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PROJECT PERFORMANCE ASSESSMENT REPORT

COLOMBIA

FIFTH SMALL- AND MEDIUM-SCALE ENTERPRISE PROJECT
(Loan 3025-CO)

PUBLIC SECTOR REFORM LOAN
(Loan 3278-CO)

INDUSTRIAL RESTRUCTURING AND DEVELOPMENT PROJECT
(Loan 3321-CO)

AND

IFI RESTRUCTURING AND DIVESTITURE PROJECT
(Loan 3449-CO)

December 19, 2001

Operations Evaluation Department

Currency Equivalents

Currency Unit	=	Pesos
1989 US$1	=	433.92
1990 US$1	=	568.73
1991 US$1	=	706.86
1992 US$1	=	811.77
1993 US$1	=	917.33
1994 US$1	=	831.27
1995 US$1	=	987.35
1996 US$1	=	1,005.33
1997 US$1	=	1,293.58
1998 US$1	=	1,507.52
1999 US$1	=	1,873.77
2000 US$1	=	2,187.02

Abbreviations and Acronyms

Apertura	Economic and Trade Liberalization Program
BVCs	*Bonos de Valor Constante* (Bonds Indexed to the Price Level)
CFD	*Corporación Financiera de Desarrollo*
CFP	*Corporación Financiera Popular*
COD	Country Operations Division
CONFIS	*Consejo Nacional de Política Económica y Fiscal (National Council for Economic and Fiscal Policy)*
DFCs	Development Finance Companies
ECOPETROL	*Empresa Colombiana de Petróleo*
EMP	Economic Modernization Program
FEN	*Financiera Eléctrica Nacional*
FINDETER	*Financiera de Desarrollo Territorial*
GDP	Gross Domestic Product
ICR	Implementation Completion Report
ICT	National Construction and Mortgage Institute
IDB	Inter-American Development Bank
IDEMA	*Instituto de Mercadeo Agropecuario* (Institute for Agricultural Marketing)
IFI	*Instituto de Fomento Industrial* (Institute for Industrial Development)
IFIRDP	IFI Restructuring and Divestiture Project
INURBE	*Instituto Nacional de Vivienda de Interés Social y Reforma Urbana* (National Institute for Urban Reform and Low-income Housing)
IRDP	Industrial Restructuring and Development Project
NGO	Non-Governmental Organization
OED	Operations Evaluation Department
PPAR	Project Performance Assessment Report
PPES	Performance Planning and Evaluation System
PSRL	Public Sector Reform Loan
QRs	Quantitative Restrictions
SME-V	Fifth Small- and Medium-Scale Enterprise Project
SOD	Sector Operating Division
TAP	Trade and Agriculture Policy Loan
TELECOM	*Empresa Nacional de Telecomunicaciones* (National Company of Telecommunications)
TPED	Trade Policy and Export Diversification Loan

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The World Bank
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Office of the Director-General
Operations Evaluation

December 19, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: **Project Performance Assessment Report on Colombia—Fifth Small- and Medium-Scale Enterprise Project (SME-V, Loan 3025); Public Sector Reform Loan (PSRL, Loan 3278); Industrial Restructuring and Development Project (IRDP, Loan 3321); and IFI Restructuring and Divestiture Project (IFIRDP, Loan 3449)**

The Project Performance Assessment Report prepared by the Operations Evaluation Department (OED) on the above projects is attached. The four loans constituted a package of support in 1989 to help Colombia open its economy to international trade and competition and were individually approved between 1989–92. The government maintained stable economic policies, eliminated its many exchange controls, and lowered its trade barriers; the resulting competition allowed markets to allocate resources better. Simultaneously, the government began re-orienting its public institutions, and their modernization was part of the structural reforms that the loans supported.

The **SME-V** project for US$80 million was approved on March 14, 1989. Its development objectives were to increase SME value added and employment creation. It had a US$77 million line of credit to finance SMEs, and another US$3 million for microenterprises (that was subsequently redirected to the SMEs). The loan became effective on January 25, 1991 after a long delay but disbursed quickly subsequently, with a final disbursement in June 1993. A small amount of the loan was cancelled (US$2.9 million in February 1994 and US$0.88 million in August 1994).

This assessment finds that the SME-V outcome is rated moderately satisfactory, confirming the earlier evaluation summary (ICR rating was highly satisfactory). While it was relevant to fund small and medium enterprises under the circumstances, the project's main accomplishment was to ensure that such lending was on commercial terms. Sound banks, including privately owned ones, on-lent the lines of credit and the (initially) government owned SME bank was closed after being given a chance to improve. Institutional development is rated modest, confirming the ICR rating. The unit administering the credit lines was disbanded in the Central Bank which no longer directs credit and the specialized SME bank went out of business; but this may have cleared the way for sound private banks to operate in this sector. The sustainability of the project is rated likely, confirming the ICR rating, because commercial banks will continue to lend to profitable enterprises regardless of size. The performance of the Bank and the borrower are both rated satisfactory, while the ICR rates each of these as highly satisfactory.

The **PSRL** for US$304 million was approved on December 28, 1990 and made effective on March 28, 1991. This adjustment loan had three equal US$100 million tranches and a technical assistance component of US$4 million that was augmented by US$1 million of Japanese grants. There was a parallel loan of US$305 million from the Inter-American Development Bank, also divided into three US$100 million tranches and a US$5 million technical assistance facility. The PRSL's objective was to improve the productivity of public sector assets through privatization and modernization. The first tranche was disbursed in March 1991, the second in May 1992, and the third in December 1993.

The PSRL's outcome is rated satisfactory, confirming the earlier evaluation summary (the ICR rated it as highly satisfactory). There were sweeping and lasting changes in many public enterprises (e.g., ports, telecom) but other cases (e.g., Ecopetrol) proved intractable. Institutional development is rated substantial, confirming the ICR rating: although the early improvements in public administration may have warranted a higher rating, some of these gains were eroded under the next administration. Nevertheless, the sustainability is rated as likely, confirming the ICR rating, because the trade reforms have proved durable, although interventions in agriculture through price support schemes have resumed. Borrower performance is rated satisfactory, not highly satisfactory in the ICR, because although much was accomplished, there were some reversals in agriculture. Bank performance is rated highly satisfactory, confirming the ICR rating, as it was responsive to the government's aims and concerns.

The **IRDP** for US$200 million was approved on May 2, 1991 and made effective on July 31, 1992. The line of credit of US$178 million was the largest of the four components and financed investments in industry. The project also had an industrial monitoring program, an environmental program and a labor adjustment program. The first three components were closed on schedule in December 1996, and the Labor Adjustment Assistance Program was closed in March 1998 when US$17.1 million of the project was cancelled.

The IRDP was primarily to finance the restructuring of industry which the government feared would oppose trade reforms that were perceived to hurt them. The project outcome is rated as moderately unsatisfactory, lower than the ICR's satisfactory: it was clear by the time the project was presented to the Board that reducing trade barriers did not generate the expected trade deficit or the opposition by industrial vested interests. Having the credit line project muddied the Bank's message of having markets allocate credit. Institutional development is rated as negligible in contrast to the ICR's rating of substantial. The project's sustainability is rated as unlikely, in contrast to the ICR's rating of likely. Commercial banks did, and will likely continue to, lend to profitable firms in industry, albeit at terms different from that promoted by the project. Borrower performance is rated satisfactory, confirming the ICR rating. Bank performance is rated unsatisfactory, in contrast to the ICR's satisfactory rating, because it should have been clear at the time of approval that the conditions in the country had changed and that the project served no useful purpose. Also, the technical assistance proved to be of little value.

The **IFIRDP** for US$100 million was approved on March 24, 1992 and made effective on September 21, 1993. The objective was to help IFI, the Government's industrial bank, divest its equity holdings and become an efficient financial institution. Less than half the loan, some US$44.5 million, was disbursed by mid-1995, and the loan was closed in December 1997.

The IFI Restructuring and Divestiture Project (IFIRDP) sought to set the Institute for Industrial Development (IFI for *Instituto de Fomento Industrial*), the government entity that funded industry, on a sound commercial footing. The outcome of the IFIDRP is rated highly unsatisfactory, a far lower rating than the ICR's highly satisfactory or even the evaluation summary's satisfactory ratings. The Bank sought to improve IFI's balance sheet and have it borrow from diverse sources. This gave IFI access to funds before the quality of its lending improved, and flush with funds, IFI ignored the Bank's advice. IFI failed to improve and its losses mounted (they exceeded the amount the Bank disbursed) and has since been largely closed. The project's institutional development is rated as negligible, in contrast to the ICR's partial or the evaluation summary's modest rating. The project's sustainability is rated as highly unlikely, in contrast to the ICR's uncertain rating: IFI will only administer multilateral credit lines as a small 2nd tier entity. Bank performance is rated highly unsatisfactory, in contrast to the ICR's satisfactory rating: the Bank was responsible for the project's flawed design and did not recognize the mistakes even at the mid-term review when it curtailed its own involvement (and the ICR was drafted). Consequently, IFI continued to borrow—and hence lose—more funds. Borrower performance is rated unsatisfactory, in contrast to the ICR's satisfactory rating, because the government could have shut IFI down earlier or at least prevented it from borrowing in domestic and international markets when it was clear that IFI lending was not improving.

While the outcomes of the four loans are uneven, Colombia benefited from opening its economy to international trade and its resulting modernization which the package of four loans supported. Some of the achievements such as macroeconomic stability, however, did not survive the change in administration in 1994, but the trade reforms have endured and the economy remains open. Experience with these projects lead to the following lessons:

- The respect for Bank advice should not be allowed to erode through projects that add little value, especially in countries like Colombia with very competent counterparts. The lines of credit projects (SME-V, IRDP and IFIDRP) sent mixed messages about the Bank's desire to have markets allocate credit and may have contributed to delaying banking reform in Colombia.

- The system of internal review should work better. While many questioned the credit line projects in review meetings, they proceeded with minor changes. This may be partly because the critics did not always appreciate the larger picture; but advocates of the project also ignored the changing circumstances in the country.

- The Bank should only attempt to directly improve institutions that have an important public purpose (e.g., banking supervision, port regulatory authority, etc.): others should be left to markets and competition. After vainly seeking improvements in CFP through a series of projects, the SME-V succeeded because it allowed markets to force the needed changes. Such an approach may have also worked with IFI.

- The Bank should distinguish between policy and business advice—and alert the authorities of the difference. Consultants accustomed to working for the private sector may give sound business advice (e.g., to IFI); but the Bank should have focused more on the policy issues and been alert that bad institutions often outlast the short tenure of reformers.

- Technical assistance is well used only if both the government and the Bank agree on its scope and content. *Timely* technical assistance helps key reformers get advice on issues that crop up along the way (e.g., advice on auctioning telecom rights). Funds for such assistance should be *tightly controlled and well administered* (which it was in the PRSL); but assistance for issues that the government or the agency involved has not embraced (e.g., the environment unit set up under the IRDP) is often wasted.

Contents

This report was prepared by S. Ramachandran (Task Manager). Silvana Valle provided administrative support.

