank, the Government does not incur any additional interest cost.

7. Lottery Savings Bonds

The popularity which the cedulas de Capitalizacion of the Central Mortgage Bank and the various public lotteries enjoy leads me to believe that the issuance of small-denomination savings bonds of medium maturities with a reasonably attractive lottery feature would meet with considerable success. Such an issue would to some extent compete with the sale of cedulas of the Mortgage Bank. It appears probable, however, that more widespread publicity and some revision of the interest, maturity and lottery features may attract a large number of new investors.

Issues of this type have been surprisingly successful in many countries, particularly in Latin America. Their success depends to a large extent, upon their suitability for the particular environment and their appeal to small savers. I therefore make no specific recommendations as to the exact make-up of such an issue; instead I give two examples of issues similar to those which have been successful in other countries. The examples should enable the Colombian authorities to adopt a scheme best suited for the country.

As one alternative, I suggest an issue of savings bonds in denominations of 25, 50, 100, 500 and 1000 pesos with a maturity of three years and

compound interest accumulating at a rate of approximately 3½% so that the savings bonds could be issued at 10% below their face value. The bonds should be redeemable on demand at any time after an initial period of six months at the purchase price plus accrued interest which should be computed in rounded amounts every three months. The periodic drawings for one or more special prizes could be combined with concentrated efforts to increase the sale of bonds through bond drives. For the financing of the lottery prizes, an amount equivalent to the difference between the effective interest rate and 5% should be set aside. In order to induce the purchasers of such bonds to reinvest the proceeds at maturity, provision should be made either (a) to exchange matured bonds for new ones at a higher rate of interest, perhaps somewhat above 4½% so that after three years the new bond would be retired at 115% of the original face value; or (b) inducement to retain the bond could be offered by doubling the chance for a lottery prize in the second 3-year period; or (c) a combination of both a higher rate of interest and of a better lottery chance could be offered.

The other alternative which I recommend is an issue in denominations from 25 to 1000 pesos with a maturity of 10 years and a purchase price of 60% of face value. These bonds likewise would be redeemable at any time six months from the date of issue. Interest schedule should accrue every three months at rates which rise from 2% for the first year to 7.8% in the last year. The average rate of interest would be somewhat higher than 6% for bonds held to maturity. To the extent to which the bonds would be redeemed before maturity, the interest cost to the Government would be less than 6%. The lottery feature of this issue should consist of quarterly drawings for prizes equivalent to the tenfold purchase price of the bonds. An amount equivalent to ½% of the face value of the total outstanding issue should be used to finance the drawings.

I realize that the administration of savings bonds with relatively complicated interest, maturity, and lottery features would be quite expensive. I believe, however, that this cost would be outweighed by the advantages of such an issue since it would attract funds which otherwise would not become available as savings. Their accumulation would therefore represent a net addition to the sum total of funds available for investment in Colombia.

8. A Market for Government Securities

The ultimate aim of all preceding recommendations is, of course, to transform the present system of legal compulsion to hold Government securities, and of the accumulation of Government obligations in the portfolios of the Central Bank and of the Stabilization Fund, into a genuinely free market for Government securities which are held voluntarily by institutional and private investors. The various proposals to make investment in Government securities more attractive and remunerative should go a long way towards attaining this aim If the proposed refunding operation is undertaken, the necessity of compelling financial institutions to invest exact proportions of their assets in specific issues will gradually disappear. If the desires of the financial institutions, including the insurance companies, are taken into account in the preparation of the refunding issues and if the Government abides by its commitment not to engage in borrowing operations in excess of amortization payments, I am hopeful that the compulsory features of the present legislation can be replaced by greater emphasis on liquidity. Savings institutions, insurance companies and other financial institutions which obtain their funds from private savers should be required to hold a large proportion of their total assets in the form of fixed-interest securities which are readily marketable and thus assure the continuous

liquidity of the institutions in question.

Within the limits of the legal requirements to invest their assets in securities of this general type, however, the institutions should be free to decide for themselves on the composition of their investment portfolios and to adjust the composition in accordance with their own contractual obligations. An increase in the total holdings of private financial institutions and insurance companies in fixed-interest securities may make it necessary for them to discontinue their current practice of investing a relatively large proportion of their funds in real estate and industrial shares. The curtailment of their operations in the field of industrial financing should not cause any shortage of funds, however, if the proposed Finance Corporation provides industrial enterprises with new funds and if the financial requirements of industrial corporations are met in part through the issuance of bonds instead of shares.

It would be futile, however, to expect that a market for public securities will develop in the course of a few months or years, and as long as such a market is not developed financial institutions and insurance companies are not assured of a sufficiently high degree of liquidity or marketability of their portfolios of Government securities. Therefore, it appears essential that some intervention by public authorities in the Government bond market be continued. For that purpose I recommend that the Banco de la Republica take over the Stabilization Fund, after it has been divested of all ancillary functions. This course of action had been previously suggested by the Economic Development Committee and by the Public Administration Mission. The latest report of the Banking Superintendent indicates that the management of the operations of the Fund in the public securities market is now in the hands of the Banco de la Republica and that the foreign exchange activities of the Fund have lost their importance in view of the recent liberalization of foreign

exchange transactions. The Fund continues, however, the management of former enemy properties and is thus engaged in industrial and agricultural activities. I strongly support the recommendation of the Banking Superintendent that these functions be transferred to the Government administration itself.

