

ICR Review  
Operations Evaluation Department

## 1. Project Data :

OEDID :  
OEDID: L3449  
Project ID : P006874  
Project Name : IFI Restructuring and Divestiture Project  
Country : Colombia  
Sector : Other Finance  
L/C Number : L3449  
Partners involved : None  
Prepared by : David Greene (consultant), OEDCR  
Reviewed by : Roger Robinson  
Group Manager : Ruben Lamdany  
Date Posted : 08/26/1998

## 2. Project Objectives, Financing, Costs and Components :

Colombia's IFI (Institute for Industrial Development ), was established in 1940 to make equity investments to promote import substitution where the private sector would not become involved because of higher than normal initial investment costs or commercial risk . Since 1963, it has also been acting as a development bank, lending to firms directly or through intermediaries . It has also taken over and refinanced uneconomic parastatal enterprises . IFI's single most important source of funds were indexed bonds (BVC) held by the Social Security Institute . These bonds generated a deficit that exceeded IFI's net worth . Nevertheless, IFI had generally broken even and its financial condition was sound. The objective of the project was to support the Government's decision to divest IFI's industrial holdings in line with the public sector's withdrawal from productive sector activities . In addition, it would assist in transforming IFI into a more efficient financial institution . At the same time, the ground work for its privatization would be established. The proceeds of the Bank loan were to be on lent at market rates to medium scale enterprises.

## 3. Achievement of Relevant Objectives :

The project achieved its immediate objective of improving IFI's operation efficiency and financial condition, implementing the divestiture program, and helping IFI diversify its sources of financing . IFI reorganized its vice presidencies, updated its policies and procedures, used training programs to improve management and staff capabilities, and developed a new MIS . The government paid off IFI's liabilities to the Social Security Institute . IFI would repay the Government in four years . IFI managed to sell its shares in 15 of the targeted 25 enterprises and two of the six special case companies . A total of 18 sub-loans totaling US\$ 47.2 million dollars were

approved under the Bank line of credit. However, only 12 were performing satisfactorily at the time of ICR preparation .

4. Significant Achievements :  
As above.

5. Significant Shortcomings :  
The Bank misread the commitment to privatization of IFI, even though IFI's Policy Letter specifically mentioned only carrying out a strategic analysis to be followed by a government decision . In the event, Government decided not to privatize IFI and instead decided to expand the public sector's role in financing industrial development . In addition, contrary to the consultant's report, IFI's strategy was to continue both first and second -tier lending, which the Bank considered inappropriate. As a result the Bank decide to let the project expire as the original closing date at the end of 1997. At that time a balance of US\$ 55.5 million was canceled.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Marginally Satisfactory	The Region felt the project was "partially satisfactory" in the text but this rating option was not available to the Region in the standard table.
<input type="checkbox"/> Institutional Dev .:	Partial	Modest	
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :  
The project demonstrates dramatically the necessity of ascertaining the country's commitment to larger project goals at the outset. The Policy Letter provided an opportunity for constructive dialogue on issues and should not be taken as a pro forma exercise.

8. Audit Recommended?      Yes    No

9. Comments on Quality of ICR :  
The ICR is satisfactory, although it would have been useful to have an English summary of the Government's contribution.