Preface

This is the Project Performance Assessment Report (PPAR) for the following four loans to the Republic of Colombia:

Name of Project	*Amount $m*	*Approval date*	*Closing date*	*ICR date*	*ES date*
Fifth Small- and Medium-Scale Enterprise Project (Loan 3025)	80	03/14/1989	08/26/1994	10/11/1994	04/25/1995
Public Sector Reform Loan (Loan 3278)	304	12/28/1990	08/31/1995	07/24/1995	06/28/1996
Industrial Restructuring and Dev. Project (Loan 3321)	200	05/2/ 1991	03/31/1998	11/10/1998	03/01/1999
IFI Restructuring and Divestiture Project (Loan 3449)	100	03/24/1992	12/31/1997	06/29/1998	08/26/1998

The PPAR, prepared by the Operations Evaluations Department, is based on a mission in June 2001, internal reports, project files, Bank economic and sector work, government reports and the views of current and former staff, advisors and consultants to the government and its agencies and the Bank. Their co-operation is gratefully acknowledged. The draft PPAR was sent to the Borrower for comment. No comments were received.

The four loans were approved between 1989–92 to support Colombia open its economy to international trade and competition. The government maintained stable economic policies, eliminated its many exchange controls, and lowered its trade barriers; the resulting competition allowed markets to allocate resources better. Simultaneously, the government began re-orienting its public institutions and their modernization was part of the structural reforms that the loans supported.

This assessment finds that the Fifth Small- and Medium-Scale Enterprise Project (SME-V) outcome is rated moderately satisfactory. While it was relevant to fund small and medium enterprises under the circumstances, the project's main accomplishment was to ensure that such lending was on commercial terms. Sound banks, including privately owned ones, on-lent the lines of credit and the (initially) government owned SME bank was closed after being given a chance to improve. Institutional development is rated modest. The unit administering the credit lines was disbanded in the Central Bank which no longer directs credit and the specialized SME bank went out of business; but this may have cleared the way for sound private banks to operate in this sector. The sustainability of the project is rated likely because commercial banks will continue to lend to profitable enterprises regardless of size. The performance of the Bank and the borrower are both rated satisfactory.

The PSRL's outcome is rated satisfactory. There were sweeping and lasting changes in many public enterprises (e.g., ports, telecom) but other cases (e.g., Ecopetrol) proved intractable. Institutional development is rated substantial: although the early improvements in public administration may have warranted a higher rating, some of these gains were eroded under the next administration. Nevertheless, the sustainability is rated as likely because the trade reforms have proved durable, although interventions in agriculture through price support schemes have resumed. Borrower performance is rated satisfactory because although much was accomplished, there were some reversals in agriculture. Bank performance is rated highly satisfactory as it was responsive to the government's aims and concerns.

The IRDP was primarily to finance the restructuring of industry which the government feared would oppose trade reforms that were perceived to hurt them. The project outcome is rated as moderately unsatisfactory: it was clear by the time the project was presented to the Board that reducing trade barriers did not generate the expected trade deficit or the opposition by industrial vested interests. Having the credit line project muddied the Bank's message of having markets allocate credit. Institutional development is rated as negligible. The project's sustainability is rated as unlikely. Commercial banks will likely continue to lend to profitable firms in industry, albeit at terms different from that promoted by the project. Bank performance is rated unsatisfactory because it should have been clear at the time of approval that the conditions in the country had changed and that the project served no useful purpose. Also, the technical assistance proved to be of little value. Borrower performance is rated satisfactory.

The IFI Restructuring and Divestiture Project (IFIRDP) sought to set the Institute for Industrial Development (IFI for *Instituto de Fomento Industrial*), the government entity that funded industry, on a sound commercial footing. The outcome of the IFIDRP is rated highly unsatisfactory. The Bank sought to improve IFI's balance sheet and have it borrow from diverse sources. This gave IFI access to funds before the quality of its lending improved, and flush with funds, IFI ignored the Bank's advice. IFI failed to improve and its losses mounted (they exceeded the amount the Bank disbursed) and has since been largely closed. The project's institutional development is rated as negligible. The project's sustainability is rated as highly unlikely: IFI will only administer multilateral credit lines as a small 2nd tier entity. Bank performance is rated highly unsatisfactory: the Bank was responsible for the project's flawed design and did not recognize the mistakes even at the mid-term review when it curtailed its own involvement (and the ICR was drafted). Consequently, IFI continued to borrow—and hence lose—more funds. Borrower performance is rated unsatisfactory because the government could have shut IFI down earlier or at least prevented it from borrowing in domestic and international markets when it was clear that IFI lending was not improving.

Ratings and Responsibilities

Performance Ratings

	SME V		PSRL		IRDP		IFIRDP	
	ICR	*PPAR*	*ICR*	*PPAR*	*ICR*	*PPAR*	*ICR*	*PPAR*
Outcome	Highly satisfactory*	*Moderately satisfactory*	Highly satisfactory*	*Satisfactory*	Satisfactory	*Moderately unsatisfactory*	Satisfactory*	*Highly unsatisfactory*
Sustainability	Likely	Likely	Likely	Likely	Likely	*Unlikely*	Uncertain	*Highly unlikely*
Institutional Development	Modest	Modest	Substantial	Substantial	Substantial	*Negligible*	Partial*	*Negligible*
Borrower Performance	Highly satisfactory	*Satisfactory*	Highly satisfactory	*Satisfactory*	Satisfactory	Satisfactory	Satisfactory	*Unsatisfactory*
Bank Performance	Highly satisfactory	*Satisfactory*	Highly satisfactory	Highly satisfactory	Satisfactory	*Unsatisfactory*	Satisfactory	*Highly unsatisfactory*

* OED downgraded these by one notch in the ICR review.

Key Project Responsibilities

Project	*Staff*	*Appraisal*	*Completion*
SME V	Task Manager	Jim Hanna	Sue Goldmark
	Division Chief/Sector Manager	John Page	Krishna Challa
	Country Director	Ping Loh	Yoshiaki Abe
PSRL	Task Manager	Felipe Saez	Felipe Saez
	Division Chief/Sector Manager	John Page	Krishna Challa
	Country Director	Ping Loh	Yoshiaki Abe
IRDP	Task Manager	Jim Hanna	Jim Hanna
	Division Chief/Sector Manager	John Page	Danny Leipziger
	Country Director	Ping Loh	Andres Solimano
IFIRDP	Task Manager	Kristin Hallberg	Jim Hanna
	Division Chief/Sector Manager	John Page	Danny Leipziger
	Country Director	Ping Loh	Andres Solimano

1. Background

The Economy

1.1 Colombia's economy grew steadily but not spectacularly in the 1980s. *Per capita* income rose but despite abundant natural resources and investment of almost 20 percent of GDP, productivity fell in many sectors, largely as a result of long standing government policies that eroded incentives and encouraged inefficiency.

1.2 The government had tried to promote industry since the 1940s, allowing firms to become inefficient in their operations although adept at rent-seeking. Similarly, interventions in agriculture created many distortions: some were through trade barriers and restrictions while others stemmed from various price support programs. So the government's role in the economy was more pervasive and corrosive than the modest expenditures of around 23 percent of GDP suggest. These policies were supported by the ruling elite whose views permeated both major political parties; so although power alternated between them since 1958, these policies remained entrenched.

1.3 The government maintained macro-economic stability throughout the 1980s, although barely so. The government budget fluctuated between large deficits (of 6–7 percent of GDP) and near balance. Commodity booms (when coffee or petroleum prices rose) resulted in lax expenditure controls and busts prompted fiscal belt tightening.

1.4 The exchange rate regime was a managed float after 1967, but exchange controls were pervasive. In the mid-1980s, legal exports were about 18 percent of GDP, and the United States was by far the largest trading partner, accounting for about half the exports and a third of imports. Coffee was a major export crop but its share in exports had declined over the decades to about 10 percent while petroleum's share had risen to about a third. The Central Bank took a major role in allocating credit to favored sectors of the economy, and financed this partly through money creation. Inflation was therefore in the 20–30 percent annual range, and the peso was allowed to depreciate in nominal terms over the decades to prevent a real appreciation. External debts remained modest and Colombia avoided the debt defaults and hyperinflation that ravaged other Latin American countries.

The Apertura

1.5 Perhaps because it was spared an economic crisis, Colombia was slower than other countries in the region to recognize that governments should make way for markets. Beneficiaries of each government intervention sought to preserve it without recognizing that there would be a collective benefit from their complete elimination. A few technocrats, realizing that productivity was declining, persuaded President Virgilio Barco (1986–90) nearing the end of his term, to open the economy and allow its modernization—a courageous decision considering the worsening economic and political situation. Large external debt payments were coming due, and the International Coffee Agreement collapsed in mid-1989, halving coffee prices and reducing Colombia's export earnings. The political climate worsened when the *narcotraficantes* (drug lords) assassinated several prominent people including the leading Presidential candidate, Luis Carlos Galan. The four loans being assessed here were to support trade liberalization and economic modernization—the *apertura* ("opening") as it came to be called.

Pre-1989 Bank-Country Relations as Context

1.6 Colombia had excellent relations with the Bank, and borrowed large sums for infrastructure, agriculture, and industry. Its foreign debts in 1984 were 44 percent of GDP, and the public sector accounted for four fifths of this. The Bank was Colombia's largest single creditor with about a quarter of its total external debt (the Inter-American Development Bank, IDB, was a close second), and commercial bank syndicated loans accounted for most of the rest.

1.7 Commercial banks sought to reduce their exposure to Latin America in the debt crisis of the early 1980s. The authorities felt that this was unwarranted since Colombia was servicing its debts. To cope, they raised the already high trade barriers further rather than reduce the fiscal deficit. President Betancourt did not want a Fund program: bitter memories of the 1967 failed Fund program still affected the internal debate.[1] The authorities nevertheless wanted to honor their debts and asked the United States government and the Bank for help. The US Treasury and Federal Reserve leaned on the commercial banks to refinance the commercial debts coming due on a semi-voluntary basis in April 1985. The Fund agreed to monitor Colombia's macro-economic situation *without a formal program* and the Bank agreed to lend when necessary.

1.8 Following this 1985 understanding, the Bank approved three adjustment loans (in addition to its ongoing projects): the Trade Policy and Export Diversification Loan (TPED) for US$300 million in 1985, the Trade and Agriculture Policy Loan (TAP) for US$200 million in 1986, and the Power Sector Reform Loan for US$300 million in 1987. Although the loans were ostensibly to support structural reforms, they were essentially to finance the balance of payments and avert a debt default; so the tranche release conditions were not onerous, but there was an implicit understanding that Colombia would open up its economy.

1.9 Such implicit understandings between Bank staff and country counterparts were common, given their long and cordial relations; but the Bank was losing patience with Colombia's slow pace of reform which contrasted poorly with others in the region. Instead of reducing effective protection in 1985–87, Colombia reduced trade barriers for the items it did *not* produce—which suited inefficient domestic producers but resulted in no welfare gains. When the Bank threatened to hold up the second tranche of the trade loan, the authorities protested that they had complied with all the legal agreements. The tranche was released in 1987 largely to preserve the commercial debt agreements,[2] but it

1. Colombia's 1967 President, Carlos Lleras, and his then Minister of Finance were actively urging greater fiscal spending (regardless of deficits) in the 1980s and calling for defaulting on the external debt. External creditors were therefore willing to work with those in the government who wanted to service their debts and open their economy to international trade.
2. Colombia negotiated a US$1 billion "jumbo" loan from commercial banks in 1985, and a "concorde" loan in 1987.

fostered distrust and resentment. This coincided with an almost complete change in Bank staff during the 1987 reorganization.

