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REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

COLOMBIA NATIONAL RAILWAYS

WITH THE GUARANTEE OF THE REPUBLIC OF COLOMBIA

FOR THE SIXTH RAILWAY PROJECT

July 25, 1973

CURRENCY EQUIVALENT 1/

Currency Unit	=	Colombian Peso (Col$)
US$1.00	=	Col$23.54
Col$1.00	=	US$0.0425
Col$1,000,000	=	US$42,500

Colombia's Fiscal Year	=	January 1 to December 31

1/ June 30, 1973.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO COLOMBIAN NATIONAL RAILWAYS WITH THE GUARANTEE OF THE REPUBLIC OF COLOMBIA FOR THE SIXTH RAILWAY PROJECT

1. I submit the following report and recommendation on a proposed loan to Ferrocarriles Nacionales de Colombia --the Colombian National Railways-- with the guarantee of the Republic of Colombia for the equivalent of US$25.0 million to help finance a sixth railway project. The loan would have a term of 25 years, including four years of grace, with interest at 7-1/4 percent per annum.

PART I: THE ECONOMY

2. An economic report entitled "Economic Position and Prospects of Colombia" (R73-116), dated May 15, 1973, was distributed to the Executive Directors on May 18, 1973. A country data sheet is attached as Annex I. A review of Colombia's macro-economic performance, its structural problems and economic policy was contained in the President's Report on a loan for a Third Education Project (R73-169) which was approved by the Board on July 17, 1973. The passages concerned are reproduced in Annex I of this report.

PART II: BANK GROUP OPERATIONS IN COLOMBIA

3. A description of the Bank's lending strategy in Colombia was also contained in the President's Report on the Third Education Loan, and is reproduced in Annex I.

4. The proposed loan --the fifty-fifth to be made to Colombia-- would bring the total amount of Bank loans to Colombia to US$1,073.9 million (net of cancellations). Of the foregoing amount, US$855.0 is now held by the Bank. IDA made one credit of US$19.5 million for highways in Colombia in 1961.

5. Disbursements have been completed on 29 loans and the one IDA credit. IFC has made effective investments and underwriting commitments in 19 enterprises in Colombia, totalling about US$20.0 million of which IFC now holds US$8.9 million. Annex II contains a summary statement of Bank loans, the IDA Credit, and IFC investments as of June 30, 1973 and notes on the execution of the 23 ongoing projects.

PART III: TRANSPORTATION IN COLOMBIA

6. Colombia has the advantage of coastlines on both the Pacific and the Caribbean but this is offset by the difficulty of movement between the coasts and the interior. The three massive ranges of the Andes Mountains which run from South to North present formidable barriers to communication between the main areas of population which until recently developed as separate and almost isolated communities. Transport investment policy in the past 20 years has been aimed at national integration and at overcoming the situation imposed by geography.

7. Inland communications in Colombia were historically developed to connect Bogota and Medellin with the Northern Atlantic ports of Santa Marta, Barranquilla and Cartagena through the Magdalena River, and Cali with the Pacific port of Buenaventura. In the last 20 years the original scheme was completed by building railway and highway links to the Atlantic Coast and by improving connections in the high central valleys between Bogota, Medellin and Cali. With the trunk system of highways and railway lines, the basic transport network has been largely completed but substantial investments will continue to be needed to improve the quality and increase the capacity of transport facilities.

8. Total freight traffic, including pipelines (which carried about 35 percent of total ton km in 1970), has grown at 4.6 percent per annum between 1965 and 1970 reaching a level of 11.8 billion ton km. A similar rate of growth is expected through 1975. Road transport by carrying more than 55 percent of the total (excluding the pipelines) is the most important transport mode, followed by river transport (17.5 percent) and the railways (15.5 percent). This intermodal split has shifted only slightly towards highways since 1965. It is not expected to change significantly over the next 5 years if proper investments are carried out in all modes.

9. The railways carry long haul bulk commodities, and eight commodities including wheat, coffee and fertilizers represent about 65 percent of total railway freight traffic. Marginal costs for long distance freight traffic carried by the railways are estimated at Col$0.25 per ton km compared with Col$0.42 for trucks. The railways thus have clear advantages over competing modes of transport more specifically on the Atlantic railway and its connection to Medellin, and their traffic should increase in the future. The railways are also serving as an alternative to river transport on the Magdalena river; low water level in 1973, coupled with a large increase in export - import traffic resulted in a railway freight

traffic increase of 28.7 percent during the first four months of 1973. Finally, the railways consume less fuel per ton/km than road users and this is likely to become significant in the next few years, since it seems inevitable that by 1975 or 1976 Colombia will have to begin importing crude petroleum on a substantial scale.

10. The Government's development program will require further large investments in the transport sector which will continue to be the largest recipient of public investment funds. However, the desirable degree of effective sector investment planning in transportation is yet far from being achieved. In retrospect, some transport investments in railways and highways over the last 20 years have been made in a somewhat unintegrated manner. As in most other countries, transport coordination has not been very effective and transport investments and operations have not always reflected coherent sector policies.

11. The various transportation modes are managed as follows: the Ministry of Public Works is responsible for the national highway system and finances construction and maintenance of national roads through the National Highway Fund. It is also responsible for the National Feeder Road Fund to which local government bodies also contribute. Railways and ports are the responsibility of autonomous agencies under the Ministry, while airports constitute a separate authority and river transport is private. Pricing policies for the transport system do not fully reflect economic cost. There are indications that road users (mainly trucks) are more subsidized than other modes. The retail price of gasoline in Colombia is still the second lowest of the world, even after the 45 percent increase in June 1971. Air services and pipelines seem underpriced.

12. Although the Bank is placing increasing emphasis in its lending program on the productive sectors and on investments with more social benefits it still has an important role to play in assisting the continuing investments in transportation infrastructure which are necessary to support economic growth in Colombia. In Bank lending for transportation, the main objectives are: (a) effective planning and coordination of investment for different transport modes; (b) improved maintenance and operation policies in both railways and highways; and (c) better institutional arrangements in both subsectors. An example of the type of over-all transport planning needed is the Magdalena River Study which will result in preparation of an investment plan and pricing policies to promote the optimum development of the various transport modes in the country's main transport corridor in the Magdalena Valley. This study will review the feasibility of extending railway access to Cartagena and Barranquilla. The study is being carried out

by Dutch consultants and financed by the Netherlands government. The Colombian authorities have undertaken to consult the Bank on the conclusions and recommendations of the Magdalena River Study and on their implementation; they have also undertaken to employ the Colombian counterparts working on the study in the Planning Office of the Ministry of Public Works, after conclusion of the study.

