Board Meeting of November 6, 1997
Statement by Michael Marek

COLOMBIA - Country Assistance Strategy

1. I would like to commend the Government of Colombia and Bank staff for the innovative participatory approach followed in the preparation of the CAS. We encourage wide dissemination within the Bank of the “lessons learned” from the proactive efforts (described in Annex C) to engage civil society in identifying strategic development priorities. These provide an important, added dimension to the CAS process. We also appreciated the clarity and structure of the CAS document.

2. The momentum of reform which has previously characterized Colombia’s economic management appears to have stalled in recent years, and one is left with the clear impression that Colombia is now performing below its economic potential. Economic growth is below the regional average, inflation is moderately high, the current account deficit has widened, and investor confidence relatively weak. While the incidence of poverty has fallen and social indicators improved, poverty remains a critical problem particularly in rural areas.

3. Macroeconomic stability is fundamental to securing higher long-term growth. As the CAS also underscores, the high fiscal deficit and persistent inflation also place the Bank’s portfolio at risk. (And, as we have noted in other CAS discussions, inflation is also one of the harshest taxes on the poor.) While projections show a significant decline in the fiscal deficit and a more modest fall in the rate of inflation, we would feel more confident if the Government were adopting a more forceful and ambitious program to address the structural causes of the fiscal deficit. As the CAS notes, the decentralization process -- an area where the bank is developing considerable experience elsewhere in Latin America -- is likely to impose additional stress on the fiscal situation. We therefore urge the Bank to use its close policy dialogue with the Government, as well as other opportunities, to supplement the IMF’s efforts to improve management of public finance and better facilitate fiscal stability.

4. We are in general agreement with the six strategic priorities identified in the CAS. We strongly support the emphasis given to portfolio management and project implementation, and agree that improvements in portfolio performance should gauge the level and composition of new lending. We are particularly worried by poor disbursement ratios and the chronic failure...
of the government to provide adequate counterpart funding for investment. These issues should be carefully monitored as they are essential components of portfolio improvement.

5. There is no doubt that the scale of violence in Colombia has a debilitating impact on the economy and entails enormous financial and social costs. This is also an area where there are no “quick fixes” and where the Bank has relatively limited experience. The civil society representatives consulted in the CAS process also appear unsure if, and how best, the Bank could help promote peace. While the proposed Bank engagement in this area is risky, we believe the risk is well worth taking as long as the Bank’s involvement is carefully monitored and close on-going attention placed on assessing the on-the-ground impact and sustainability of its programs.

6. The CAS notes that appropriate financial instruments do not exist for domestic infrastructure financing in debt and equity markets. The recent Financial Markets Development Project should be very helpful in this area. However, we are somewhat skeptical about the value added of an infrastructure investment fund when Colombia already enjoys access to international capital markers and benefits from an active IFC portfolio. In our view, a concerted GOC effort to address macroeconomic fundamentals would have a much more catalytic impact in mobilizing private sector finance.

7. While the CAS discusses the IDB program and the IBRD/IDB collaboration, we have no basis for assessing the extent to which the current division of labor accurately reflects the comparative advantages of the respective institutions. This seems to be a generic problem in CASs where borrowers also have access to regional development bank resources. We are pleased that this CAS acknowledges the need to enhance coordination with the IDB, and hope that this effort will receive the priority and serious attention of both institutions. On a number of occasions in the past, we have also urged that a representative of the regional MDB be invited to attend and participate in our CAS discussions, just as IMF representatives frequently attend Board sessions. While this idea has not generated much support, we continue to believe such participation would be useful and would also be a signal of the seriousness which the Board accords to effective collaboration among the MDBs.