I do not believe that there exist any valid reasons for the continuation of the Stabilization Fund as a separate legal entity. In most countries, it has been recognized that the maintenance of orderly conditions in the market for Government securities is a function of monetary management and as such should be exercised by the bank of issue which is charged with responsibility for monetary controls. The rearrangement of the relations between the Government and the Central Bank in connection with the renewal of the bank charter has eliminated to a large degree the danger that conflicts may arise between the Government and the Central Bank. Therefore the task of intervening in the market for public securities should be left entirely to the discretion of the Central Bank.

I want to emphasize, however, that these interventions should not result in a further increase in holdings of Government securities by the Central Bank. Quite to the contrary, as indicated above, I anticipate that as a result of the various proposals of this report the Bank will be able gradually to dispose of a portion of its investment portfolio. If the refunding issues are made sufficiently attractive, occasions for intervention in the public securities market should not arise too frequently. If they do arise, I would expect the Central Bank to adopt a flexible policy which would not distort the market situation as determined by the supply and demand for Government securities. As an operational device, I would favor the keeping of separate accounts for the debt-management operations of the Banco de la Republica. Profits derived from open market operations should be credited to the Stabilization Account which, in turn, would also be charged with losses arising out of these transactions.

APPENDIX I

Composition of Internal Debt, September 1951

	Year of Issue	Year of Maturity	Interest Rate	Annual Service (Interest and Amortization)	Amount Outstanding September 30, 1951 (in pesos)	Remarks
I. BONDS						
Unification Bonds (Dinu) Series A	1941/46	1971	6%	2,845,360	31,534,322	24.4 million of Dinu bonds (6% and 4%) held by Central Bank.
Colombian Treasury Bonds	1944	1974	6%	1,810,000	22,244,400	
" " " 1945 Series A	1945	1975	6%	1,450,000	18,255,200	
" " " " " B	1945	1975	6%	1,088,000	13,339,700	
" " " " " C	1946	1976	6%	1,096,000	13,892,100	
National Economic Defense Bonds (Denal) Series A	1943	1973	6%	1,888,000	4,291,370	
National " " " " Series B	1943	1973	6%	1,888,000	4,768,180	
" " " " " " C	1943	1973	6%	1,888,000	4,849,740	
" " " " " " D	1943	1973	6%	1,888,000	5,838,350	
Municipal Development Bonds Series A	1941	1970	6%	218,760	2,459,600	
" " " " D	1944	1964	6%	20,800	180,400	
" " " " F	1945	1965	6%	520,000	4,792,500	
" " " " G	1946	1966	6%	348,000	3,359,100	
" " " " H	1947	1967	6%	228,000	2,316,000	
" " " " I	1948	1968	6%	611,600	6,347,500	
Territorial Credit Bonds	1947	1977	6%	1,081,111	12,580,605	Capital contribution of Government.
National Railroad Bonds Series A	1942	1962	6%	174,800	1,338,800	Held by Central Bank.
" " " " B	1944	1964	6%	261,600	2,292,900	" " " "
" " " " C	1945	1965	6%	87,600	803,200	" " " "
" " " 1948	1948	1958	6%	1,348,000	3,698,466	" " " "
Radio Communication Bonds	1946	1961	6%	154,400	1,139,600	
Territorial Credit Bonds Series C	1942	1962	6%	92,000	750,000	
Internal Debt Bonds 1945	1946	1961	6%	103,200	572,700	
Agricultural Credit Bonds Series A	1947	1977	5%	163,700	2,318,000	
" " " " B	1947	1977	5%	163,700	2,329,200	
" " " " C	1947	1977	5%	163,700	2,340,300	
" " " " D	1947	1977	5%	163,700	2,351,200	
Road Pavement Bonds	1948	1963	5%	960,400	8,284,400	Held by Central Bank.