13. The Government has become increasingly aware of the problems of transport coordination and is taking steps needed to correct the situation. Thus, during negotiations for the proposed loan, agreement was reached that the Colombian authorities would centralize in the Ministry of Public Works all of its transport planning activities. Bank staff have recently made additional proposals to the Government on the subject and the Bank intends to continue the discussion with the Colombian authorities on transport coordination.

PART IV: THE PROJECT

14. The Bank has made 5 loans for the railways. The first three --made between 1952 and 1960, totalling US$46.3 million-- helped finance the Atlantic line linking Bogota with Santa Marta on the Atlantic Coast. The last two loans --US$30 million (1963) and US$12.4 million (1968)-- were rehabilitation loans which made an important contribution to dieselization and modernization of CNR's facilities. The Atlantic Railroad has had an important impact on the development of the region, by inducing increases in agricultural production, mainly rice, corn and cattle which were significant for the national foodstuffs supply; the railroad also helped promote a major increase in cotton production for export. The Bank-supported rehabilitation programs were generally well conceived but their implementation and execution were inadequate.

15. The justification of further Bank lending to CNR has been seriously examined. The reduced importance of the railways in the transport sector, the failure in achieving modest financial targets and, moreover, the poor quality of the railway services were major problems to be taken into consideration by the Bank when CNR requested financial support for a very ambitious investment plan. After a protracted analysis, the conclusion was reached that the continuing important economic role for CNR justified a minimum investment plan to defeat the cycle of deteriorating infrastructure, derailments, poor service and loss of traffic. This is, however, a project that will require a continuous effort in supervision to increase the probability of achieving the

operational and financial targets proposed. Particularly close attention will have to be given to management improvement.

16. The proposed Project consists of a two-year segment of a railway rehabilitation program, which is part of CNR's investment plan for 1973-76, and of a Program of Action. The Project was first appraised by the Bank in 1971; the appraisal made it clear that the project execution would have to concentrate on (a) the ability of CNR's management to achieve the desirable operating targets and financial results (b) the need to reduce losses on, and ultimately close, certain uneconomic lines and (c) the need for continued substantial financial contributions from the Government to CNR. These issues were thoroughly considered by the Government and CNR who agreed in principle with the Bank on an appropriate course of action for dealing with them. Consequently, a reappraisal mission visited Colombia in November-December 1972. Loan negotiations were held in June 1973. The Borrower's delegation was led by Dr. Alfonso Orduz Duarte, General Manager of CNR, who also represented the Government. A loan and project summary is attached as Annex III to this report and an appraisal report (PTR-116c) is being circulated separately to the Executive Directors.

Investment Program

17. The main item in the project is the rehabilitation of 364 km of track and improvements in various sections of CNR's lines. The total investment related to permanent way, including switches, track materials and equipment, bridges and ballast cars would account for 51 percent of the project costs. Other important items are acquisition of 28 diesel locomotives (24 percent) to be financed from other sources, consulting services (5 percent), repair of winter damages (5 percent), spares for freight cars (5 percent) and telecommunications (3 percent). The 364 km of track to be rehabilitated under the two year program compares with 118 km in 1969, 185 km in 1970 and 225 km in 1971. Due to lack of funds only 60 km were rehabilitated in 1972. The principal objective is to avoid derailments which have been reduced significantly on the sections recently rehabilitated but remain a very serious problem on other portions of the network because of delayed maintenance combined with difficult terrain and soil conditions as well as severe seasonal rainfall. The project comprises those sections most in need of rehabilitation among the economically viable lines.

18. The 28 diesel locomotives will replace older types and allow an increase in total motive power. Freight cars and passenger coaches are adequate for the foreseeable traffic up to 1976 (except for ballast cars of which 50 are included in the proposed loan); spare parts, mainly roller bearings and bogie castings, are needed and are also included in the loan. Consulting services will be utilized in the field of management and will continue to be employed for improving track maintenance and rehabilitation, as well as workshops and operations.

Program of Action

19. The project also includes a Program of Action which forms part of the Loan Agreement (Schedule 5). The Program commits CNR to achieve certain specific operational and financial targets in 1973-76, including steps to be taken with regard to the uneconomic lines. The Program of Action is described below in paragraphs 20-24.

Uneconomic Lines

20. After discussion with the Bank, measures have been initiated under which six uneconomic lines, all of them built before the Bank started lending to the Colombian railways, totalling 662 km (the total network is 3,431 km) will be closed or have service curtailed. Those being closed are two lines totalling 117 km (Pereira-Armenia and Pereira-Manizales), and significant reductions in services and closing of stations on 4 other lines will be undertaken within the next three years. The plan will reduce operating costs by about Col$14 million (US$0.62 million) annually.

Financial Targets

21. CNR had operating deficits for several years but achieved operating surpluses (after depreciation but before debt service) in 1966 and 1969. After the latter year, there have again been deficits. Poor track and operating conditions and a high rate of accidents aggravated by severe winter damages in 1971-72 and competition from roads, have rendered it difficult for CNR to offset rising prices and increased staff costs by appropriate tariff adjustments. However, an increase of gasoline prices and progress in ongoing track rehabilitation allowed some tariff increases to be made in the latter half of 1971 and 1972.

22. To offset inflationary cost increases and improve its finances, CNR increased the freight tariff in June 1973 by a further 10 percent (in current terms). It is likely that additional tariff increases will be needed over the next few years. The Loan Agreement commits CNR to set rates at a level sufficient to obtain the operating ratios, set by the Program of Action, i.e. 123, 118, 111 and 104 in 1973, 1974, 1975 and

1976. Staff strength has declined from about 15,000 in 1963 to an adequate level of 11,400 in 1972; the Program of Action provides for maintaining staff strength at about this level through 1976.

