Statement by Ruth Bachmayer
Date of Meeting: November 18, 1999

Colombia: CAS Progress Report and FSAL

I welcome the CAS progress report at this point when Colombia is confronted with changes in its economic situation and external environment. It is appropriate that the Bank adapts its support strategy to the changed circumstances. I assume that the planned World Bank adjustment lending operations will be linked to the IMF program to be approved later this year.

I have some difficulty relating this new high-case lending scenario to the Country Assistance Strategy of 1997: from the CAS 1997 (paragraph 39) it is not conclusive why the Bank is moving to the high-case instead of to the low-case lending scenario, given the deterioration of the macro-economic and the social development situation and the conflict and violence problems in the country. The report presented to the Board is in my view rather a revision of the CAS 1997 than a progress report.

Nevertheless, additional financial assistance seems to be necessary to support two important and urgent policy tasks: 1.) financial sector reform and 2.) social safety and social protection programs. Given the extraordinarily important impact that poverty and inequality have on the society of Colombia and its pervasive problem of violence and crime, we would have expected that the Bank prioritizes the poverty related projects. I would, therefore, appreciate clarification from staff on their considerations to present the Financial Sector Adjustment loan first to the Board.

Colombia suffers heavily from violence and growing poverty and inequality, as emphatically described in the document. The Program Matrix rightly continues to focus in a comprehensive manner on those issues in which pervasive violence and conflicts have their roots. It is, however, not easy to understand from the matrix what is new and which developments took place since 1997, as obviously the 1999 matrix is largely a copy of the earlier

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.
one (mentioning e.g. EDI instead of WBI). I would also appreciate more information on gender-related Bank support which the report mentions as a major problem (besides youth unemployment).

We consider it important that the Bank continues to provide support through non-lending services to enhance the peace process, conflict resolution capacities on all levels of society and to foster the inclusion of civil society. As is said in the report: peace must come from inside, and the Bank can play through its services an important role to contribute to this inclusion.

The Financial Sector Adjustment Loan

We approve this FSAL to assist Colombia’s ambitious steps to reform the financial sector and to restructure its banking system into a modern and financially sound one. The loan should facilitate this process and at the same time the implementation of an IMF supported macro-economic reform program and thereby help the country to re-embark upon a steady growth path.

The fragmented structure of the financial institutions is a major impediment to increase competitiveness and improve operational efficiency. Therefore, efforts to liberalize the types of operations are necessary and should be supported. However, more competition may and most likely will force at least some of the existing 3000 “cooperatives” to merge or consolidate under the umbrella of seemingly more competitive banks. This process may entail some risks, which should be avoided or carefully managed so as not to signal or trigger any systemic problems. Also, FOGACOOP (the newly created deposit insurance entity for cooperatives) should be given appropriate importance and the necessary resources and skills to cope with problem situations, similar to FOGAFIN.

“Officialization” (the name given for bailing out banks, by assuming ownership) should be avoided to the extent possible and redefined as a rule-based process that could be employed as a last resort. This would diminish moral hazard problems.

The bad-loan portfolio may prove to be much higher than presented in table 2, due to window dressing and not very transparent off-balance sheet activities. I hope this problem is addressed in the Financial Sector Assessment, which was recently finalized by the Bank and Fund.