Board Meeting of November 6, 1997
Statement by Julio J. Nogués

Colombia -- Country Assistance Strategy

In Colombia sustained economic growth for more than six decades has resulted in a continued decline in the incidence of poverty. In a region where stop-go economic and social policies were the norm for decades, this performance is an achievement of persistent good economic management. This achievement is heightened by the fact that Colombia has suffered endemic violence for decades. Thus, while in other neighboring countries bad economic policies worsened social inequalities which fueled violent activities, in Colombia good economic policies supported social progress and to this extent, helped to contain the spread of violence.

This economic performance also explains the low incidence of debt and consequently, the fact that Colombia is one of the few countries in the region that enjoys an investment grade rating. Under these circumstances, the challenge facing the Bank is not an easy one as it must prove that it can deliver clear results at low costs.

With this brief introduction, I would like to share some comments on macropolicy-performance and on the Bank CAS.

A. Macropolicy-performance

1. Fiscal policies. Recent years have witnessed an alarming deterioration of Colombia’s conservative fiscal policies as the forecast for 1997 for the balance of the non financial public sector is 24% higher than in 1996, which in turn was more than double the figure recorded in 1995. This fast worsening trend is forecasted to end this year and I support all efforts to eliminate this deficit as fast as possible. This will help to improve an already serious current account deficit and the overvaluation of the currency which usually leads to the introduction of protective measures.

2. Structural reforms and productivity. Paragraph 3 of the document presents a long list of structural reform measures introduced during the 90s. That same paragraph mentions that in most sectors, productivity has historically remained stagnant. The structural reforms introduced in recent years presumably would have resulted in an improvement of overall productivity growth. Staff may want to comment on whether in fact, this has occurred and what further
structural reforms they consider necessary in order to sustain productivity growth.

3. **Labor market policies.** The recent deterioration of fiscal, inflation and growth performance have been accompanied by an important increase in the unemployment rate. Most likely, unemployment is also being exacerbated by backward looking wage indexation and other policies that could imply serious rigidities to the functioning of labor markets. If staff consider these policies to be having serious and costly employment effects, I would appreciate if they could share their concerns.

4. **External environment.** When the CAS documentation was designed some years ago, the section on external environment was supposed to be a substantive one. In contrast, the CAS for Colombia would lose nothing if this section would have been deleted. In future CASes, what do we want to learn from this section?

B. **Bank CAS**

1. **Rural Development.** Given the very high incidence of rural poverty, I strongly support the Bank’s efforts in promoting rural development. Nevertheless, from reading the section that starts in paragraph 23, it is not clear whether the precarious access to productive resources, or the lack of basic social services will be the central focus of the Bank’s attention. In any case, providing grants to buy land may be a good idea but who is to judge which competing projects are economically viable and will receive the grants? Furthermore, given that poor peasants are uneducated, is not this requirement biasing the grants in favor of the better off?

2. **Infrastructure services.** The National Development Plan set the objective of financing 40% of the 1995-98 investment in infrastructure by the private sector. Among the big countries of the region, Colombia has been relatively slow in privatizing its public infrastructure companies. Given the experience of successful countries, privatization could proceed much faster, with important benefits to the fiscal stand of the country, and of its social programs. The document doesn’t discuss the pros and cons of Colombia following an ambitious privatization strategy and comments on this issue would be appreciated.

    Finally, let me conclude by wishing the Government of Colombia success with the implementation of its economic and social programs and the Bank CAS.