Improving Operations

23. In the operational sphere there has recently been better performance in track maintenance; together with improved weather conditions, this has contributed to a reduction in derailments. CNR's rolling stock is in very good condition and, if properly utilized on a well-maintained permanent way, could carry substantially more traffic. Relations between management and labor unions are good. Management has already initiated certain organizational changes but further efforts could lead to significant improvements, for example through further delegation of management responsibility to divisional and departmental levels and a better system of motivating the staff.

24. The proposed project provides for continuing assistance by the consultants who have worked for the last few years at the operational level with satisfactory results. It also aims at further improvement of CNR's management by employing management consultants to carry out an intensive program in this area, including the study and recommendation of improvements as regards information to management, management structure and planning activities as well as personnel administration. The Program of Action includes targets for such items as the availability of motive power and rolling stock, loads per freight car and per train, turnaround time and reductions in time for freight delivery between specific points, such as Santa Marta and Bogota. Provision will be made for an intensified supervision effort by the Bank through the employment of a consultant exclusively for this purpose. There appear to be good prospects that all these measures will reinforce the benefits obtained from major investments in track rehabilitation of the project, so as to bring about significant improvements in operating and financial results over a two-year period.

Project Costs and Financial Plan

25. The total project cost, excluding interest during construction, is estimated at US$44.2 million, including local costs of US$12.0 million and foreign costs of about US$32.2 million. Total financing required, including interest during construction on the proposed Bank loan would be US$45.8 million. The proposed Bank loan would finance the following items:

		US$ Million
i.	Rehabilitation of permanent way	13.4
ii.	Parts for rehabilitation of locomotives and railway cars	3.2
iii.	Telecommunications	1.0
iv.	Consultants	1.5
v.	Winter damages	1.0
vi.	Contingencies and miscellaneous	3.3
	Total	23.4
	Interest during construction	1.6
	Amount of proposed loan	25.0

26. The 28 locomotives are to be financed through suppliers' credits amounting to US$6.8 million. CNR would finance US$1.6 million from existing inventories (mainly rails). The remaining US$12.4 million would be covered by the Government budgetary allocations to CNR.

27. The loan would be used entirely for foreign exchange expenditures, except possibly for US$2 million; of this, US$1.4 million would consist of timber sleepers, and US$0.6 million of minor items (such as structural steel for bridges, nuts and bolts for rails) for which Colombian suppliers are likely to win the contracts in international competitive bidding.

The Borrower and its Financial Position

28. CNR is an autonomous government entity headed by a five-member Board of Directors with the Minister of Public Works, ex-officio, as Chairman. The other members represent trade, industry, banking and agriculture. The General Manager is appointed by the President of Colombia, as are the Board members. The Board controls the railways' operating and financial policies, including adjustment of rates and fares. However, authority for building or abandonment of railway lines and changes in personnel service conditions rests with the Government.

29. CNR's present financial situation is serious and its unsatisfactory cash position has resulted in CNR's delaying payments to suppliers, deferring some debt service payments (not for Bank loans) and resorting to short-term borrowings at high rates of interest. With the rate adjustments described in paragraph 22 and control over staff strength, CNR is expected to achieve an operating surplus by 1977 but meanwhile it would need the assistance of the Government to meet local currency costs of the investment plan, debt service and

working capital requirements. The Government has set up a special fund into which it has undertaken to make monthly deposits sufficient to maintain in 1973, 1974 and 1975 a balance equal to CNR's peso requirements not covered from other sources during the succeeding 3 months. The first payment into the fund (of Col$45 million) has already been made. In addition, the Government has assumed the responsibility for servicing two new loans to CNR: one from a US commercial bank in the amount of US$20 million to cover external debt service obligations of CNR for the next three years, and another from local banks in the amount of Col$85 million to enable CNR to pay outstanding short term bank loans and overdue suppliers' bills.

Loan Disbursements and Procurement

30. The proposed loan would be disbursed according to the schedule included in Annex III. All goods financed under the loan would be procured through international competitive bidding except about US$1.4 million for certain replacement parts for locomotives which would be procured from the original suppliers.

31. Colombian firms are not likely to compete except for timber sleepers estimated at about US$1.4 million and certain minor items estimated at about US$0.6 million. Local bidders would be granted a margin of preference of 15 percent or the applicable customs duty, whichever is lower. In the case of timber sleepers, however, no preference would be given since local suppliers of this bulky commodity already have an overwhelming locational advantage.

Economic Benefits and Rate of Return

32. The main economic benefits of the project will be obtained by avoiding further diversion of railway traffic to road and by reducing derailments. The economic return on the 1973-76 Investment Plan is estimated at 12 percent. This evaluation does not take into account benefits to users resulting from improved quality of service. The successful implementation of the project will depend to a large degree on lasting improvements in management.

33. Toward the end of the project implementation period a new evaluation would be made, in the light of achievements, of whether to recommend additional Bank financing for the remainder of the 1973-76 investment program of CNR. This two phase approach is being adopted in view of the Bank's experience with the earlier railway projects when results fell short of the original operational and financial targets.

PART V: LEGAL INSTRUMENTS AND AUTHORITY

34. The draft Loan Agrement between the Bank and Ferrocarriles Nacionales de Colombia and the draft Guarantee Agreement between the Republic of Colombia and the Bank, as well as the Report of the Committee provided for in Article III, Section 4 (iii), of the Articles of Agreement and the text of a Resolution approving the proposed loan, are being distributed to the Executive Directors separately.

35. The draft Agreements contain provisions to reflect the various arrangements described in Part IV above, including the usual covenants for railroad projects.

