Statement by Andrei Bugrov  
Date of Meeting: November 18, 1999

Colombia: CAS Progress Report

I welcome the CAS progress report for Colombia for the useful analysis of the current situation in the country as well as for the interesting treatment of the important issues facing it. Some of the proposals put forward in the paper appear quite unorthodox and thus open up the possibility of exciting policy debate on a broader set of issues. In particular, I am referring to the main premise of the report, namely, that a shift to the high case scenario may be triggered by a worsening of macroeconomic indicators rather than by an improvement.

In the recent months, perhaps naturally on the eve on the new millennium, our attention has been turning increasingly to the long term strategic issues facing this institution in search of an appropriate place in the changing environment. In this context we discussed the issue of strategic selectivity and effectiveness of aid, arriving at the need to rely more on the country's own decisions in the choice of development strategy. At the same time there is a growing feeling that the Bank should only support the countries demonstrably pursuing "good" policies, hence the increased emphasis on performance triggers in CAS lending scenarios. The case of Colombia is very illuminating in this respect, because it shows that the Government's commitment and resolve, and the results that can be observed on the ground, are not always perfectly correlated. There may often be a contradiction between the success the Government has had in pursuing its policies and the actual needs of the country. As the paper in question convincingly demonstrates, there may be a legitimate case for increasing involvement in a country whose macroeconomic signs look worse than originally expected, and even when the Government's actions are partially to blame for it, provided that this has a sensible explanation.

In fact, such an approach is very consistent with the Bank's practice so far. As we have seen in the recent lending retrospective paper, the volume of Bank's lending is consistently...
moving counter-cyclically with the countries’ access to capital markets, i.e., the Bank’s lending goes up as the need for it increases, not necessarily in line with improved macroeconomic circumstances. I would like us all to remember this, as well as the practical examples such as that of Colombia, next time we resume the debate of the principles of strategic selectivity in Bank’s lending and of the criteria for Government performance triggering various lending scenarios.

Coming back to the text of the document itself, I would like to ask for the following clarifications. First, I was somewhat confused by the footnote on page 3 which states that the National Accounts methodology has been recently revised. I would like to know whether the reported trends in the respective variables could be the product of this change in methodology and therefore how reliable are the assumptions underlying the revised CAS.

Second, I notice that the proposed measures of social mitigation include creating jobs. I was under the impression that this was not among the policies that the Bank generally recommends. Has the Bank’s approach to this issue changed? Is the envisaged program supposed to set up permanent jobs, or is it going to be a public works type operation?

Related to that, I was puzzled by the plans to train 60,000 youths for the labour market and create 10,000 day care centers for the children as the means for mitigating the effects of recession. While in themselves both are excellent propositions, they do seem to contradict the preceding analysis, which identifies unemployment as the main constraint for poverty reduction. It is not clear to me how the entrance of young people and women into the Colombian labour market at this juncture would help to address this fundamental problem, when according to the report even the active labour market agents are forced to drop out.

Third, the information on poverty trends could be presented more carefully. It seems misleading to conclude that the poor have suffered disproportionately from the crisis merely from the fact that the current incidence of unemployment in the poorest quintile is three times higher than in the wealthiest one. Indeed, it is as reasonable to assume that it is exactly the other way around, in that most people got into their respective income groups because of their employment status, and thus it is entirely possible, for example, that it was the middle class who disproportionately lost their jobs and joined the ranks of the poor, while the pre-crisis poor largely kept their jobs and fared relatively better. I have no doubt that the conclusion presented in the report is in fact accurate and based on some more careful analysis than the text reflects, but it would be good to have this analysis referred to more explicitly.

Finally, under the heading of non-lending services the revised CAS proposed an impressive list of economic and sector work to be undertaken in the country. I am very pleased to see the depth and variety of the Bank’s intellectual effort, and I am sure this work will prove extremely useful in the nearest future. I am curious to know more about the process of selecting the topics, the extent to which the Government could make an input into this process, and what mechanisms are available to the authorities to influence the selection of the Bank’s research agenda.
In conclusion, let me express our support for the proposed CAS Progress report and wish the Government of Colombia and the country team success in putting it into practice.