1.10 The Bank's new staff perceived Colombia's accomplishments very differently than did the authorities. While the authorities were proud of their macro-economic management and uninterrupted debt service (which few rapidly reforming countries could claim), Bank staff were dismayed at the lack of structural reform. These differences were not just over trade: when the tranches of the 1987 Power Sector Adjustment Loan were repeatedly delayed because of unfulfilled conditions, the Minister of Finance argued that the Bank knew—or should have known—that the Minister of Energy could not have complied with commitments he had made. Desperate to avoid a default, he argued that the Bank was unfairly holding Colombia to a higher standard than other Latin American countries and that the Bank shared responsibility for the sorry state of Colombia's power sector with which it had long been involved. This prompted an OED evaluation of the power sector in early 1988.[3] Some of these tensions are also described in the 1991 OED audit[4] of the two trade adjustment loans.

1.11 The OED audit noted that the 1984–86 adjustment program merely restored the trade restrictions in place in 1980. "By its policy content, it (i.e., the Trade Policy and Export Diversification Loan) should rather have been labeled a Structural Adjustment Loan. Beyond mere semantics, this would have improved the understanding of what this (and the next) loan were really about, thereby prevented some subsequent cooling in Bank-country relations" (p. viii). The TAP was "a replica of the TPED with the macroeconomic emphasis supplemented by important understandings on coffee policy[5] and by agreement for modest reform measures for the agricultural sector. Several of the latter were not implemented in time, either totally or in part...." The reason for the many unwritten agreements between the country and the Bank: "the main cause of the (previous President Betancourt) Government insisting on generality rather than specific conditionality before and during loan negotiations, apparently was the resistance of the Ministry of Agriculture to having sectoral policies changed by the Ministry of Finance in the context of a World Bank loan.... As for the Bank, it went along with vague formulation of policy conditionality probably because, in its judgment, the other objectives of the loan (support of the continuation of the inflow of foreign resources in order to avert a liquidity crisis and economic recession ....) were of paramount importance at the time compared to the additional modest policy measures in the agricultural sector."

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3. "Colombia: The Power Sector and the World Bank, 1979–87," OED Report No. 8893, June 28, 1990. The Bank had lent US$1.9 billion to Colombia's power sector between 1970–87 and the IDB another US$1.9 billion.

4. Program Performance Audit Report of Loans 2551-CO and 2677-CO, Report No. 9528 dated April 26, 1991.

5. Correcting distortions in the coffee policy were not included as explicit conditions or in the legal documents because of domestic political sensitivities.

1.12 Despite this distrust at senior levels between the Bank and the government, officials worked with Bank staff to design the scope and pace of genuine trade reforms.[6] Bank staff expected an initial widening of the trade deficit: they thought that imports would rise when trade barriers were lowered but that exports would only rise later after firms invested and improved. Consequently, trade reforms were planned with two phases spread over 5 years—which suited the gradualists (and the unconvinced) in the government. Quantitative Restrictions (QRs) were to be eliminated in the first phase and replaced by an equivalent tariff structure. To ascertain the "equivalent tariff," the right to import hitherto restricted items was to be auctioned. In the second phase (over 3 ½ years), tariff rates would be made more uniform and reduced. Gradualists within the government thought even this pace was too drastic; but Virgilio Barco (President 1986–90) finally backed this approach and his government asked the Bank for financial support in mid-1989.

Post-1989 Discussions on Bank's Apertura Support

1.13 The authorities wanted to borrow from the Bank because large commercial debt payments (some US$4 billion) were coming due between 1990–94. With an impending change in administration, they wanted a cushion to accommodate possible delays in securing a package of new commercial borrowings. They asked the Bank for US$1.5 billion in three adjustment loans (one for public sector reform, and sequels to the trade and the power sector loans), but the regional Vice President—who felt that the Colombians should reform faster—turned them down. This shocked and annoyed the authorities, especially because the Bank's technical staff had agreed that the proposed pace was prudent.

1.14 The Bank distrusted an administration that had not lowered trade barriers in 1985–86 (under the earlier TPED and TAP loans) and doubted that such changes could be made near the end of its term (and not be reversed by its successor). The Bank asked for a medium term macro-economic program before discussing the matter further. The authorities prepared the Economic Modernization Program (EMP) in response but balked when the Bank wanted to include macro-economic indicators as tranche release conditions: instead, they wanted the Fund to monitor the macro-economic program[7] as before both because they suspected the Bank's motives and because they felt the Fund had the greater expertise in this area. The Bank then insisted that Colombia have a Fund program in place—perhaps understandable after the Bank's failed adjustment loan to

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6. "Colombia: Industrial Competition and Performance" (1991) is an example of a Bank study undertaken by local consultants between January 1988 and March 1989 of the relation between industrial performance and trade, regulatory and financial policies. It found that output grew because of physical investment, not productivity; and that the growth would have been higher if productivity had merely stayed constant (it had declined).

7. The authorities made their case during several visits and finally in a two-volume report *Acerca de las Relaciones Institutionales y Crediticias de Colombia con el Banco Mundial en el Marco de Créditos de Ajuste* (July 1990).

Argentina without the Fund,[8] but this requirement further fuelled the distrust because the authorities felt the Bank was asking for what it knew would be politically unacceptable.

1.15 In late 1989, the Bank—after the US Treasury and Fed officials interceded discreetly on Colombia's behalf—agreed[9] to prepare a Public Sector Reform (Adjustment) Loan (PSRL) provided that Colombia begin its trade reforms immediately, and to monitor Colombia's macro-economic framework jointly with the Fund but without a program (enhanced semi-annual Article IV consultations). Preparations for the PSRL may have been largely to show continued Bank support to wary commercial lenders.

1.16 Although the minimum reforms expected under a PSRL were laid out, Bank staff were unsure about if and when these measures would be undertaken and the loan would be made. They therefore continued/revived other projects to rebuild the "loan pipeline" that was depleted by the 1987 reorganization. Most projects originated in the trade, finance and industry sector operating division whose staff were largely drawn from the (pre-1987) industry group which traditionally focused on the investment needs of industry leading to lines of credit projects.[10] So the SME-V project preparations continued, the IRDP credit line was developed, and a (on again, off again) project for the Institute for Industrial Development (IFI) was revived in 1988 when the head of IFI and the trusted Minister of Development approached the Bank for help. IFI was a government entity that promoted industry since the 1940s (accounting for some 13 percent of total credit to industry in the 1980s). Despite its sizable lending to Colombian industry since 1966, the Bank had avoided dealing directly with IFI which was thought to be inefficient and politicized.

The 1990 Apertura—and Its Speed

1.17 1990 ushered in major political and economic developments. Voters went to the polls three times: to elect an assembly to draft a new Constitution, to vote for new Mayors with greater powers, and to choose a new President. Cesar Gaviria, President Barco's first Minister of Finance, was elected President (following Galan's assassination) and Rudolf Hommes (who had worked closely with Bank staff on the trade reform plans) became Finance Minister in August 1990. President Gaviria was committed to trade reform but his economic team had to contend with dissent in his cabinet.

1.18 The new Constitution allowed many public institutions to be revamped, including the Central Bank. Colombia eliminated exchange controls and opened its capital account. The capital inflow (almost 1 percent of GDP in 1990) and low auction prices for the right to import (which suggested that eliminating trade restrictions may not devastate industry

8. A full account of the Bank's failed support to Argentina in 1988–89 is in OED's "Argentina: Country Assistance Review," Report No. 15844, June 28, 1996.
9. Shahid Husain (LACVP) wrote to Moeen Qureshi (EVP Operations) on December 15, 1989 summarising the discussions during and following the 1989 Annual Meetings. Trade reform would begin without a Bank adjustment loan to support it; but he proposed an adjustment loan (to support public sector management) without the Fund.
10. An example of such work is in the Staff Appraisal Report of the IRDP where the problems—and investment requirements—of furniture, textiles, clothing, tanning and other segments of the industry are detailed.

as some had feared) emboldened the new administration in October 1990, to lower trade barriers in 18 months instead of over the planned 5 years.[11]

1.19 The Bank was surprised and pleased with the changes, and quickly prepared the Public Sector Reform Loan (PSRL); but by the time it was approved in December 1990, *all the planned reductions in trade tariffs conditions had occurred.* The PSRL's tranche release conditions were to ensure that trade reforms would not be reversed and the many physical and institutional impediments, especially the working of the ports and the broad reform of public enterprises would begin. The PSRL, together with the lines of credit projects under preparation (IRDP and the IFIRDP, with SME-V approved in 1989) formed the Bank's package of support for the *apertura*.

2. The Loans

2.1 In this section, the overall objectives of the Bank's support is briefly described, before turning to the design and implementation experience of each loan in turn.

The Broad Objectives

2.2 While each loan had its own stated objective, the Bank's *larger objective of supporting the apertura was clearly relevant* to the country's needs. The *apertura* was intended to have markets allocate more resources thereby improving economic efficiency, and although trade reform was clearly an important element, other changes were also needed. Unlike reducing trade tariffs that could be done with a stroke of the pen, re-orienting public institutions would be a gradual process. Adjustment loans are not well suited for such institutional development; but they can get the process started. The other three loans in the package of Bank support would augment the country's balance of payments (much as with an adjustment loan) and were intended to overcome opposition from various quarters to the *apertura*. So the Bank's package of support seemed appropriate at the time.

2.3 There were, however, two complicating issues: (1) Colombia did not need the foreign exchange (perhaps as early as 1991, and certainly subsequently) and (2) the Bank's lines of credit projects contradicted the main thrust of the *apertura* which was to increase the markets' role in resource allocation.

2.4 While Colombia borrowed from the Bank during these years to service its debts, it valued the Bank's technical advice and the endorsement that the loans implied. Even when the Bank's advice was not heeded immediately, it was taken seriously and influenced the debate within the government. While President Gaviria was committed to opening Colombia's economy, the Bank's clear views on trade reform and the detailed

11. Under the reforms, all non-tariff barriers were eliminated; export taxes were eliminated for all commodities except coffee; the number of tariffs was reduced from 7 to 4, and the range of rates declined from 0–50 percent to 0–20 percent.

work on tariffs, influenced the debates within the government. The Bank was less clear—and therefore less influential—about whether markets should allocate credit, and this contradiction was inherent in the three line of credit projects being assessed.

2.5 Several Bank reports[12] correctly identified the problems in Colombia's financial sector and traced their causes to over-regulation and the excessive presence of the state—and the Central Bank—in allocating credit. The Bank's *project* documents, in contrast, reveal a distrust of credit markets: they repeatedly assert that investment needed "long term credit" whose absence implied that markets failed and that Bank's credit lines were needed to "fill the gaps" that the market left. Long term nominal contracts disappear when inflation is high, and the rate in Colombia was between 20 and 30 percent a year. Worse, the government had prohibited many indexed instruments (e.g., tied to the exchange rate) from being used, and capital market alternatives were stymied when the government provided term loans at fixed rates.[13] Furthermore, Bank research[14] found that although much of the long term debt was subsidized, little went to small or new firms, and firm efficiency was inversely related to long term credit. In other words, the more efficient firms, including SMEs, obtained short term credits with little difficulty. Although these facts were noted in the Bank's analytical documents, they were ignored in others.

