World Bank Executive Directors' Retreat
Remarks by Mauricio Cárdenas, Minister of Finance of Colombia
Washington, D.C.
February 28, 2018

Let me begin by thanking you for inviting me to this retreat. It is an honor and a privilege to join you in this conversation about the future of the World Bank, a highly relevant topic not only for the Bank itself, but also and more broadly for the global development agenda as a whole. Every decade or so, this Board is confronted with crucial decisions that shape the future path of the Bank. This is one of those occasions because we are discussing future capitalization of the WBG which will impact the bank´s ability to support global development goals.

Colombia´s recent development

Let me start by referring to my own country, Colombia, in order to illustrate some of the transformations that have taken place in developing and emerging economies during the last decade. Despite the challenging times brought by the dramatic decline in commodity prices, which cut our exports in half, these have also been times of continued social and economic progress. A few years ago, this may have seemed a contradiction --shocks together with progress—but not any longer. Access to financing, strong economic institutions, adequate economic policies, and sustained development strategies are key to help countries adjust to shocks while moving social and economic progress forward.

My main point today is that the World Bank can play a critical role in ensuring that this is the norm rather than the exception. Through 16 Development Policy Loans (DPLs) during the last 10 years, as well as 23 Reimbursable Advisory Services (RAS) and countless technical missions, Colombia was able to access valuable information, obtain feedback and access financial instruments from the WBG to maintain its prosperity path.

Colombia´s economic and social progress

One major developmental goal, of both the MDGs and the SDGs, is to eradicate poverty. This has been a focal point of President Santos' Administration and of the World Bank´s operations in Colombia, yielding very positive results. Poverty rates fell to 28% in 2016 from 40% in 2009, while extreme poverty fell to 9% in 2016 from 14% in 2009. When looking at multidimensional poverty measurements, which we use to guide public policies, results show poverty fell to 18% in 2016 from a level of 30% in 2010. This means that in a relatively short period of time, 5 million Colombians left poverty (out of a population of 49 million). In terms of inequality, Colombia´s Gini coefficient had the fastest decline in Latin America, falling from 0.56 in 2010 to 0.52 in 2016. This level is still extremely high by international standards, and clearly illustrates some of the challenges that middle-income countries still need to confront.

In Colombia, formalization of the workforce has been a key force behind faster social progress. It was driven by the tax reform of 2012, which reduced non-wage labor costs. Since it was enacted, informal employment in the 13 major metropolitan areas declined to 49% of total employees in 2017 from 58% in 2010.

Regional inequality is another relevant dimension to consider. Although progress was made through a major overhaul in the criteria to allocate royalties from extractive industries across regions, the challenges remain high. In 2011, a key Constitutional reform changed the rules for the distribution of royalties. Previously 80% of the royalties remained at the subnational governments of where extractive industries were located, now 80% of the royalties are distributed to all subnational governments across the board. This change has turned royalties into a powerful and effective tool for regional economic development and convergence. The Gini coefficient of the regional allocation of royalties fell to 0.39 in 2017 from 0.92 in 2010. However, this is not enough. We need to execute more projects with a regional focus, tailor-made to the needs of the communities, and effective at addressing some of the institutional weaknesses of the different regions, just like the projects we are currently executing with the help of the Bank in the very poor areas of the Pacific Coast in Colombia.

Peace

As you all know, after years of negotiations, Colombia reached a peace agreement with FARC. Today, the main guerrilla group is a political party, thus ending half a century of conflict and violence. Crime indicators have shown significant improvements. For example, the homicide rate dropped to 24 homicides (per 100.000 people) in 2017 from a level of 35 homicides in 2009. For Colombia, this represents a decrease of 3.500 homicides per year. The Peace Accord has already deeply changed the security conditions of the country, but its ultimate objective is to address the structural elements that are necessary for reaching sustainable peace and social wellbeing, as well lowering of inequality across individual and regional dimensions.

The peace agreement will boost regional convergence as peace-related investments prioritize regions with low levels of economic development, where historically state presence has been weak. For a successful implementation of the Agreement, Colombia will need to invest nearly 1% of GDP per year, during the next 15 years. Investments are aimed at improving economic and social conditions in the regions where the vicious circle of conflict, low state presence, illegal economies, and poverty have been pervasive. In order to finance peace, we have passed a comprehensive tax reform, which introduced a carbon tax earmarked for the protection of the environment in areas where the conflict was particularly costly in terms of deforestation. We also reformed the Constitution by allocating 7% of annual royalties during the next 20 years to a fund for the implementation of the Peace Agreement. To further this fund, we expect international cooperation from some of countries that you represent. Private sector investment will also be crucial. For this propose, the 2016 tax reform introduced some incentives that are beginning to take force. In the 344 municipalities most affected by the conflict, new investments are essentially tax exempt. At the same time, corporations located anywhere in the country can pay part of their taxes in kind, by building public infrastructure in these 344 municipalities.

Other growth bottlenecks

Peace will help Colombia develop faster. However, it will not be enough. Inadequate infrastructure, a legacy of very low past investment, is another obstacle that needs to be lifted. With this in mind, we designed an ambitious Public Private Partnership infrastructure plan that is already under execution. Under this plan, 32 projects and 5,652 kilometers of new highways are being built, with a capex of nearly US$16 billion. To help fund these initiatives, we created an infrastructure bank "Financiera de Desarrollo Nacional" (FDN), where IFC has been an important shareholder, together with CAF and SMBC from Japan. On top of a capital investment in the FDN, IFC has been critical in helping build strong market confidence among national and international investors, which facilitates their participation in the funding of these projects.