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

PART VI: RECOMMENDATION

37. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments

July 25, 1973

COUNTRY DATA - COLOMBIA

AREA
1,139,000 km^2

POPULATION
23.0 million (mid-1972)
Rate of Growth: 3.2% (from 1965 to 1970)

DENSITY
20 per km^2
84 per km^2 of land in farms

POPULATION CHARACTERISTICS (1968)

Crude Birth Rate (per 1,000)	44
Crude Death Rate (per 1,000)	10
Infant Mortality (per 1,000 live births)	70

HEALTH (1967)

Population per physician	2,220
Population per hospital bed	420

INCOME DISTRIBUTION 1/ (1970)

% of national income, highest quintile	59.4
lowest quintile	3.5

DISTRIBUTION OF LAND OWNERSHIP 2/

% owned by top 10% of owners
% owned by smallest 10% of owners

ACCESS TO PIPED WATER (1967)

% of population - urban	88
- rural	46

ACCESS TO ELECTRICITY (1968)

% of population - urban	70
- rural	7

NUTRITION (1970)

Calorie intake as % of requirements	89
Per capita protein intake	55

EDUCATION (1968)

Adult literacy rate %	74
Primary school enrollment %	94

GNP PER CAPITA in 1970 1/: US$370

GROSS NATIONAL PRODUCT IN 1970

	US$ Mln.	%
GNP at Market Prices	6,865	100.0
Gross Domestic Investment	1,521	22.2
Gross National Saving	1,228	17.9
Current Account Balance	-293	-4.3
Exports of Goods, NFS	1,000	14.6
Imports of Goods, NFS	1,149	16.7

ANNUAL RATE OF GROWTH (%, constant prices)

	1960-65	1965-70	1970
GNP at Market Prices	4.1	5.1	6.3
Gross Domestic Investment	3.0	5.8	15.2
Gross National Saving	1.3	3.9	-3.5
Current Account Balance	.	.	.
Exports of Goods, NFS	1.7	4.8	0.9
Imports of Goods, NFS	5.0	5.5	17.1

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1970

	Value Added		Labor Force 4/		V.A. Per Worker	
	US$ Mln.	%	Mln.	%	US$	%
Agriculture	1,885	29.1	2,349	40.7	802	71
Industry	1,703	26.2	1,136	19.7	1,499	133
Services	2,900	44.7	2,279	39.5	1,272	113
Unallocated	.	.	..	..	.	.
Total/Average	6,488	100.0	5,764	100.0	1,126	100

GOVERNMENT FINANCE

	General Government 5/			Central Government		
	(Col $ Mln.)	% of GDP		(Col $ Mln.)	% of GDP	
	1972	1972	1969-72	1972	1972	1969-72
Current Receipts	39,282	21.2	21.6	16,085	8.7	9.0
Current Expenditure	26,393	14.2	14.0	11,397	6.1	6.3
Current Surplus Deficit (-)	12,889	7.0	7.6	4,688	2.5	2.7
Capital Expenditures	22,853	12.3	11.8	8,362	4.5	4.0
External Assistance (net)	5,591	3.0	2.2	3,291	1.8	1.2

1/ Estimate of ECLA based on 1970 household survey of National Statistical Department (DANE).
2/ Data not available. Results of the 1970 agricultural census are still incomplete.
3/ The Per Capita GNP estimate is at 1971 current U.S. dollars, calculated by the same conversion technique as the 1973 World Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.
4/ Total labor force; unemployed are allocated to sector of their normal occupation.
5/ Consolidated account of national government, national decentralized entities, departments, municipalities, and municipal enterprises.

.. not available
. not applicable

COUNTRY DATA - COLOMBIA

MONEY, CREDIT and PRICES	1965	1970	1971	1972	March 1971	March 1972
		(Million Col$ outstanding end period)				
Money and Quasi Money 8/	13,360	30,432	34,72[illegible]	43,57[illegible]	..	..
Bank Credit to Public Sector 7/	..	6,818	8,139	8,62[illegible]	..	..
Bank Credit to Private Sector 8/	..	25,600	30,394	33,10[illegible]	..	..
		(Percentages or Index Numbers)				
Money and Quasi Money as % of GDP	22.0	23.3	22.9	23.[illegible]	.	..
General Price Index (1963 = 100) 9/	126.0	194.8	217.8	248.0	237.6	289.5
Annual percentage changes in:						
General Price Index	.	6.7	6.[illegible]	13.[illegible]	.	16.1
Bank credit to Public Sector	.	3.1	19.4	5.[illegible]	.	..
Bank credit to Private Sector	.	22.1	18.7	8.9	.	..

BALANCE OF PAYMENTS

	1969	1970	1971
	(Millions US$)		
Exports of Goods, NFS	870	1,000	984
Imports of Goods, NFS	939	1,149	1,148
Resource Gap (deficit = -)	-69	-149	-164
Interest Payments (net) 10/			
Workers' Remittances			
Other Factor Payments (net)	-144	-180	-185
Net Transfers 11/	38	36	25
Balance on Current Account	-175	-293	-324
Direct Foreign Investments	50	102	92
Net MLT Borrowing			
Disbursements	(199)	(233)	(202)
Amortization	(67)	(74)	(87)
Subtotal	132	159	115
Capital Grants	..	..	..
Other Capital (net)		..	..
Other items n.i.e. 12/	-48	-68	-125
Increase in Reserves (+)	55	36	8
Gross Reserves (end year) 13/	257	257	265
Net Reserves (end year)	97	152	170

MERCHANDISE EXPORTS (AVERAGE 1969-72) 15/

	US$ Mln	%
Coffee	411.3	55.9
Petroleum	50.2	6.8
Cotton	38.4	5.2
Cattle and Beef	34.5	4.7
Textiles	27.8	3.8
Bananas	18.[illegible]	2.6
Sugar	20.[illegible]	2.7
All other Commodities	134.3	18.3
Total	735.5	100.0

EXTERNAL DEBT, DECEMBER 31, 1972

	US$ Mln
Public Debt, incl. guaranteed	1,4[illegible]0.0
Non-Guaranteed Private Debt	400.5
Total outstanding & Disbursed	1,8[illegible]0.5

DEBT SERVICE RATIO for 1972 16/

	%
Public Debt, incl. guaranteed	1[illegible].8
Non-Guaranteed Private Debt	[illegible].6
Total outstanding & Disbursed	24.[illegible]

RATE OF EXCHANGE 14/

Through - 1972
US$1.00 = Col$ 22.85
Col$1.00 = US$.0438

May 1973
US$1.00 = Col$ 23.47
Col$1.00 = US$0.0426

IBRD/IDA LENDING, (May 31, 1973) Million US$):

	IBRD 17/	IDA 18/
Outstanding & Disbursed	483.1	23.2
Undisbursed	353.4	-
Outstanding incl. Undisbursed	836.5	23.2

6/ Includes currency, sight deposits, time and savings deposits, and certificates and bonds. Excludes deposits in foreign exchange.
7/ Central bank and commercial bank credit (net balances at year end) to national government, departments, municipalities and official entities.
8/ Central bank and commercial bank credit (net balances at year end) to development agencies and the private sector.
9/ National consumer price index for blue collar workers.
10/ Included in other factor payments (net).
11/ Total net unrequited transfers.
12/ Includes SDR allocation of US$21 million in 1970 and US$17 million in 1971.
13/ Central bank reserves.
14/ Certificate selling rate of exchange.
15/ Registrations.
16/ Ratio of debt service to exports of goods and non-factor services.
17/ Includes third parties.
18/ Includes exchange adjustment.