2.6 Similarly, several Bank documents asserted—either echoing Colombian arguments or *vice versa*—that banking was "oligopolistic" because (1) the four largest banks had 45 percent of the stock of banking assets and (2) banking spreads (the difference between lending and deposit interest rates) were high. Concentration ratios do not measure market power because they ignore competition waiting in the wings; moreover calculating such ratios for stocks (rather than flows) may be misleading. The Bank's financial sector work noted that many of the larger financial institutions were government owned; so the government *qua* owner could correct such behavior. Furthermore, even the IFIRDP staff appraisal report mentioned (§31) that half of the roughly 10 percent spread was due to the implicit taxes on intermediation (through forced investments and other controls).

2.7 Senior, technically competent, Colombian counterparts picked up on these contradictory messages. So although a "Financial Policy Framework, 1990–94" was negotiated in April 1991, many in Colombia viewed it more as an attempt to mute the opposition *within* the Bank over lines of credit projects, especially following the Levy

12. Two examples were Chapter 4 in "Colombia: Industrial Competition and Performance" was drafted in 1988 (published in 1991) and "Colombia: Financial Sector Reform" (Report No. 11724-CO). The latter was a very voluminous and comprehensive report, of 168 pages plus two additional annexes, prepared in 1991–92 detailing the problems in, and the reforms for, the financial sector.

13. Rudolf Hommes, the Minister of Finance and the Bank's main counterpart during this period, was earlier on the Central Bank's Monetary Board and found that the secular decline in Colombian stock market coincided exactly with the increase in government interventions such as directed credits.

14. Izak Atiyas (1991), "Efficiency, Corporate Indebtedness and Directed Credit in Colombia," World Bank Industry and Energy Department Working Paper No. 54, and Albert Berry and Jose Escandon (1994) "Colombia's Small- and Medium-Sized Exporters and their Support Systems," World Bank Policy Research Working Paper No. 1401.

report[15] which was critical of credit line projects. None of the Bank's many credit line projects succeeded in freeing lending interest rates.

Fifth Small- and Medium-Scale Enterprise (SME-V)

2.8 The objective of the US$80 million **Fifth Small-and Medium-Scale Enterprise (SME-V)** was to increase employment and value added by financing small and medium enterprises. Its three components were: (1) a US$77 million credit line for SMEs, (2) a US$3 million microenterprise component, and (3) an SME policy study that would identify hurdles that SMEs face that the government could remove. Unlike the previous four SME loans channeled exclusively through the inefficient *Corporacion Financiera Popular* (CFP), SME-V was administered through the Central Bank, and made accessible to other institutions also—and to the CFP but only if it met certain financial performance indicators.

A Discussion of the Objectives

2.9 Ironically, the tension and distrust during this project's preparation improved its design. Senior Bank managers, impatient with Colombian reforms, insisted on freeing lending interest rates. While this did not happen, interest rates were raised—and the CFP was no longer the exclusive lender of the project's funds.

2.10 The need for SME lending, however, was based on questionable analysis. Employment is created only if jobs in the borrowing enterprises are a net addition to the total employed. While the SME-V project was too small to have a detectable effect on aggregate employment, Bank studies had found that the minimum wage was more binding in Colombia than, say, in Mexico: and Colombia's real minimum wages rose by 45 percent over the 1980s.[16] Furthermore, textiles and leather (the sectors with many SMEs) were low wage industries where the minimum wages were more likely to be binding. If so, it would explain the decline in the SME sector—and hence of SME credit—that project documents describe. Under these circumstances, offering SMEs credit without removing the wage restrictions would not have increased *aggregate* SME value added or employment, although the fortunate SME borrowers would have benefited from the better terms of the loans.

2.11 Notwithstanding these concerns, however, and considering Colombia's larger economic context—the fears of a wider trade deficit, and the uncertainty over if and when the Bank's adjustment loan would be made—the implicit objectives of the SME-V may be considered relevant.

15. Report of the Task Force on Financial Sector Operations (August 1989).

16. Linda A. Bell (1995), "The Impact of Minimum Wages in Mexico and Colombia," World Bank Policy Research Working Paper No.1514. Using panel data, Bell estimated the elasticity of low paid, unskilled employment with respect to minimum wages was between 0.02 to 0.12 for Colombia.

Implementation

2.12 Although the loan was approved in March 1989, it took almost two years before it became effective in January 1991 because the authorities balked at raising the interest rates to the agreed levels.[17] Once the loan became effective, however, it disbursed quickly (fully in less than two years) suggesting that despite the negotiated increase in the lending rates, they were still below market clearing levels.

2.13 The CFP intermediated about a third of the funds before it became ineligible for failing to meet the agreed financial performance indicators. This precipitated the government's decision to privatize the bank, which became the *Corporacion Financiera de Desarrollo* (CFD). It was privatized in April 1992 under new managers and recapitalized. Many employees—and the Inter-American Development Bank's (IDB) private sector arm—bought the additional shares that were issued; and the improved financial ratios that the ICR notes were the direct result of this sale of new equity, not improved operations. By June 1992, the government owned 39 percent of CFD (down from 99 percent before). After struggling under several General Managers (and after the ICR was completed), CFD finally went out of business and is being liquidated.

2.14 The US$3 million earmarked for microenterprises (US$2.9 million for sub-loans and US$100,000 for technical assistance for microenterprise sub-loan administration) was reallocated in May 1993 to the general credit line when the NGO that was expected to use it for microenterprises got more favorable terms from an IDB project.

2.15 The ICR notes that the SME sector study had no effect on policy. The Central Bank stopped administering credit lines, and so was no longer interested in these issues.

Public Sector Reform Loan (PSRL)

2.16 The **Public Sector Reform Loan (PSRL)** was the Bank's main support for the *apertura*. The US$304 million PSRL had three equal tranches of US$100 million, plus US$4 million for technical assistance augmented by a US$1 million Japanese Grant. There was also a parallel US$300 million IDB loan with similar tranches and a US$5 million technical assistance facility. By the time the loan was approved in December 1990, Colombia had already eliminated exchange controls and reduced its tariffs; so its stated objective was to support the macroeconomic framework of the EMP and the accompanying public sector reforms. A secondary objective of the PSRL was to improve the Government's policy making and implementation ability through technical assistance. Many (central and municipal) government-owned firms were autonomous and were losing money, prompting the central government to tighten its oversight. The Government envisaged turning their aggregate 1988 losses of 0.95 percent of GDP into a 0.55 percent of GDP surplus by 1994.

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17. The Bank could not get the interest rate ceilings eliminated and accepted rates a few percentage points above DTF, an average interest rate on 30 day certificates of deposits. The DTF is a market determined rate although government owned banks dominate the system. While lending rates above the DTF reduces "round tripping," they are less than market clearing.

A Discussion of the Objectives

2.17 When markets have a greater role in allocating resources, the many government institutions must be re-oriented. Although such changes take longer than the disbursement period of an adjustment loan, the loan could endorse an approach and get changes started. The approach that was chosen was to have CONFIS, an inter-ministerial council, oversee the public enterprises with major fiscal implications through a performance planning and evaluation system (PPES) that defined efficiency indicators and investment plans. The Bank backed this by having the PSRL's tranche conditions include satisfactory implementation of the PPES.

2.18 Performance agreements were first signed for four big entities that had resisted earlier reform attempts: Ecopetrol (the petroleum company), Telecom (the telephone company), ICT (the low income housing authority), and Himat (the irrigation agency) which together accounted for almost half the revenue of all state-owned firms. Ecopetrol, in particular, generated large cash surpluses and made huge investments that the government had vainly sought to control. Although petroleum firms are eminently privatizable, Ecopetrol was not because guerrillas often attacked its pipelines and its unions were particularly troublesome. Subsequent tranche release conditions required similar agreements with other entities, including IDEMA (the agricultural procurement entity, *Instituto de Mercadeo Agropecuario*) and for the privatization of four banks.

2.19 The approach was sensible—but the difficulties were also foreseeable. CONFIS was handicapped because the Ministry of Planning staff (that acted as its secretariat) did not know the firms well, and they were to be assisted by international consultants funded through the technical assistance component of the loan (US$10 million of which US$4 million from the Bank, US$1 million from the Japanese grant, and US$5 million from the parallel IDB loan). Even this, however, required the firms' cooperation which was not always forthcoming. The PPES may have worked for firms with deficits who, requiring funds, may have been more amenable to central government oversight; but firms generating cash surpluses could ignore the PPES and may have needed a different approach.

2.20 Even so, however, the objectives of the PSRL were relevant and its design was generally sound.

Implementation

2.21 The structural reforms were wide in scope and complex in content, making supervision of the PSRL a challenge. The closing date was extended twice (first to December 1993 and then to December 1994). The Bank implemented the project well, being flexible when this was warranted.

2.22 The three tranches (of US$100 million each) were disbursed in March 1991, May 1992 and December 1993, when the loan conditions and covenants had all been met. The macroeconomic situation, while satisfactory throughout, was far from that expected in 1989 when the project was proposed: instead of a balance of payments deficit, large capital inflows from 1990 onward resulted in huge surpluses.

2.23 The PPES was instituted as scheduled and some improvements followed. For example, the entity dealing with low income housing improved. The ICT was liquidated, and its successor INURBE no longer builds or finances houses; it only administers government subsidies and provides technical assistance to municipal and housing associations that need it. These subsidies were transparently allocated through the budget, and were better targeted: two thirds went to families with monthly incomes less than US$200.

2.24 The changes in the ports were perhaps the most sweeping and lasting. The ICR reports that tariffs fell by 52 percent and overall productivity increased by 60 percent and this was the result of allowing more efficient private operators. A new regulatory framework made the Superintendent of Ports responsible for regulations and granting concessions, the regional port societies responsible for the administration and maintenance of the facilities and private operators responsible for stevedoring, loading, unloading, transferring, piloting, tugging and ship handling. Colpuertos is being liquidated, but this is dragging on and has proved to be costly to the budget because of the poor co-ordination between the different authorities and Ministries that raised the severance pay needlessly. Nevertheless the benefits to the economy are considerable.

2.25 The Government's authority to restructure public entities was challenged in court. By then, however, the government had "over-extended the role of the PPES" to far too many firms (including electric power distribution firms with complex transfer pricing issues involving local governments), many of which had no significant budgetary effect.[18] The reforms worked remarkably well with the ports, where the attempt was not to improve the existing state owned firm (Colpuertos) but instead to open shipping to private operators and let the more efficient prevail.

Industrial Restructuring and Development Project (IRDP)

2.26 The **Industrial Restructuring and Development Project (IRDP)** for US$200 million was approved in May 1991 with (1) a US$192 million credit line "to increase the international competitiveness of Colombian industry," and (2) US$8 million for technical assistance. This technical assistance was allocated to (i) project management support for US$1 million, (ii) environmental improvement program for US$2 million, and (iii) a labor adjustment assistance program for US$5 million. Preparations began in mid-1988, financed by a Bank executed PHRD grant, with five detailed sub-sector studies identifying inefficient firms and proposing investments to modernize them. The project was to finance the renovation of industrial capacity and increase product quality and service. Loan covenants ensured that there was no backsliding on the *apertura*: the loan required policy changes in the sub-sector before firms could borrow (e.g., price controls on cotton production had to be changed into a price stabilization scheme acceptable to the Bank before cotton producers could use the credit line).

18. The December 4, 1992 back-to-office report of Felipe Saez (Task Manager) to Krishna Challa (Division Chief) before the release of the third tranche details these difficulties.