More broadly, IFC has helped the globalization of Colombian companies. Businesses have been able to scale-up their markets, transform their portfolios, strengthen their corporate governance, and incorporate innovative practices. All these factors, at the end, are visible through the high investment rate in Colombia, which rose from 24.5% of GDP in 2010 to 27.1% in 2017, one of the highest in Latin America. Colombian companies have also invested heavily abroad --the stock of FDI abroad increased to USD 55 billion in 2017 from USD 15 billion in 2008-- contributing to the development of other countries.

As you can see, the task has not been easy and, even though we are on the right path, there are still significant challenges that we need to tackle in the next decade. We need to strengthen and reaffirm the policies adopted, improve competitiveness, continue to reduce poverty and inequality and, in general, continue to improve our living standards. We believe the World Bank Group is a crucial actor to help us maintain the course.

Why do we think the World Bank is Key for Developing and Middle-Income Countries?

Firstly, it helps address market volatility

Although Colombia holds a BBB rating and has wide access to international capital markets, external shocks and spikes in volatility can limit our ability to get adequate external funding, as was the case during the 2008 financial crisis, when the markets shut down completely. Beyond these very specific and extreme situations, there is a good case to make in favor of the role of the World Bank from a financial point of view for the following reasons:

1) Countries can maintain market confidence because investors acknowledge that governments will be able to access US dollar financing from the World Bank during difficult market conditions. Therefore, risk premiums and bond rates will suffer less and governments will more easily maintain their capacity to access the markets.

2) Countries can avoid expensive debt in difficult times. This gives governments more space for countercyclical policies to offset negative external shocks (allocating more resources to investment than to debt service is extremely valuable).

3) World Bank loans improve the tenor, rates, and amortization profiles of public debt, thus improving risk profiles.

Secondly, on the knowledge front, having access to the know-how, information, best practices and lessons learned from other countries has key to properly implementing many reforms avoiding the pitfalls of engaging in trial and error system. One good and recent example is the Carbon Action Peer Exchange which has helped us access useful information to advance towards a more sustainable and low carbon economy, including the introduction of carbon taxes.

Donor Funding

Another area where the World Bank has been crucial is mobilizing donor funding. The WBG's work with donors and international organizations has been very useful. For example, in Colombia, the Bank plays a leading role in a multi-donor trust fund to finance our post-conflict agenda.

Examples of the benefits of working with the WBG include the city Bogotá, which is now preparing the tender for the construction of its first Metro line. The World Bank has been involved in the project since the first day. It has provided lessons learned by other countries, experts in integrated transportation systems, experts in international bidding processes and accurate protocols and institutional arrangements to supervise works, contracts, social, environmental and resettlement aspects. The project also requires nearly USD 2.4 billion in financing and solutions to minimize volatilities in rates and foreign currencies' exposure.

On a different front, Colombia was one the first countries that asked the WBG to create and design insurance instruments to reduce its fiscal vulnerability to natural disasters. As a result, all WBG's clients now have access to mechanisms such as the CAT DDO, a contingent credit line that we can use as a liquidity facility in critical events, or the recently issued Pacific Alliance CAT Bond that covers up to USD 1.360 million of seismic events in the four member countries of the Pacific Alliance, Chile, Colombia, Mexico, and Peru. The World Bank was pivotal for this transaction that benefited from its AAA rating, lower structuring costs, and the diversification advantage for investors.

To conclude

Colombia still needs specialized support to face challenges such as: (i) the implementation of the post-conflict agenda, (ii) the closing of internal socioeconomic gaps among regions, (iii) the execution of large infrastructure projects, (iv) the strengthening of national and local capabilities, and (v) the improvement of productivity and competitiveness.

We highly value the experience and support of the World Bank. The impact of the knowledge and services that the WBG can provide to Colombia in a historical event such as the peace process can make the difference in its success.

Hence, I make the case that:

- We need a strong WBG that can respond to our need as we continue to face our development challenges. Colombia expects to demand, at least, as many resources as the ones we have received from the WGB in the last decade: Approximately USD 9.400 million in disbursements from the IBRD and USD 2.230 million in investments from the IFC, which mobilized 57% more funds. Therefore, we are very committed with a capital increase for the World Bank Group.

- We agree, support and advocate the UN's consensus about the role of the private sector in development, and because of that, we need to strengthen institutions like the IFC. We are convinced of its capacity to leverage resources in all economic sectors, with a special focus on those small and medium enterprises that need specialized tools to grow and become highly productive and competitive.

- We are convinced that the Bank also needs to provide continued access to financing and services to middle-income countries, as has been the case in the past. Given the inequality that exists in various middle-income countries, the vulnerability to unpredictable shocks, and the regional disparities, the importance in providing global and regional public goods, the World Bank is as important as it has ever been for this group of counties.

- From a financial sustainability perspective, the WBG needs to have a diversified portfolio to maintain its strong financial position and compensate for the much needed shift into riskier countries.

- In sum, the world is a much better place now that it has ever been. But the risk of rolling back is always there and is multidimensional. We need a strong World Bank to help us all confront old and new challenges.

-