.. not available
. not applicable

THE ECONOMY

(Extract from Report and Recommendation of the President to the Executive Directors on a proposed loan to the Republic of Colombia for a Third Education Project)

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3. The Colombian economy has shown impressive gains in the recent past. The rate of economic growth has accelerated to more than 7 percent per annum, and the expansion of non-traditional exports has been remarkable. Such improvements are very much needed in order to accelerate employment generation. Colombia also needs to spread more widely benefits from growth in order to surmount problems of poverty and population pressures in both rural and urban areas. Concentration of land ownership, technical backwardness and underemployment characterize most rural areas. In urban areas, pressures of population growth, compounded by heavy migration from the countryside, have generated serious unemployment. Prospects for coping with these problems lie in the accelerated growth path upon which the Colombian economy has recently embarked.

4. Recent Government administrations have reacted to rural poverty and urban unemployment in a more systematic fashion than in the past but much remains to be done. In spite of the passage of an Agrarian Reform Law in 1961 and the creation of the Agrarian Reform Institute (INCORA), also in 1961, only modest results have been achieved in alleviating rural poverty. Recently, additional agricultural legislation has been enacted, enabling a faster advance in land reform and introducing a tax on presumptive agricultural income. In recognition of the problems of urban concentration and unemployment the Government is now placing greater emphasis on urban development, particularly in the housing field. Through this program it hopes to stimulate a pattern of demand that will maximize urban employment. The programs have necessitated and will continue to require a strengthening of the fiscal effort.

5. During the five-year period 1968-72 current revenues of the national government have risen at an average of 9 percent per annum in real terms. During the past year the National Government, pursuant to its program announced at the Consultative Group meeting of February 1972, took new fiscal and other measures which are expected to raise revenues by Col$1.0 billion per year (6 percent of the 1972 total revenue). This should enhance its ability to generate local currency needed to support foreign-assisted projects. At the latest Consultative Group meeting held in June 1973, members of the Group expressed the view that growing needs for public investment and other public expenditures called for further increases in domestic fiscal efforts. The Government has expressed the intention to further increase revenues by new tax measures now pending before the Colombian Congress and by increasing the savings of public enterprises. It is also in the process of improving tax administration which should increase collections. The Bank intends to continue the

6. To support the accelerated growth of the economy, measures have been taken to strengthen the export sector and thereby reduce the foreign exchange constraint to sustained growth. A substantial measure of success in this area has been achieved through policies to encourage non-traditional exports. These have continued to grow rapidly and their total value approached the value of coffee exports in 1972. Although Colombia has not yet surmounted its dependence on coffee, the rapid growth of non-traditional exports, if continued, should achieve this result in the foreseeable future. Merchandise export earnings during the past year exceeded US$800 million, and were some US$150 million above the preceding year's export earnings. Net international reserves of the Bank of the Republic doubled in 1972 as a result of growth in exports, and reached US$345 million by year end. Since then, they have grown to US$437 million. This provides an import coverage of about 5 months. In order to preserve the gains already achieved and to sustain the process of rapid diversification by expanding both agricultural and industrial exports, it is particularly important that Colombia continues its policy of frequent exchange rate adjustments. The Government has declared its intention to do so.

7. The strong growth in GDP has been accompanied by upward pressure on prices. Contributing to this pressure has been central bank lending to finance part of a 30 percent real increase in government investment during 1972. High coffee prices also increased demand, and there is evidence that the export boom reduced the supply of some commodities, e.g. beef, on the domestic market while the rise in import prices was an additional important factor. As a consequence consumer prices are estimated to have risen by some 11.4 percent in 1971 and 13.5 percent during 1972, as compared with a 7.5 percent average increase for the 1967-70 period. Inflationary pressures have continued to accelerate during the first few months of this year. The authorities are aware of the danger this presents and the fiscal measures referred to in paragraph 5 should bring about some improvement. Further action is also being undertaken, such as the issuance of special bonds to reduce excess liquidity resulting from the boom in coffee exports. Another anti-inflationary measure placed into effect was a substantial liberalization of imports.

8. The public external debt repayable in foreign currency amounted to US$2.2 billion at the end of 1972, or US$1.4 billion excluding undisbursed commitments. Service on this debt is not high (14.8 percent of foreign exchange earnings in 1972), relative to many other developing countries. Since exports have risen at the same rate as debt service in recent years, there has been no increase in the debt service ratio, at a time when economic growth has accelerated. The debt service ratio may be expected to rise to about 20-21 percent in 1977-78 as a result of greater capital inflows associated with a sustained high growth rate. Should economic growth continue at a rapid pace which appears feasible, and should that growth be accompanied by a further strong expansion of non-coffee exports and sound economic and financial policies, Colombia should find it possible to secure the large amounts of external capital it needs and to manage servicing the indebtedness that this volume of borrowing would generate. Some of this capital will have to be provided to finance local costs if foreign assistance is to make a significant contribution to projects of high priority such as those in the social sectors, with a low foreign exchange component.

BANK LENDING STRATEGY IN COLOMBIA

(Extract from Report and Recommendation of the President to the Executive Directors on a proposed loan to the Republic of Colombia for a Third Education Project)

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11. Bank disbursements as a percentage of total disbursements by official lenders to Colombia are expected to peak at about 40 percent in 1973-74 and then decline. The Bank's share of total debt service is projected to peak at about 31 percent in 1974-75, and the Bank group share of total debt disbursed and outstanding can be expected to fall from 28 percent in 1972 to 24 percent in 1978.