A Discussion of the Objectives

2.27 This assessment has already questioned the rationale for credit lines with particular terms or for specific sectors. The IRDP provided credit to large firms which in all likelihood could access bank and equity financing, especially if the restructuring was profitable. Considering that politically well-connected firms opposed the *apertura*, project *preparation* may have been defensible, especially when the adjustment loan was also in doubt. The PSRL had already become effective, and it was clear by May 1991 when the IRDP was presented to the Board for approval that trade barriers had fallen without any adverse trade or balance of payment deficit or political fallout; so the IRDP's relevance was modest at best.

Implementation

2.28 IRDP's credit line disbursed by 1998. The ICR describes the disappointing technical assistance experience. The labor adjustment program, consisting of training displaced workers, was ineffective because the Canadian model adopted was not tailored to Colombia's circumstances. Most of the 16,000 workers trained already had jobs and were not displaced workers.

2.29 The industrial monitoring unit was established in 1993 in the Ministry of Development but closed by year end with its duties contracted to a private firm. While this was not bad in principle, the government's evaluation found that the private contracting made it ineffective largely because the contracts were of very short maturities and payment delays.

2.30 After the pollution control unit was established in the Ministry of Planning, its legal authority to act was found to be lacking. Nor was the Central Bank interested in vetting the investments financed under the IRDP credit lines for their environmental effects, because they did not view such activities as within their purview.

IFI Restructuring and Divestiture Project (IFIRDP)

2.31 Preparations for the US$100 million **IFI Restructuring and Divestiture Project (IFIRDP)** began in 1988 when the newly appointed head of IFI asked the Bank for help. The project was approved in 1992 after long discussions over IFI's future. The project's objectives were "to: (i) implement a divestiture and privatization program of IFI's existing equity holdings, including the development and implementation of individual restructuring and divestiture plans; (ii) to support the implementation of a new corporate strategy for IFI which will reorient its role in industrial and financial sector development by transforming it into a more efficient financial institution that can compete on an equal basis in the financial markets—in the process enhancing competition in such markets, and filling a market gap in financial services needed to support investments consistent with the liberalization of the economy. Achievement of these two objectives *would pave the way for the eventual privatization of IFI itself, for which a specific plan would be drawn up* under the project." [italics added]

A Discussion of Objectives

2.32 An assessment of the objectives and design of the IFIRDP requires a fuller explanation of its antecedents and the people involved. The IFI General Manager who approached the Bank for help in 1988 was an engineer who came to know the Bank through the Bogota water project that the Bank financed. He wanted help *in making IFI efficient* and to help sell its many equity holdings. The Bank responded quickly. Staff and consultants were sent to look at the five major firms[19] that IFI owned and had lent to, and discussions began on how to help IFI improve. The Bank trusted the sincerity and commitment of the Minister of Development[20] who oversaw IFI; but rather than limit itself to helping liquidate IFI's equity holdings, the Bank sought to improve IFI itself, leading to the project's particular design.

2.33 The project sought to make IFI a commercial entity: an ambitious task doomed to fail because IFI's incentives were not changed and it remained beholden to the political interests of the Minister of Development. The Bank helped identify international consultants (that the Andean Fund paid for) to prepare a business strategy for IFI. The consultant's October 1989 report evaluated IFI's strengths and laid out a broad plan for making it a venture capital fund or a business incubator. The Bank was kept abreast of the study and was pleased with the changes in IFI's organization and staff.

2.34 IFIs total assets at the end of 1990 were around US$500 million, but its unrecognized losses were estimated at nearly US$200 million. IFI owned and lent to firms (both private and government-owned), but its assets were concentrated in a few enterprises in severe difficulty. IFI's loans were of long maturities at *fixed nominal interest rates*, but almost half its 1990 liabilities were 25 year *indexed* bonds (*Bonos de Valor Constante,* BVCs, were at inflation rate plus 5.5 percent p.a.) held by the state's pension fund. So a part of IFI's losses were because its borrowers could—or did—not repay, while another part arose from the mismatch between IFI's lending and funding terms and maturities. The project focused on correcting this asset-liability mismatch than on improving IFI's lending.

2.35 IFIRDP's immediate task was to improve IFI's balance sheet and diversify its funding. Loan covenants required many accounting transfers from the government and the pension fund by December 1995. Although project documents describe IFI restructuring as necessary steps to its eventual privatization, every former official the assessment mission met confirmed that IFI's privatization was not on the government's medium term agenda. While the Bank may well have sought IFI's privatization, this was clearly not imminent.

19. These were a pulp and paper company (Papelcol) using bagasse but with idle plants because an inappropriate technology was chosen; a heavily polluting salt and caustic soda firm (Alcalis); a salt mining and processing firm (Salinas); a valuable and potentially profitable nickel mining and processing firm (Cerro Matoso, a joint venture with the international mining firm Billiton); and a petro-chemical firm producing caprolactim and synthetic fertiliser (Monomeros, jointly owned by Colombia's Ecopetrol and multinationals).

20. The Bank was particularly responsive to the then Minister of Development because she helped get the *apertura* approved in the teeth of cabinet opposition. The Minister regarded the Bank's attempt to raise broader financial sector issues as unfairly preventing help from improving IFI.

2.36 The project's design was fundamentally flawed because it relieved IFI of its cash squeeze *before* ensuring that it made sound loans.[21] The project was not needed to finance industry because the IRDP had been approved and could fund and advise industry (including IFI's borrowers). The IFI project was especially ill-advised because it was abundantly clear in early 1992 when it was approved, that the country did not need the foreign exchange disbursement and the people the Bank trusted were no longer involved. In the words of a former government official, "funding IFI to heed advice on becoming a sound commercial bank was like feeding a monster in the hope that gratitude would make it obedient."

Implementation

2.37 Considerable effort was devoted to implementing and supervising the project. Each of the string of General Managers emphasized a different role for IFI. When the Central Bank wanted to stop administering multilateral banks' credit lines, it proposed IFI instead. IFI was willing to be the second tier lender of long term credit to industry; but in addition to—and not instead of—its normal first tier lending. Bank staff felt this to be a conflict of interest. Meanwhile, IFI's balance sheet improved as a result of IFIRDP's loan covenants that required the government making good on the unrecognized losses stemming from the BVC bonds. The Bank encouraged IFI to "diversify its funding sources" by borrowing domestically and abroad.

2.38 The loan continued to disburse until mid-1995; but the planned mid term review was delayed until mid-1997. The Bank had wanted IFI to choose between being a 1st or 2nd tier lender, and these arguments delayed the review. Finally, flush with funds from syndicated loans and bond issues, IFI refused to heed the Bank which then allowed the loan to expire.

3. An Assessment of the Loans

3.1 As the four loans constituted the Bank's package of support, the developments in the economy are reviewed before the loans are assessed individually.

Economic Management

3.2 Although the economy grew at a healthy clip (4.3 percent and 2.1 percent in 1990 and1991), the trade deficit did not rise as Bank staff expected and the current account was not a deficit of 1.9 percent that the Fund expected[22] (even as late as June 1990) but a

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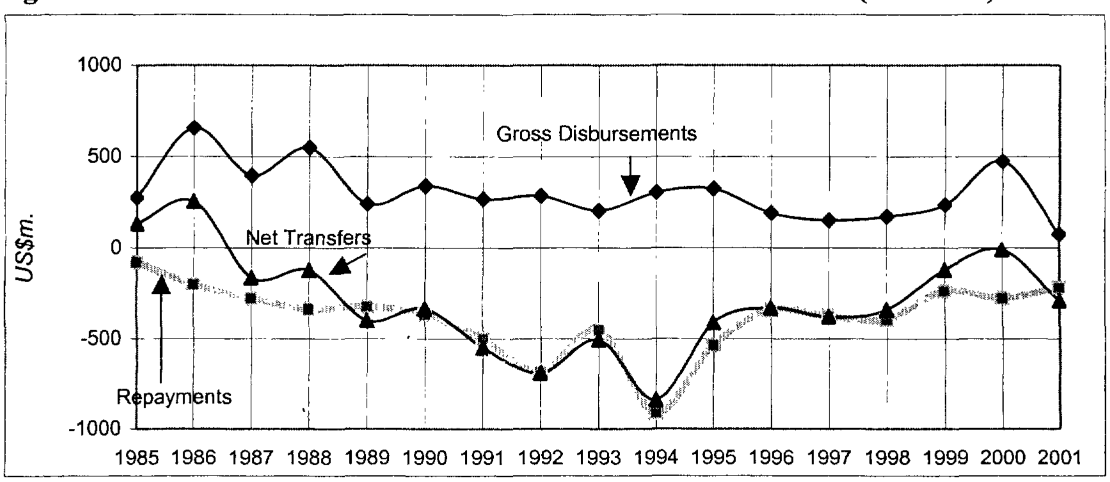
21. Although the Task Manager is formally responsible for the project, both the Task Manager at the time of project preparation and her successor (who presented the loan to the Board) had each joined the Bank just a short time earlier. All the former officials that the assessment mission met remembered that the Bank's main interlocutor for the project was an experienced former Bank staff, who working as a consultant at the time.
22. IMF Staff Report EBS/90/109, June 15, 1990 provided the macro-economic background for the Bank's PSRL adjustment loan approved later that year.

surplus of 1.3 percent of GDP in 1990 and 5.7 percent in 1991. Capital inflows, particularly capital transfers, rose by US$600 million to US$1.7 billion in 1991. The capital inflow that began in 1990 (when exchange restrictions were lifted and a tax holiday was granted) soon became a flood. Consequently, the Central Bank allowed the peso to appreciate in real terms from mid-1990 (and even in nominal terms in 1993–94). Even so, the balance of payments surplus exceeded US$2 billion (about 5 percent of GDP) and foreign exchange reserves swelled to over 9 months of imports.

3.3 With the (managed) pegged exchange rate regime, the balance of payments surplus would have increased domestic money supply (M1 grew between 26–30 percent) and hence inflation; but sterilizing the inflow raised domestic (nominal and real) interest rates (interest rate controls at the time make published data unreliable). The Central Bank abandoned the "less than 20 percent" inflation target. With ample foreign exchange reserves, the authorities decided to reduce their foreign debts and allowed countries like Venezuela to borrow in the Colombian markets.

3.4 Ironically, the older Bank loans were the more expensive of Colombia's borrowings. Under the old pricing system, the Bank charged the same nominal interest rate regardless of the currency disbursed to the borrower. Countries had to repay the same currency that was disbursed. Countries who received (and had to repay) appreciating currencies therefore paid dearly, and Colombia was one such case. Colombia therefore decided to repay its old loans before they came due. Consequently, the Bank's net transfers to Colombia turned negative from 1987, as may be seen from Figure 3.1, but the magnitude almost doubled from 1991 onwards. So, contrary to the fears when the projects were being prepared in 1989, Colombia did not "need" the foreign exchange disbursements that the later projects provided.

Figure 3.1: Colombia—Gross Disbursements and Net Transfers (FY85–01)



Structural Reforms

3.5 Trade barriers fell and exchange controls were eliminated early in 1990. Reorienting public institutions requires sustained effort, and while this was begun well in the 1990–94 period (when the loans being assessed were disbursing), they were not sustained during the following administration. The government resumed intervening inappropriately in agriculture. Although several distortions remain in agriculture (as explained under the PSRL), the trade reforms were successful and Colombia remains a largely open economy.

