Colombia: (i) Country Assistance Strategy Progress Report; (ii) Financial Sector Adjustment Loan

This progress report provides a useful and timely update on the implementation of Colombia's Country Assistance Strategy approved in November 1997, especially in view of developments that have taken place since the new administration began in August 1998. Despite numerous setbacks, acknowledgement must be accorded to the Pastrana Government for laying out a solid policy platform in its National Development Plan and the achievements it has made so far. Let me make a few observations on the economic front, the Government's efforts, the CAS progress, and the revised Bank Group country program. We also would like to outline our support for the Financial Sector Adjustment Loan.

Economic Issues

On the economic front; the widening fiscal and external account deficits, external trade shocks through recent declines in the price of oil and coffee, and the tight international credit markets, illustrate the policy challenges facing the Government as it seeks to maneuver the economy out of what is apparently a worsening trend. Understandably, the situation presents some rather limited choices, thus the need for external support to stabilize fiscal and monetary conditions in the short to medium term.

In terms of the projections made, we note that the bulk of the fiscal adjustment hinges on the tax measures that still have to be passed in Congress, which are subject to potential resistance from strong interest groups. At the same time, these measures are expected to be augmented by cuts on the expenditure side in investment and wage bills, measures that could also trigger adverse reactions. We wonder how staff see these possibilities, especially when they are likely to upset the corresponding measures on the monetary side and possibly affect external balances.

Government's Efforts

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We note that Government has however made substantial progress in recognizing the weaknesses in the financial sector and has taken decisive steps to address them. The legislative reforms recently approved by Congress and other restructuring and recapitalization initiatives pursued by Government are indeed commendable. These changes would certainly pave the way to effectively pursue further reform measures and strengthen the beleaguered financial sector.

Government’s efforts in addressing poverty and inequality are very well-targeted and focused. Similarly, we are encouraged by progress made in the range of crucial initiatives outlined in the National Development Plan and supported by the Bank in the areas of peace building, good governance, and transparency. However, the Government’s proposed social protection and safety net programs, not to mention the earthquake response, would still require a concerted and continued support by the Bank and IDB as highlighted.

CAS Progress

The Bank appears to be progressing well in the strategic areas of intervention that will support the two main objectives. We commend management and staff, recognizing the difficulties they face. We however note the disappointing progress in the application of market-assisted land reforms due to increased violence and weak institutional capacity. Capacity strengthening should be strongly reflected in the CAS since it is also integral to efforts in other areas like health reforms, education decentralization, public sector management, and infrastructural services. We would welcome staffs’ elaboration on this issue.

Violence seems to affect progress in rural development and is also highlighted as a factor in the GEF’s projects. In our opinion, this can be a litmus test for the Bank’s approach to civil society participation, which must go beyond the emphasis on Bank-NGO interaction. A wide section of civil society may fall outside the representation of NGOs so the Bank must ensure that all segments of civil society are represented at least justifiably. Nevertheless, we understand that the Bank’s efforts cannot be as exhaustive as preferred and the Bank must be aware of and appreciate the sensitivities and tensions that exist between the various stakeholders.

Revised Bank Group Country Program

We support the proposed revision of the lending scenario moving from the base case to the high case lending scenario of around $450 million per year for FY98-01. Whilst we recognize the lingering risks, we agree that the revision is well justified as outlined in paragraph 57. Moreover, the increased lending will effectively meet Colombia’s financing needs, which has become critical in the face of unanticipated turn of events, internationally and domestically.
IFC’s programs will continue to complement and reinforce the results of the Bank’s assistance and we welcome their intentions to broaden their portfolios in crucial areas like SMEs, agribusiness, etc. Likewise, MIGA’s program is no less complementary and reinforcing. On the non-lending services we see a wealth of knowledge being generated through the Bank’s work on conflict and violence in Colombia as a pioneering piece of work; particularly the causes and effects, and its impact on growth, poverty and development in general.

Finally, we would like the reiterate the need for the Bank to be cautious and to closely monitor the risk areas. Given the likelihood of adverse situations, certain proactive measures may be necessary, as well as the flexibility to be as responsive as practically possible. In this regard, continued collaboration and consultation with the authorities should be maintained.

**Financial Sector Adjustment Loan.**

We support the proposed Financial Sector Adjustment Loan to Colombia. We hope this loan will be crucial in supporting the Government in implementing its comprehensive program on financial sector reforms, which we found so vital for its overall economic reforms. We are happy to note that all special conditions for disbursement of the first tranche have already met by the Government. We are also encouraged that the IMF has announced tentative plans for the Extended Funding Facility (EFF) of up to US$2.7 billion to finance Columbia’s reform efforts. However, as the total cost of reform is estimated at over US$6 billion and the Bank’s contribution is only about $500 million, we hope that the financing gap will be supplemented by Government’s domestic resources and additional donor resources.