12. Over the past few years, Bank lending in Colombia has become increasingly diversified as activities have expanded and as the Bank assumed greater responsibilities as head of the Consultative Group for Colombia. Increasingly, projects involving Bank loans in agriculture, industry and the social sectors were developed. While so far our efforts in these sectors have been mainly production-oriented in support of economic growth and related export expansion objectives, we are now seeking to develop projects in such a way as to combine increasing output with maximum benefits in terms of employment and improving the income of the poor, particularly in rural areas. Such a further shift in emphasis of Bank lending, however, will require a new approach in many instances and hence project preparation and appraisal are likely to be more time-consuming. Also, at least in the initial stage, such projects are likely to be of much smaller size than the traditional large infrastructure projects.

13. We expect over the next several years to make an increasing contribution to the agricultural and industrial sectors, with perhaps as much as 60 percent of our total lending, in those two sectors.

14. The other major focus of our activities would be in such social sectors as education and water supply, as well as in other project areas such as the traditional sectors of Bank lending --electric power and transportation-- in cases where support can be given to strengthening institutional development. In addition the Bank would continue to cooperate with the Government in its efforts to improve the fiscal system and in developing institutions capable of increasing public savings.

15. The operations of external lenders in Colombia are shown in (Annex I, page 6). While IBRD, IDB, and AID provided about four-fifths of total external financing to Colombia in the 1961-71 period, their share decreased to 53 percent in 1972. This results from unusually low IBRD lending in that year as well as from recent medium and long-term borrowing abroad from commercial banks and bond issues on an unusually large scale. The IDB has assisted projects in low-cost housing, university education, agrarian reform, ports, electric power, water supply, transportation, and industry. AID has shifted the emphasis of its lending in recent years from program to sector loans, particularly for education, urban development, and agriculture.

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COLOMBIA - COMMITMENTS OBTAINED FROM EXTERNAL FINANCING SOURCES
(1963-72)

	(Millions of US Dollars)							
	1963-69 Average[a] Annual Amount	(%)	1970 Amount	(%)	1971 Amount	(%)	1972 Amount	(%)
US AID	61	(30)	72	(23)	82	(21)	89	(25)
US EXIMBANK	14	(7)	12	(4)	3	(1)	4	(1)
IBRD	50	(25)	109	(36)	153	(40)	44[c]	(13)
IDB	44	(22)	49	(16)	85	(22)	50	(14)
Subtotal	169	(84)	242	(79)	323	(84)	187	(53)
Belgium			2	(-)	2	(1)	-	(-)
France			5	(2)	7	(2)	1	(-)
Germany			16	(5)	12	(3)	10	(3)
Great Britain			8	(3)	2	(1)	52	(15)
Italy			3	(1)	10	(2)	-	(-)
Japan			4	(1)	1	(-)	14	(4)
Sweden[b]			20	(7)	4	(1)	12	(3)
Switzerland[b]			3	(1)	-	(-)	-	(-)
USA - excluding AID and EXIMBANK			4	(1)	12	(3)	59	(17)
Others			1	(-)	12	(3)	18	(5)
Subtotal[d]	33	(16)	66	(21)	62	(16)	166	(47)
GRAND TOTAL	202	(100)	308	(100)	385	(100)	353	(100)

a/ Amounts for most bilateral financing not available.
b/ Not member of Consultative Group.
c/ Includes US$30 million of IBRD loan No. 842-CO.
d/ Includes Suppliers Credits.

Source: Colombian National Planning Department.

THE STATUS OF BANK GROUP OPERATIONS IN COLOMBIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of June 30, 1973)

Number	Year	Borrower	Purpose	Amount (US$ Million less cancellation) Bank	IDA	Undisburs
Fully disbursed loans and credits			--	448.5	19.5	--
502	1967	Instituto Colombiano de la Reforma Agraria	Irrigation	9.0		2.7
534	1968	Banco de la Republica	Industry	12.5		0.1
536	1968	Empresa de Acueducto y Alcantarillado de Bogotá	Water Supply	14.0		1.0
537	1968	Empresa de Energía Eléctrica de Bogotá	Power	18.0		1.8
550	1968	Colombia	Roads	17.2		0.9
552	1968	Colombia	Education	7.6		1.9
575	1968	Interconexión Eléctrica, S.A.	Power	18.0		5.2
624	1969	Colombia	Agriculture	17.0		12.9
625	1969	Banco de la República	Industry	25.0		2.2
651	1969	Colombia	Agriculture	18.3		14.0
679	1970	Colombia	Education	6.5		4.1
680	1970	Colombia	Roads	32.0		11.6
681	1970	Interconexión Eléctrica, S.A.	Power	52.3		30.3
682	1970	Empresas Municipales de Cali	Water Supply	18.5		14.7
738	1971	Empresas Municipales de Palmira	Water Supply	2.0		1.7
739	1971	Colombia	Agriculture	8.1		6.5
740	1971	Empresa Nacional de Telecomunicaciones	Communications	15.0		11.2
741	1971	Empresa de Acueducto y Alcantarillado de Bogotá	Water Supply	88.0		80.7
742	1971	Banco de la República	Industry	40.0		11.5
842	1972	Colombia	Industry	30.0		10.0
849	1972	Instituto Colombiano de la Reforma Agraria	Irrigation	5.0		4.9
860	1972	Instituto de Fomento Municipal	Water Supply	9.1		9.1
874	1973	Empresas Públicas de Medellín	Power	56.0		54.4
903 1/	1973	Banco de la República	Industry	60.0		60.0
	Total			1,027.6	19.5	353.4
	of which has been repaid			191.1	0.4	
	Total now outstanding			836.5	19.1	
	Amount sold		20.2			
	of which has been repaid		17.5	2.7		
	Total now held by Bank and IDA			833.8	19.1	
	Total undisbursed			353.4		353.4

1/ Signed but not yet effective. In addition a loan of US$21.2 million to the Republi of Colombia for a Third Education Project was signed on July 19, 1973.