3.6 While the government gave markets a greater role in allocating physical resources through freer trade, it was not as successful in allocating credit this way. Although the Central Bank withdrew from many peripheral activities (e.g., directing credit, see Box 3.1), it was not a strong ally in furthering the market's role. The Governor at the time, distrusted markets and objected to the Bank's hostility to the development finance companies (DFCs) that it had avidly promoted earlier in Colombia. (He complained to his advisors at the time that the Bank underestimated the cost to the country of such flip-flops.) For its part, the Bank had come to realize that DFCs were ineffective and often wasteful, but failed to convincingly explain this to the authorities. The authorities were further confused when some Bank staff advocated markets, even while others pushed lines of credit projects in the country on the grounds of "market failures" and the absence of "term lending."

Box 3.1: Changes in the Central Bank

The Central Bank had long been at the centre of the system to direct credit to favored sectors of the economy. Indeed, some 85 percent of all credit to industry was directed in the mid-1980s.[23] The Central Bank was not averse to having a development role and relished allocating credit. Indeed, the seignorage and inflation tax revenues gave it considerable resources and hence power which the then Governor felt was being put to good use.

The 1991 constitution, however, changed this. It required public institutions, including the Central Bank to redefine their role. The Central Bank become independent of the government, and shed its many credit allocation functions. The Board responsible for central bank policy became independent of the executive branch of the government (the old Monetary Board was not). Despite these changes, the Central Bank remained suspicious of markets and did not object to other government entities taking on tasks that it was shedding. So while it no longer could handle the Bank's many lines of credit projects (which the Bank wanted it to continue handling), it proposed IFI as an alternative for the Bank's industrial lines of credit.

3.7 All of the many former government and central bank officials that the assessment mission met said that the Bank did not convey as clear a message on banking as it did on trade. This was unfortunate since it was clear (at least after 1990) that Colombia sought the Bank's technical advice and backing, not foreign exchange disbursements. Despite good technical analysis (e.g., the 1991 study on banking and financial sectors[24]), the

23. Chapter 4 of "Colombia: Industrial Competition and Performance" (1990) describes the many ways in which the Central Bank directed credit.

24. In 1990, a new Financial Sector Reform Law was passed, authorising the government to introduce the necessary institutional and regulatory changes, to facilitate market entry and exit, reduce reserve requirements etc. Bank staff helped the Ministry of Finance prepare a Financial Policy Framework paper (April 2, 1991).

Bank seemed unable to engage the authorities on the larger financial sector issues. The Bank's focus on raising lending interest rates may have detracted from the broader issue of *who* should allocate credit (the government, Central Bank, or markets). While raising interest rates to market clearing levels is important, they are easier to free in form than in substance when government banks dominate the system (which they did). If banks have a profit incentive, such interest controls are almost impossible to enforce: the experience with regulation Q in the U.S. had clearly shown how they could be evaded through fees and compensating balances. The Bank's emphasis therefore seemed misplaced and its message was muddled despite some good technical analysis.

3.8 Several senior former staff in the Ministry of Finance also said they opposed the lines of credit projects because "they pandered to the vested interests in the country." When asked why the government nevertheless accepted the loans—especially when they did not need the funds or valued the accompanying advice—they said that they sensed vested interests within the Bank similar to those in the country. Having just improved relations with the Bank, they did not wish to antagonize the staff working on Colombia.

Fifth Small- and Medium-Scale Enterprise (SME-V)

3.9 Opening the credit line to entities other than CFP (which four previous Bank projects had vainly sought to improve), and establishing financial ratios that CFP had to meet succeeded in (1) getting 32 other, presumably sounder, institutions to use the credit lines, and (2) improving CFP, which previous loans had failed to accomplish. These are both favorable developments. The Central Bank shortened sub-loans approval (from 50 days to 1 day); but the Central Bank no longer has this function. IFI is now slated to be the second tier (apex) institution for external funds directed to SMEs.

3.10 Getting 32 lenders familiar with SME lending using Bank procedures and criteria is a good accomplishment. The ICR reports that SME loan recovery is over 98 percent (but does not report on their earlier experience or whether they had lend before); so SMEs may continue to be funded from banks' own resources.

3.11 Increasing value added and employment through SMEs cannot be verified. The ICR cites a survey of borrowing SMEs who said they benefited from the project; but this could have been at the expense of other SMEs if the banks did not lend more to SMEs in the aggregate. There are no aggregate data on SME lending, even from the formal banking system. The occasional and partial surveys do not allow the assessment to be made.

3.12 The ICR notes improvements in CFD (the renamed CFP) but the better financial ratios were the arithmetic implication of issuing new equity, not the result of better lending or lower operating costs. In any event, any such improvements were fleeting and the CFD failed after the ICR was written, and is now being liquidated by Fogafin.

Outcome

3.13 The outcome of the **SME-V** is rated as *moderately satisfactory*. The effect on SMEs cannot be evaluated, but the project allowed commercial lenders to participate in the credit lines which in turn forced the necessary changes in CFP/CFD. Although the CFD failed subsequently and is being liquidated, it was given a chance to succeed without special privileges.

Institutional Development

3.14 The institutional development of the **SME-V** is rated as *modest*. While the central bank unit handling external lines of credit became far more efficient, the unit has since been disbanded because the Central Bank no longer has this function (IFI will). This function may be convenient for multilateral entities that continue lines of credit projects; but has little value to a country where markets allocate credit.

Sustainability

3.15 The **SME-V** project is rated as *likely*. Although the project sought to ensure special access of small and medium enterprises to bank credit at specified terms (maturities etc.), commercial lending to SMEs will likely continue especially since the ICR reports that the banks had a high loan recovery rate.

Borrower Performance

3.16 The borrower performance in the **SME-V** is rated as *satisfactory*. The authorities undertook what they had committed to, and the Central Bank handled the credit lines efficiently.

Bank Performance

3.17 The Bank's performance in the **SME-V** is rated as *satisfactory*. The Bank designed and supervised the project well.

Public Sector Reform Loan (PSRL)

3.18 Although the PSRL's conditions did not relate to trade, it was to support the *apertura*. The opening of the economy to trade was largely successful, although agricultural interventions remain rampant. The plethora of exchange and trade controls were dismantled; but even so, dissent within the government team stymied the reforms in the agricultural marketing agency (IDEMA) and allowed the agricultural credit interventions to rise again.

3.19 A 1996 Bank review of agriculture[25] found that "Colombia still has a way to go with trade reform" (p. 73). Some US$1.2 billion of transfers still remained in agriculture (in 1992, albeit a difficult year), most of it through price support, and much of it favoring beef, coffee and rice producers (Table 27). The "thrust toward trade liberalization has stalled as a consequence of interest group pressures which have built up as a response to the declining profitability of certain subsectors, an issue that was brought to the fore by the "farm crisis" of 1991–92. Trade liberalization has been widely cited as the cause for this squeeze on farm profits. In reality, the root of the problem was the plummeting of world commodity prices.... For example, in the case of wheat, the 17 percent fall in real domestic prices in 1991–92 is explained by a 13 percent fall in border prices, a 3 percent appreciation of the real exchange rate and a 2 percent reduction in the tariff. Also, protection of beef and milk actually increased in 1991–92." (pp. 74–75) Many blamed the *apertura* for the 1.9 percent decline in 1992 agricultural output (*versus* about 3 percent annual GDP growth that year), but this was really because of a drought, and the trade opening probably reduced its adverse effects by lowering input prices.

3.20 The changes in the management and oversight of public enterprises were mixed. The performance planning and evaluation system (PPES) is difficult to evaluate; but some of the public enterprises did improve—albeit because of freer entry as with ports and shipping and telecom, rather than the PPES *per se*. The responsibilities to prepare and monitor the PPES were transferred from CONFIS to the respective line Ministries around 1994, but the system has since fallen into disuse. Even so, the PPES signaled the government's serious intent at the time—which was important.

3.21 The reform of the ports was sweeping and the benefits were quickly apparent as shipboard handling charges fell from US$21 to US$8 per ton. The entry of private firms permitted shippers to benefit regardless of the delayed liquidation of Colpuertos that labor unions opposed. The severance payments were not well coordinated between the sector ministry and the Ministry of Finance and it raised the budgetary cost of liquidating Colpuertos; but this does not diminish the benefits to the economy. Similarly, the telecom sector has benefited from the entry of private operators although striking workers cut domestic and international telephone links for several days until the government capitulated to some of their demands.

3.22 The PSRL was successful both for the macro-economic stability and for significant structural improvements. The technical assistance component helped the reformers in the Ministry of Finance get the best advice that could be had on technically complex issues (e.g., telecom). Some improvements were made easier by the Bank's political support that the loan signaled, whereas in other instances (e.g., IDEMA), even such support proved insufficient.

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25. The World Bank (1996) "Review of Colombia's Agricultural and Rural Development Strategy" describes the broader problems of agriculture and how government policies resulted in the sector's inefficiency. It also reports the decline in shipping costs following privatisation (p. 56).

Outcome

3.23 The outcome of the **PSRL** is rated as *satisfactory*. The loan supported the *apertura* in a timely manner. Although it subsequently turned out that the disbursements were not needed, it provided a valuable cushion and helped the government oversee its public enterprises (at least temporarily). While the improvements in the ports and telecom were sweeping and are likely to be permanent, others like Ecopetrol have proved harder to reform and remain a concern for the government. The exchange and trade controls were permanently dismantled, but subsidies to agriculture were re-instituted.

Institutional Development

3.24 The institutional development of the **PSRL** is rated as *substantial*. The improvements during the life of the project warrant a higher rating, but some of the improvements in overseeing public enterprises were lost when the administration changed.

Sustainability

3.25 The sustainability of the **PSRL** is rated as *likely*. Exchange controls and trade barriers have been eliminated, and the benefits of an open economy remain.

Borrower Performance

3.26 The borrower's performance in the **PSRL** is rated as *satisfactory*. The Bank and the government agreed on the objectives of the loan and utilized the loan and the accompanying technical assistance efficiently. There were, however, some reversals in agriculture.

Bank Performance

3.27 The Bank's performance in the **PSRL** is rated as *highly satisfactory*. The Bank effectively supported the *apertura* through this loan providing technical advice, political backing and finance. It was flexible when needed during implementation and responsive to the borrower's needs. Bank staff responded promptly to requests from the government for help, and when they could not find the right Bank staff to help, they located and financed the best technical advice (e.g., an MIT Professor to advise on auction design for telecom).

Industrial Restructuring and Development Project (IRDP)

3.28 The credit line was fully disbursed, but there is no reason to think that the credit line made a difference (growth, profitability, etc.) to the industries it financed. The technical assistance component did not result in any benefits as already described in the earlier section on implementation.

Outcome

3.29 The outcome of the **IRDP** is rated as *moderately unsatisfactory*. The credit line made no difference and the technical assistance component did not accomplish what was expected. At the time the loan was conceived, it was thought that trade reforms could not proceed without it; but trade barriers had fallen without adverse effects on trade deficits or on industry; so its relevance is questionable.

Institutional Development

3.30 The institutional development of the **IRDP** is rated as *negligible*. There were no institutions that were developed, and the technical assistance component was not successful.

Sustainability

3.31 The sustainability of the **IRDP** is rated as *unlikely*. Again, for the same reasons as the SME-V, the project sought loans for industry at terms that it deemed "reasonable." Banks have lent to sound firms, and will continue to do so; but at terms that may seem "unreasonable" unless one took account of the perceived risks.