	Year of Issue	Year of Maturity	Interest Rate	Annual Service (Interest and Amortization)	Amount Outstanding September 30, 1951 (in pesos)	Remarks
Territorial Credit Bonds Series D	1950	1970	5%	557,761	5,614,545	4.4 million held by Central Bank.
UNRRA Bonds	1946	1961	5%	394,800	2,983,900	
Coffee Premium Bonds 1940	1940	1955	5%	450,800	1,612,000	Held by Central Bank.
Salt Mine Bonds Series A	1942/50	1971	4%	2,577,254	32,899,100	" " " "
Unification Bonds (Dinu) Series B	1941/46	1971	4%	1,733,960	18,445,979	
Agricultural Development Magdalena	1942	1967	4%	97,200	1,097,500	
Territorial Credit Bonds	1944	1959	4%	89,941	605,550	Discounted by the Federacion Nacional de Cafeteros.
Municipal Development Bonds Series B	1943	1953	4%	32,000	58,300	
" " " " C	1944	1954	4%	38,000	86,600	
" " " " E	1944	1954	4%	7,200	22,000	
Salt Mine Bonds Series B	1942/50	1971	3%	2,434,171	34,017,500	Held by Central Bank.
Territorial Credit Bonds Series A	1947/49	1977/79	3%	1,500,000	18,471,650	
" " " " B	1947/49	1977/79	3%	600,000	9,682,350	
Certificates and Subscription Certificates	1947/49	1977/79	3%	-	1,155,158	Including 788 pesos of interest-free subscription certificates.
Cartagena Bonds, Series A	1949/50	1952	3%	874,400	883,600	
Veteran Bonds, II Issue	1947	1952	-	750,000	3,223,336	
8% Internal Debt (Agricultural development)	1917	-	8%	-	4,762	Matured and called, residual issues.
Treasury Bonds of 1912	1912/16	-	6%	-	7,275	" " " " "
Foreign Bonds of 1904	1904	-	6%	-	6,839	" " " " "
Coffee Premium Bonds	1932	-	6%	-	100	" " " " "
Treasury Bonds of 1918	1917	-	6%	-	4	" " " " "
Patriotic Loan	1932	1947	4%	-	25,069	" " " " "
3 1/2% Internal Debt	1934	1964	3 1/2%	-	694	" " " " "
Treasury Certificates 1933	1933	-	3%	-	265	" " " " "
Treasury Bonds	1922	-	-	-	14,175	" " " " "
War Bonds of 1899	1903	-	-	-	6,045	" " " " "
" " " 1895	1896	-	-	-	509	" " " " "
Treasury Certificates 1905	1905	-	-	-	473	" " " " "
Total				34,843,918	310,193,110	

II. OTHER CONTRACTUAL OBLIGATIONS	Year of Issue	Year of Maturity	Interest Rate	Annual Service (Interest and Amortization)	Amount Outstanding September 30, 1951 (in pesos)	Remarks
Mortgage Loans of Railroads	1937 and 1939	1957 and 1959	8%	61,656	837,485	
Payment Certificates for Communications Palace	1948	1968	7%	372,114	3,697,948	
Mortgage Loans of Municipality of Popayan	1935 and 1939	1955 and 1959	7%	25,291	85,855	11,567 pesos at 8%; debt assumed in 1941.
Payment Certificates for Caja Agraria	1947/50	-	6%	232,512	17,413,750	Issued in connection with Ex-Im Bank Loan of 1947. Amortization schedule follows term of loan and depends in part on exchange rate.
Payment Certificates for Docks of Buenaventura	1948	1953	6%	1,365,029	4,578,125	Debt service computed, not shown in source.
Payment Certificates for Purchase of Shares of Bogota Power Company	1950	1953	6%	1,180,000	3,000,000	
Payment Certificates for National Steel Mill Paz de Rio	1949/50	1951/52	6%	1,068,672	1,000,000	Debt service computed.
Payment Certificates for Hydro-electric Works	1947	1952	6%	784,000	700,000	" " "
Payment Certificates for Irrigation (Caja Agraria)	See Remarks		6%	-	253,549	5-year bonds, issued at various dates since 1939; held by Caja Agraria.
Payment Certificates for Irrigation (Banco de la Republica)	"	"	6%	-	150,000	5-year bonds, issued at various dates since 1939; held by Banco de la Republica.
Payment Certificates for Inter-American Conference.	1947	1957	5%	500,000	10,000,000	6 million held by Caja de Ahorros, 4 million by Central Bank.
Payment Certificates for Department of Caldas	1943	1951	5%	229,540	44,908	Debt service computed.
Payment Certificates of Institute of Water Supply and Electric Development	1950	1955	4%	-	7,140,000	
Payment Certificates of Treasury, 1949	1949	1956	4%	1,315,982	6,000,000	Held by Stabilization Fund; debt service computed.

	Year of Issue	Year of Maturity	Interest Rate	Annual Service (Interest and Amortization)	Amount Outstanding September 30, 1951 (in pesos)	Remarks
Payment Certificates for Societe Nacional de Chemins de Fer	1938	1958	4%	801,629	5,023,368	
Payment Certificates for Tropical Oil Company	1943/45 1946/48	See remarks	4%	-	825,738	Debt service and maturities depend on time and amount of purchases.
Payment Certificates for Avenida General Santander	1949	" "	4%	-	742,150	Payment in full to be made before end of 1951.
Payment Certificates for Caja Colombiana de Ahorros	1943/44	1963/64	3%	268,863	2,767,803	Debt service computed; not shown in source.
Payment Certificates for Diocese of Antioquia	1941	1970	3%	25,000	371,937	
" " " National Navigation Company	1949	1955	3%	59,000	250,000	
Payment Certificates for Caja de Credito Agrario	1946/47	1966/67	2%	811,167	5,025,000	
Payment Certificates for Pension Fund of War Ministry	1950	1952	-	600,000	400,000	
Payment Certificates for Department of Antioquia	1950/53	1951/54	-	570,000	-	P.720,000 to be issued in 1950, 460,000 in 1952, and 250,000 in 1953; P.570,000 paid in 1951.
Total				10,270,455	70,307,616	