B. STATEMENT OF IFC INVESTMENTS (as of June 30, 1973)

Year	Obligor	Type of Business	Amount in US$ Million Loan	Equity	Total
1959	Láminas del Caribe, S.A.	Fiber-board	0.50	-	0.50
1960-65	Industrias Alimenticias Noel, S.A.	Food products	1.98	0.08	2.06
1961	Envases Colombianos, S.A.	Metal cans	0.70	-	0.70
1961-68	Morfeo-Productos para el Hogar, S.A.	Home furniture	0.08	0.09	0.17
1961	Electromanufacturas, S.A.	Electrical Equipment	0.50	-	0.50
1962	Corporación Financiera Colombiana	Development Financing	-	2.02	2.02
1962-63	Corporación Financiera Nacional	Development Financing	-	2.04	2.04
1963-67-68-69	Compañía Colombiana de Tejidos, S.A.	Textiles	1.86	0.27	2.13
1964-70	Corporación Financiera de Caldas	Development Financing	-	0.81	0.81
1964-68	Forjas de Colombia, S.A.	Steel forging	-	1.27	1.27
1966	Almacenes Generales de Depósito Santa Fé, S.A.	Warehousing	1.00	-	1.00
1966	Industria Ganadera Colombiana, S.A.	Livestock	1.00	0.58	1.58
1967-70	ENKA de Colombia, S.A.	Textiles	1.00	1.65	2.65
1969	Compañía de Desarrollo de Hoteles y Turismo, Ltda. Hoturismo	Tourism	-	0.01	0.01
1969	Corporación Financiera del Norte	Development Financing	-	0.45	0.45
1969	Corporación Financiera del Valle	Development Financing	-	0.43	0.43
1970	Promotora de Hoteles de Turismo Medellin, S.A.	Tourism	0.23	0.11	0.34
1970	Pro-Hoteles, S.A.	Tourism	0.80	0.22	1.02
1973	Corporación Colombiana de Ahorro y Vivienda	Development Financing		0.32	0.32
			9.65	10.35	20.00
	Total gross commitments less cancellations, terminations, repayments and sales		8.37	2.77	11.14
	Total commitments now held by IFC		1.28	7.58	8.86
	Total undisbursed		-	0.32	0.32

C. PROJECTS IN EXECUTION 1/

Summarized below is the current status of all loans signed but not fully disbursed:

Loan 502 - Irrigation (Atlantico I), US$9 million, June 1967.

Implementation of the project financed under loan 502-CO remains two years behind schedule due to difficulties in the selection of areas suitable for irrigation and technical problems in the construction of major irrigation and drainage works. As a consequence of this and poor project management, agricultural development is still limited to a small area and mainly restricted to dry farming. However, the few agricultural results obtained on a small number of farms are very promising. To complete the scheduled works, a second extension of the closing date by one year beyond the revised closing date of December 31, 1973 may become necessary.

Loan 534 - Development Finance Companies II, US$12.5 million, May 1968.

This loan is fully committed for approved sub-projects, and the undisbursed balance of US$0.3 million is expected to be disbursed shortly.

Loan 536 - Water Supply (Bogota I), US$14 million, June 1968.

The major part of the First Bogota Project is in operation. Water service in most areas with poor service is rapdily improving The operating performance of the Empresas is good and the remaining works should be completed by the end of 1973. The Closing Date has been prolonged to June 30, 1974 to permit completion of the project and payment to suppliers.

Loan 537 - Electric Power (Bogota), US$18 million, June 1968.

The project financed by this loan is substantially completed. Lower than anticipated participation of joint financing agencies together with foreign cost increases due to the devaluation of the U.S. dollar led to a re-allocation of funds in mid-1972 among the loan categories. Delays in the definition of the distribution expansions have caused late bidding for distribution equipment. The Closing Date has been extended to the end of 1973 to allow completion of the project.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Loan 550 - Highways V, US$17.2 million, July 1968.

There have been substantial cost overruns and delays in the civil works financed under this loan. The project is about 90 percent complete; the present closing date of June 30, 1973, already postponed for one year from the original, will be postponed for one more year.

Loan 552 - Education I, US$7.6 million, July 1968.

School construction is virtually completed. All furniture and 75 percent of the equipment has been delivered to the schools and procurement of the remainder is under way. However, procurement of furniture and equipment is considerably behind schedule and this is reflected in slower than expected disbursement. Improvement is expected now that the procurement unit has been strengthened.

Loan 575 - Electric Power (Interconnection), US$18 million, December 1968.

The project as originally described in the Loan Agreement started operation in November 1971. Mainly due to the fact that the joint financing arrangements raised more funds than expected during the appraisal, the 230 KV line Guatape-Barrancabermeja, which will incorporate the northeastern region into the interconnected system, was included in the loan. Completion of the extension is scheduled by mid-1974.

Loan 624 - Agricultural Credit II, US$17 million, June 1969.

The Project continues to be far behind schedule. However, recent changes in Project management and organization and an increase in technical personnel provided the basis of the Bank's approval of Colombia's request to enlarge the Project area and include lending to small farmers under the Project. The Project has now begun to move fairly well.

Loan 625 - Development Finance Companies III, US$25 million, June 1969.

US$24.9 million of this loan is committed for approved sub-projects. To permit completion of disbursements the Bank has agreed to extend the original Closing Date from September 30, 1972, to December 31, 1973.

Loan 651 - Livestock II, US$18.3 million, December 1969.

This Project moved slowly from effectiveness in March 1971 until mid-1972. In October 1972, the Bank and Caja agreed on certain modifications to the Project, including appointment of one Project General Director with overall responsibility for the Project, extension of the Project area and greater flexibility in regard to terms of sub-lending. At the same time it was agreed that increased sub-lending should be directed towards small holders. These changes have resulted in an increase in the rate of sub-lending under the Project and it is now expected that the Loan will be fully disbursed by mid-1976.

Loan 679 - Education II, US$6.5 million, June 1970.

All major civil works for five of the nine project schools had been completed at the time of the last supervision mission in December 1972 and the remaining four were expected to be completed by mid-1973. There has been some delay in project execution owing to slow procurement of furniture and equipment. Improvement is expected now that the procurement unit has been strengthened. The Closing Date was recently postponed by one year to June 30, 1974.

Loan 680 - Highways VI, US$32 million, June 1970.