Borrower Performance

3.32 The borrower's performance in the **IRDP** is rated as *satisfactory*. Although the technical assistance component was not effectively utilized, this was because they reflected the Bank's views, not the government's.

Bank Performance

3.33 The Bank's performance in the **IRDP** is rated as *unsatisfactory*. The line of credit project proceeded without regard to the country's changing needs. The credit line disbursed; but Colombia at the time was flush with funds and repaying Bank loans even before they were due. The technical assistance (e.g., to have a pollution control department within the Ministry of Planning) was largely Bank driven and was not effective.

IFI Restructuring and Divestiture Project (IFIRDP)

3.34 Involving the Bank in improving IFI was not a bad strategy; but the project failed because of its flawed design. IFI's cash constraints were lifted before its lending abilities improved; and when IFI had abundant funds, it stopped heeding the Bank. Considering the long history of misusing IFI for political purposes, there was every reason to first ensure sound lending *before* lifting its cash constraint—regardless of the sincerity of the IFI's head, and the Minister of Development at the time. This mistake was compounded during the project's implementation: it was not cancelled even at the time of the mid-term review for fear that it would adversely effect IFI's market borrowings. There was no recognition that such borrowings allowed wasteful lending to continue.

3.35 The Bank did not correctly diagnose the situation. It did not distinguish between true fiscal losses from transfers among different entities and the timing of accounting recognition. The fiscal costs stemmed from poor lending, not the maturity mismatch: IFI's "losses" from the indexed bonds (BVCs) were gains to the state's pension fund. While such needless transfers between IFI and the pension fund were to be avoided, the real problem was IFI lending to inefficient firms which misallocated resources *and* resulted in fiscal losses that are recognized later (when loan portfolios turn bad). The Bank's loan covenants specified how and when IFI's balance sheet would be repaired and focused on "diversifying its funding sources," not ensuring better IFI lending. Consequently, by encouraging IFI to "diversify its funding sources" by borrowing in the international and domestic financial markets, the project provided IFI with more funds to waste through poor lending.

3.36 The Bank seemed oblivious of the project's flaws even in 1998 when the ICR was drafted. The Bank curtailed its involvement when IFI was flush with funds and more openly unmindful of the Bank's views during the mid-term review in 1997. The ICR notes with satisfaction that "The Project was also influential in helping IFI *to develop and diversify its sources of financing*, especially with respect to international financial markets. In September 1995, IFI raised US$75 million through a syndicated loan led by Santander Investment Bank Ltd. In July 1996, IFI launched a successful program of medium-term Euronotes for US$125 million, this time led by Merrill Lynch...... This Project had a positive impact on IFI's image abroad by depicting the Bank as a business partner. In fact, by not canceling the Project after the restructuring terms were turned down, the Bank continued to support IFI's strong image in the international financial community." (emphasis in the ICR, Report 18138, June 29, 1998 §17)

3.37 The project resulted in losses to the government in excess of the Bank disbursements. IFI more than doubled in size (total assets were US$1.3 billion in early 2001) because it could borrow. President Pastrana's administration decided in 1998 to stop IFI from lending and to only be 2^{nd} tier entity for multilateral banks' lines of credit projects; but even so, it took until April 2000 to actually stop new 1^{st} tier lending. The government paid US$200 million recently (in addition to the earlier infusions under the Bank project) to permit IFI's accumulated losses to be acknowledged in its books, and Fogafin (the Bank restructuring agency) is putting in US$100 million of fresh equity. IFI's staff was reduced in June 2001 to 150 employees, and the plan is to half it as the as the stock of equity and loans are sold/transferred to other entities (through the Bank resolution entity, Fogafin). All four 2^{nd} tier entities (IFI, FEN, FONAI and FINDETER) were to be merged, but it is unclear if or when this would happen. The final financial tally of liquidating IFI's assets is not yet in.

Outcome

3.38 The outcome of the **IFIRDP** is rated as *highly unsatisfactory*. IFI did not become a commercial entity, and its subsequent losses were the result of having additional funds through borrowings that the project helped access.

Institutional Development

3.39 The institutional development of the **IFIRDP** is rated as *negligible.* IFI is shrinking to a shadow of its former self with only a small 2nd tier function remaining.

Sustainability

3.40 The sustainability of the **IFIRDP** is rated as *highly unlikely.* IFI has ceased to exist in its former form and will now only handle lines of credit from multilateral banks.

Borrower Performance

3.41 The borrower's performance in the **IFIRDP** is rated as *unsatisfactory.* Despite the project's design, IFI seems to have made modest improvements in staffing initially; but when the subsequent Minister of Development was taking IFI in different directions, the Ministry of Finance could have done stopped it. It seems that once the project was approved, the Ministry of Finance officials ceased to follow developments in IFI. While this was understandable, given their other responsibilities, the borrower's neglect contributed to IFI borrowing large sums and lending unwisely.

Bank Performance

3.42 The Bank's performance in the **IFIRDP** is rated as *highly unsatisfactory.* The Bank designed the project poorly, failed to distinguish between transfers among government entities and true economic or fiscal losses, and allowed IFI access to funds through borrowings before ensuring that it could lend well. It did not recognize these mistakes even at the mid-term review, and consciously encouraged IFI to borrow more funds in the markets which lead to greater losses (that are ultimately fiscal).

4. Lessons To Be Learned

4.1 The respect for Bank advice should not be allowed to erode through projects that add little value, especially in countries like Colombia with very competent counterparts. The lines of credit projects (SME-V, IRDP, and IFIRDP) sent mixed signals about the Bank's desire to have markets allocate credit and may have contributed to delaying banking reform in Colombia.

4.2 The system of internal review should work better. While many questioned the credit line projects in review meetings, they proceeded with minor changes. This may have been because the critics did not always appreciate the larger picture; but advocates of the project also ignored the changing circumstances in the country.

4.3 The Bank should only attempt to directly improve institutions that have an important public purpose (e.g., banking supervision, port regulatory authority, etc.): others should be left to markets and competition. After vainly seeking improvements in

CFP through a series of projects, the SME-V succeeded because it allowed markets to force the needed changes. Such an approach may have also worked with IFI.

4.4 The Bank should distinguish between policy and business advice—and alert the authorities of the difference. Consultants accustomed to working for the private sector may give sound business advice (e.g., to IFI through a business plan); but the Bank should have focused more on the policy issues and been alert that bad institutions often outlast the short tenure of reformers.

4.5 Technical assistance is well used only if both the government and the Bank agree on its scope and content. *Timely* technical assistance helps key reformers get advice on issues that crop up along the way (e.g., advice on auctioning telecom rights). Funds for such assistance should be *tightly controlled and well administered* (which it was in the PSRL); but assistance for issues that the government or the agency involved has not embraced (e.g., in the IRDP) is often wasted.

Persons Interviewed

The World Bank:

John Page	Chief of the Sector Operating Division (SOD) from 1987 to 1989 where the four loans originated. Succeeded Katherine Marshall as Chief Country Operations Division (COD) until 1992 (when he moved from LAC to head the East Asian miracle study). Now Director, PREM.
Krishna Challa	Succeeded John Page as Chief SOD and remained through the many incarnations of the division under the different reorganizations. Now in the Mexico resident mission with jurisdiction over Colombia.
James Hanna	Task Manager of many of the Colombia projects. Came with John Page from IDF to LAC's SOD. Now in LAC PSD unit.
Hari Prasad	Resident Representative 1988–91.
Kristin Hallberg	Moved with John Page to the SOD in the 1987 reorganization, and subsequently with him to the COD as country economist for Colombia. Resident Representative in Bogota from 1991 to 1993 (succeeding Hari Prasad and followed by Felipe Saez).
Felipe Saez	Dy. Res. Rep. (to Hari Prasad); then in John Page's SOD. Task Manager of PSRL; and succeeded Kristin Hallberg as Res. Rep. to Colombia.
Andrés Jaime	Took over from Kristin Hall berg as Task Manager of the IFI Divestiture project when she moved to the COD. Jim Hanna took over the loan after the mid-term review and Andrés moved to the Africa Region in 1991.
Daniel Morrow	Lead economist in COD when John Page was Chief.
Ira Lieberman	(and current) Bank staff but consultant in 1987 working on Colombia with Kristin Hallberg (Task Manager). Was responsible for many of the industry studies which were the basis of the IRDP and IFIRDP discussions.

Colombian Counterparts:

Armando Montenegro	former Minister of Development (Gaviria's Government)
Oscar Marulanda Gómez	Senior Advisor to the following Ministers of Finance: Roberto Junguito and Hugo Palacio (Betancur's government); Cesar Gaviria and Luis Fernando Alarcon (Barco's government); and Rudy Hommes (Gaviria's government)
Luis Jorge Garay	id.
Luis Fernando Alarcón	former Minister of Finance (Barco's goverment)
Luis Alvaro Sánchez	Director of Public Credit
Monica Aparicio Smith	then in the Ministry of Planning
Jorge Castellanos	Advisor MoF; Central Bank; Head, Fogafin
Ulpiano Ayala	former Deputy Minister of Finance
Eduardo Wiesner	then Colombian Executive Director at World Bank
Roberto Juangito	former Minister of Finance, ED at the IMF
Juan Carlos Jaramillo	former Deputy Gov., Banco de la República
Sergio Clavijo	Banco de la República
Leonardo Villar Gómez	Banco de la República (formerly in the Ministry of Planning; former Deputy Minister of Finance)
Irma Yelid Vargas de Granados	Banco de la República (Director, Credit lines)
Olga Lucía Acosta	then in the Ministry of Planning
Jorge Vivas Reyna	Consultant to Ministry of Planning to review technical assistance
Nancy Tirado	Ministry of Planning
Constanza de la Cuesta	former General Manager of *Corporación Financiera Popular*
Beatriz Marulanda de García	then in the Ministry of Planning
Gabriel Duque Mildenberg	Ministry of Planning
Alvaro Balcazar Acero	Ministry of Planning
Eduardo Robayo	then General Manager of IFI
German Contreras Arciniegas	V.P. Banca Empresarial IFI
Jorge Eduardo Girón Leuro	V.P. Financiero IFI

Time-Line of Project Events and Staffing

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
SME-V	Jim Hanna (Task Manager)		**Board Approval**					Closed ICR	ES			
PSRL	Felipe Saez (Task Manager)			**Board approval**	1st tranche	2nd tranche	3rd tranche		ICR			
IDRP	*Jim Hanna (Task Manager)*				**Board approval**					3 of 4 components closed		ICR
IFIRDP	Kristine Hallberg (Task Mgr.)				Andres Jaime Financial Policy	**Board Approval**	Loan effective			Last disbursement	Midterm review & expiration	ICR ES
IFI General Manager		Eduardo Robayo		Rodrigo Villamizar	Luis A. Moreno	Gustavo Canal		Carlos Wolff Isaza		Gabriel Borrero		
Bank's staff												
LACVP	David Knox; Shahid Husain							Shahid Javed Burki				*David de Ferranti*
Director	Ping-Cheung Loh					Yoshiaki Abe			Paul Isenman		Andres Solimano	
SOD Chief	John Page			Krishna Challa								
COD Chief	Katherine Marshall		John Page			Dennis DeTray					Dan Morrow	
Resident Representative	Laurence Hopfenbrauer	Hari Prasad			Kristin Hallberg			Felipe Saez				
Country counterparts												
President	Virgilio Barco			Cesar Gaviria				Ernesto Semper				Pastrana
Minister of Finance	*Roberto Juangito; Hugo Placio;* (Edgar Guitierrez before Juangito)	*Fernando Alarcon*		Rudolf Hommes				Guillermo Perry				J.A.Ocampo
Minister of Development	Carlos Arturo Marulanda			Maria Mercedes de Cuellar		Ernesto Samper						