In general, there have been substantial cost increases and serious delays on the civil works. The most serious problem confronting the project relates to the financial difficulties of the Colombian contracting industry, leading to a temporary halt in construction on several groups of the Paving Program. In this situation, where some of Colombia's major contracting firms were facing bankruptcy, the Government has recently taken drastic steps to resuscitate operations. Estimated cost increases for civil works now amount to about 30 percent of original contract amounts, while consultant services will be about double the original amount. Civil works are nearly 40 percent completed, but are about one year behind schedule. The situation is more satisfactory on the other two elements of the project, the construction of the Barranquilla bridge and of the El Pailon-Buenaventura road.

Loan 681 - Electric Power (Chivor I), US$52.3 million, June 1970.

Progress of the main civil works contract is generally satisfactory and in agreement with the contractual dates. Bidding for the rest of the civil works financed by the Bank is proceeding as planned. Higher than expected prices for equipment, due partly to the revaluation of various European currencies and the yen, together with changes in the access road program, have substantially increased the total cost of the project. Recently we have received a revised cost estimate and as of March 1973 total project costs are estimated at US$140 million, that is, about US$25 million more than estimated in the Appraisal Report. ISA plans to finance the cost overruns with unallocated funds of the IBRD and the IDB loan and with suppliers credit and a direct loan from a group of foreign banks. The Bank has reassessed the economic and financial viability of the project in view of the cost overruns and found that Chivor I remains the best alternative.

Loan 682 - Cali Water Supply and Sewerage, US$18.5 million, June 1970.

The project was delayed for about one year due mainly to a change in the Cali Municipal Government that occurred after the loan was signed. The Board of EMCALI has appointed a new manager and taken remedial actions suggested by the Bank in order to improve EMCALI's administrative capacity and financial performance.

Loan 738 - Palmira Water Supply and Sewerage, US$2 million, May 1971.

Construction on this project was delayed due to slow project design and administrative problems with the consultants and the Borrower. Lower than anticipated sales of water and a shortfall in projected local borrowing has resulted in an unsatisfactory financial performance of the Borrower. As a consequence the Bank has proposed to Empresas Publicas Municipales the rephasing of the project to reflect the above mentioned financial constraints.

Loan 739 - Land Settlement Caqueta I, US$8.1 million, May 1971.

During its first year, the project has achieved about 75 percent of its appraisal objectives. Sublending is being delayed by administrative procedures associated with cattle purchase and the provision of technical assistance. Arrangements have been made to improve the organization, and there are prospects that 1973 operations will be on target. The benefits from the project are likely to be higher than appraisal projections while the cost estimates are likely to be about the same as envisaged at appraisal.

Loan 740 - Telecommunications II, US$15 million, May 1971.

The recent currency revaluations have caused an estimated cost overrun of US$2.4 million. The Bank and the Borrower are considering various alternatives of financing this overrun.

Loan 741 - Water Supply (Bogota II), US$88 million, May 1971.

The principal civil works component of this project, the Chingaza tunnel construction, is behind schedule. The Borrower is reviewing the latest measures proposed by the contractors to improve performance. Recent information shows that revenue from water sales is lower than forecast. The Bank has suggested actions to assure that this shortfall will not adversely affect the financial performance of the Borrower which has been satisfactory hitherto.

Loan 742 - Development Finance Companies IV, US$40 million, May 1971.

Only US$0.7 million of this loan remain uncommitted. Disbursements are ahead of schedule.

Loan 842 - Development Program and Expansion Project, US$60 million, June 1972.

The second tranche (US$30 million) of this loan was cancelled because coffee prices exceeded the upper limit set in the Loan Agreement for release of the second tranche.

Loan 849 - Irrigation (Atlantico II), US$5 million, June 1972.

This loan became effective on November 14, 1972.

Loan 860 - Medium-Size Cities Water Supply and Sewerage Project, US$9.1 million, October 1972.

This loan became effective on March 7, 1973. The Borrower has experienced difficulties in the initial phase of the project; however, the recent stationing of a Bank water supply specialist in Bogota is helping solve these problems. Construction of several subprojects has recently begun.

Loan 874 - Guatape II Hydroelectric Power Project, US$56 million, January 1973.

Construction of the Santa Rita dam (2nd stage) has started.

COLOMBIA

LOAN AND PROJECT SUMMARY

Borrower: Ferrocarriles Nacionales de Colombia (CNR)

Guarantor: The Republic of Colombia

Amount: The equivalent in various currencies of US$25.0 million.

Terms: Repayment in 25 years, including 4 years of grace at interest of 7-1/4 percent per annum.

Project Description: The project consists of the first two years of the CNR four-year Investment Plan for 1973-76 and of a Program of Action. The main investment items in the project include improvement of permanent way (52 percent) plus motive power, rolling stock and consulting services.

Estimated Cost: The following table summarizes the estimated project costs:

	US$ Million		
	Local	Foreign	Total
Track materials and equipment	6.6	14.9	21.5
Diesel locomotives and spares	-	9.0	9.0
Spares for freight cars	0.6	1.3	1.9
Consultants, training	0.6	1.5	2.1
Other	2.4	3.4	5.8
Contingencies	1.8	2.1	3.9
Total, excluding interest during construction	12.0	32.2	44.2

Financing Plan: The total cost of the project, excluding interest during construction, of US$44.2 million would be financed as follows:

	US$ Million
Bank	23.4
Suppliers	6.8
CNR	1.6
Government	12.4
	44.2

In addition the Bank would finance US$1.6 million of interest during construction on the proposed loan.

Estimated disbursements:

Calendar Year and Quarter	US$ Million
1973	4.5
1974	18.5
1975	2.0
	25.0

Procurement Arrangements: International competitive bidding procedures will be followed in placing orders for all goods financed under the loan, except about US$1.4 million for locomotive sub-assemblies, which would be procured from the original supplier. Local bidders (except suppliers of timber sleepers) would be granted a margin of preference by adding 15 percent or the applicable customs duties, whichever is lower, to the foreign bids.

Consultants: Consultants, (SOFRERAIL, France) will continue to be retained by CNR in the fields of track (maintenance and renewals), workshops and operations. In addition, management consultants will be hired under the Project.

Rate of Return: The most probable return of the 1973-76 Investment Plan of which the Project forms a part is 12 percent.

Appraisal Report: No. PTR-116c, dated July 19, 1973.