Basic Data Sheet

FIFTH SMALL- AND MEDIUM-SCALE ENTERPRISE PROJECT (LOAN 3025-CO)

Key Project Data *(amounts in US$ millions)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	235.1	137	58.0
Loan amount	80	77.3	96.6
Cancellation		3.7	

Cumulative Estimated and Actual Disbursements *(amount in US$ millions)*

	FY89	*FY90*	*FY91*	*FY92*	*FY93*	*FY94*
Appraisal estimate	0.3	10.0	28.0	58.0	73.0	80.0
Actual	0.0	0.0	8.0	60.2	75.0	77.3
Actual as % of appraisal	0	0	29	104	103	96.6
Date of latest disbursement: June 16, 1993						

Project Dates

	Original	*Actual*
Identification	11/86	11/86
Preparation	05/87	1986 and 06/88
Appraisal	11/87	07/88
Negotiations	11/88	01/25/89
Board presentation	03/89	03/14/89
Signing	05/89	09/22/89
Effectiveness	06/89	01/21/91
Project completion	06/94	07/29/94
Closing date	06/95	08/26/94

Staff Inputs (staff weeks)

	Actual
Through appraisal	71.1
Appraisal through Board approval	13.3
Board approval through effectiveness	2.8
Supervision	22.9
Completion	10
TOTAL	120.1

Mission Data

	Month/ year	Number of persons	Days in field	Specialization
Through appraisal	05/87	5	n.a.	Financial analyst Banking expert SME expert
Appraisal through Board approval	10/87	2	12	Financial analyst Banking expert
Board approval through effectiveness		1	0	Financial analyst/ Task manager
Supervision	04/91 12/91 06/93	2	12	Private sector dev. expert Financial analyst
Completion	07/94	3	8	Private sector dev. expert Financial analyst

Other Project Data

Borrower/Executing Agency: **Government of Colombia**

RELATED OPERATIONS

Preceding Operations	*Purpose*	*Year of Approval*	*Status*
Fourth Small-Scale Industry Project (Loan 2464-CO)	Accelerate small scale industry employment creation and value-added by increasing access to credit	1984	Closed
Development Banking Project (Loan 2477-CO)	Make longer term financing for sub-loans available to participating financial intermediaries and strengthen institutions implementing financial sector reforms	1984	Closed
Third Small Scale Industry Project (Loan 1834-CO)	Accelerate small scale industry employment creation and value-added by increasing access to credit	1980	Closed
Following Operations			
Industrial Restructuring and Export Credit (Loan 3321-CO)	Increase international competitiveness of industry through a private sector credit program to finance investment and TA at the enterprise level	1991	Closed
Financial Markets TA (Loan 4196)	Increase efficient operation of financial markets and foster more effective financial intermediations.	1994	In process

Basic Data Sheet

PUBLIC SECTOR REFORM LOAN (LOAN 3278-CO)

Key Project Data *(amounts in US$ millions)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	305	303.74	99.6
Loan amount	304	303.74	99.9

Cumulative Estimated and Actual Disbursements *(amount in US$ millions)*

	FY91	*FY92*	*FY93*	*FY94*	*FY95*
Appraisal estimate	101.00	203.00	304.00		
Actual	100.00	199.31	202.15	301.00	303.74
Actual as % of appraisal	99.0	98.2	66.5	99.0	99.9
Date of final disbursement: February 21, 1995					

Project Dates

	Original	*Actual*
Identification		11/89 – 12/89
Preparation		01/90 - 05/90
Appraisal		06/18/90 – 06/29/90
Negotiations		10/29/90 – 11/08/90
Letter of development policy		11/22/90
Board approval		12/11/90
Signing		12/28/90
Effectiveness	03/28/91	02/19/91
First tranche release		03/04/91
Second tranche release	12/31/91	05/28/92
Third tranche release	12/31/92	12/23/93
Project completion	12/31/92	12/31/94
Closing date	12/31/92	12/31/94

Staff Inputs (staff weeks)

	Actual
Through appraisal	59.2
Appraisal through Board approval	26.3
Board approval through effectiveness	
Supervision	47.2
Completion	3.0
TOTAL	135.7

Mission Data

	Month/ year	No. of Persons	Days in field	Specializations represented	Performance rating Impl. Status	Dev. Objectives
Through appraisal	1/90	7	14	Financial Analyst,		
	03/90	10	16	Engineer, Trade Policy, Privatization, Energy, Ports, Shipping, Telecom, Banking, TA Specialist		
Appraisal through Board approval	06/90	6	11	- Finance, Engineer, Energy, TA		
	09/90	3	5	- Finance, Ports/Shipping		
	11/90	1	5	- Ports		
Board approval to effectiveness						
Supervision	03/91	2	6	- Finance, TA Specialist	1	1
	07/91	4	5	- Finance, Ports, Banking,	1	1
	12/91	1	6	Shipping		
	11/92	2	5	- Finance	1	1
	05/93	1	4	- Finance, Ag. Specialist	1	1
	09/94	2	5	- Finance	1	1
				- Finance, Privatization	1	1
Completion	04/95	1	10	- Finance		

Other Project Data

Borrower/Executing Agency: **Government of Colombia**

RELATED OPERATIONS

Preceding Operations	*Purpose*	*Year of Approval*	*Status*
Power Sector (Loan 2889-CO)	Support government power sector reform	1986	Closed
Trade and Agricultural Sector (Loan 2677-CO)	Support government structural adjustment program	1986	
Port Rehabilitation (Loan 2635-CO)	Port infrastructure rehabilitation and TA	1988	
Following Operations			
Industrial Restructuring (Loan 3321-CO)	Increase international competitiveness of industry	1991	Closed
IFI Restructuring & Divest (Loan 3449-CO)	Improve efficiency of public sector financial institution	1992	Closed
Public Financial Management (Loan 3669-CO)	Improve government revenue management and accountability	1994	Closed

Basic Data Sheet

INDUSTRIAL RESTRUCTURING AND DEVELOPMENT PROJECT (LOAN 3321-CO)

Key Project Data *(amounts in US$ millions)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	500	450.1	90.0
Loan amount	200	182.9	91.5
Cancellation		17.1	
Parallel financing			
- Enterprises	148	133.65	
- Participating Financial Intermediaries	103	133.65	
- Private Investments & Ent. Equity Funds	49	N/A	
TOTAL	500	450.1	

Cumulative Estimated and Actual Disbursements *(amount in US$ millions)*

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimated	6.0	50.0	120.0	158.0	180.0	192.0	200.0
Actual	0.0	0.0	88.6	154.9	178.2	180.7	182.9
Actual as % of appraisal	0	0	73.8	98	99	94	91.5
Date of latest disbursement: August 28, 1998							

Project Dates

	Original	*Actual*
Identification		10/03/88
Preparation		01/18/89
Appraisal		05/13/90
Negotiations		01/14/91
Board presentation		05/02/91
Signing		01/22/92
Effectiveness	04/22/92	07/31/92
Completion	06/30/96	06/30/96
Closing date	12/31/96	03/31/98

Staff Inputs (staff weeks)

	Actual	*US$*
Preparation to appraisal	139.5	265.0
Appraisal	15.1	29.8
Negotiations through Board approval	11.2	25.8
Supervision	72.5	187.1
Completion	6.6	17.1
TOTAL	244.9	524.8

Mission Data

	Date (month/year)	No. of persons	Days in field	Specializations represented	Performance rating: Impl. Status	Performance rating: Dev. Objectives
Through appraisal	02/88	3	10	Sr. Oper. Off.		
	05/88	2	10	Steel Spec.		
	04/89	2	3	Ind. Res. Spec.		
	01/90	3	9	Agrobus. Spec.		
	01/90	1	5	Proj. Eval. &		
	04/90	1	5	Fin. Spec		
Appraisal through Board approval	05/90	1	5	Sr. Oper. Off.		
Supervision	03/94	2	5	Sr. Oper. Off.	S	S
	10/94	2	0			
	09/96	1	5			
	06/97	1	0			
Completion/ICR	11/97	1	4		S	S
	04/98	1	4		S	S

Other Project Data

Borrower/Executing Agency: **Government of Colombia**

Related Operations

Preceding Operations	Purpose	Year of Approval	Status
DFC IX	Credit Line	1984	Closed 6/90
Following Operations			
Export Development (Loan 3608)		1984	
Financial Markets TA (Loan 4196)		1997	

Basic Data Sheet

IFI RESTRUCTURING AND DIVESTITURE PROJECT (LOAN 3449-CO)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	415.3	180.5	43.5
Loan amount (IBRD)	100	44.5	44.5
Cancellation		55.5	
Parallel Financing			
IFI Funds	127.1	64.0	
BR Rediscount Lines	65.0	0	
Firm's Internal Funds	123.2	72.0	

Cumulative Estimated and Actual Disbursements *(amount in US$ million)*

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimated	3.0	13.8	41.0	68.7	89.0	96.7	100
Actual	0.0	0.0	5.0	30.26	44.51	--	--
Actual as % of appraisal	0	0	12.2	44	50	46	44.5
Date of latest disbursement:	November 13, 1995						

Project Dates

	Original	*Actual*
Identification		01/13/89
Preparation	26 months	03/06/91
Appraisal	05/91	05/05/91
Negotiations	11/90	12/16/91
Board approval	01/01	03/24/92
Signing		06/21/93
Effectiveness	05/92	09/21/93
Mid-term Review	01/94	03/97
Completion		12/31/97
Closing date		12/31/97

Staff Inputs (staff weeks)

	Actual	*US$*
Preparation to appraisal	43.6	106.7
Appraisal	12.4	32.7
Negotiations through Board approval	8.7	23.4
Supervision	76.3	191.3
Completion	4.0	9.4
TOTAL	145	363.5

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance rating: Implementation status	Performance rating: Dev. objectives
Through appraisal	1990/91	5	Sr. Econ., Cons. Eng., Sr. Oper. Off.		
Appraisal through Board approval	1991/92	1	Sr. Oper. Off.,		
Supervision	7/93	2	Cons., Fin. Specialist	1	1
	8/94	2	Sr. Oper. Off., Cons.	S	S
	11/94	1	Sr. Oper. Off.	S	S
	05/95	1	Sr. Oper. Off.	U	S
	04/96	3	Sr. Oper. Off. Res. Rep., Cons.	U	S
	02/97	2	Sr. Oper. Off., Res. Rep.	U	S
Completion/ICR				Partially Satisfactory	Partially Satisfactory

Other Project Data

Borrower/Executing Agency: **Government of Colombia**

RELATED OPERATIONS

Preceding Operations	*Purpose*	*Year of Approval*	*Status*
DFC IX	Credit Line	1984	Closed 06/90
Industrial Restructuring	Sector Investment	1991	Closed 03/98
Following Operations			
Export Development (Loan3608)		1993	
Financial Markets Dev. TA (Loan 4196)		1997	