

# BTI 2008 | Colombia Country Report

<b>Status Index</b>	1-10	<b>6.21</b>	# 46 of 125	
Democracy	1-10	5.75	# 70 of 125	➔
Market Economy	1-10	6.68	# 39 of 125	➔
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	45.6	HDI	0.80	GDP p.c.	\$	6,498
Pop. growth <sup>1</sup>	% p.a.	1.5	HDI rank of 177	70	Gini Index		58.6
Life expectancy	years	73	UN Education Index	0.86	Poverty <sup>3</sup>	%	17.8
Urban population	%	72.7	Gender equality <sup>2</sup>	0.51	Aid per capita	\$	11.2

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The following report on the status of Colombia's democratic and market economic transformation between 1 January 2005 and 31 January 2007 concludes progress has occurred in some areas and regression in others. Some signs point to progress in parts of the government apparatus and in the economy. However, development in other government institutions slowed during the period under review. Management success can be rated as medium in light of the extremely difficult political and economic conditions that were partially inherited and partially the fault of the Uribe government. The transformation process was strengthened only in terms of a few economic performance criteria. It remains questionable whether the path taken will lead to sustainable and socially based development in the long term. Andres Pastrana, Uribe's predecessor as president from 1998 – 2002, left work to do in key areas. Pastrana failed to consolidate the state's monopoly on the use of force, or to reduce political violence. As a result, the Uribe government tried to resolve those problems through military means and through a controversial "peace process" with paramilitary groups. Yet, the Uribe government left gaps such as delivering substantial reform or democratization of the armed forces or law enforcement. Intended and implemented reforms of the justice, party and electoral systems had both positive and negative results, which cannot be properly evaluated at the moment. Deficits have obstructed any further development of the existing market and competition frameworks, the reduction of the internal and external debt, as well as the reduction of the fiscal deficit. Economic recuperation has begun, but has to be stabilized. The government – during its second term in office – must work harder to reduce poverty and secure the sustainability of economic and social development. The armed conflict in Colombia has taken its toll on all aspects of society under investigation in this report. The governing elites are not exclusively responsible for the limited success in transformation, as the "counter-elites" of the armed "opposition" – that is, guerrilla and paramilitary groups – have also played a role. Colombia's transformation remains an open question.

## History and Characteristics of Transformation

A stable two-party regime emerged in Colombia against the background of La Violencia (1948 – 1958) and the civil wars of the 19th century that were motivated in part by party politics. The Liberals (PLC) and the Conservative Party (PC) have dominated this two-party regime. The civilian elite of both parties ran the government for the most part. This form of rule was interrupted by the military dictatorship of General Gustavo Rojas Pinilla from 1953 to 1958. At first, the PLC and the PC tolerated Rojas as a means of ending the Violencia. When it became clear that Rojas would threaten the long-term political power of the PLC and the PC, his dictatorship was transformed into the civilian regime of the National Front, which officially lasted from 1958 to 1974. During this period from 1958 to 1974, third parties were excluded from elections and later subject to discrimination. Additional restrictions have hindered democratic transformation in the areas of stateness, the rule of law, representation and election regulations. The National Front was never reformed to any significant degree. Starting in the late 1980s and intensifying with the constitutional reform of 1991, the political system received a new institutional basis. The reformers managed to abolish some formal restrictions, but deficiencies remained in stateness and the rule of law.

The transformation process stagnated in the 1990s due to deteriorating conditions and a lack of commitment from the elite in implementing the new constitution and boosting its potential to democratize. Individual reforms, however, were implemented in such areas as the party system and mechanisms of direct democracy. Additionally, “civic islands” (indigenous, Afro-Colombian, women’s and human rights organizations, NGOs) continued to develop. These organizations could survive within their sphere as long as they were not “involuntarily assigned” to an alliance with an armed actor. The room for action available for political actors depended on their geographical situation, specific characteristics, the course of the violent conflict, and the position of the government vis-à-vis their particular demands. Corresponding to the constitutional reforms the Colombian economy began to open up to international capital and goods after a long phase of isolation from the global market, as part of an import-substitution economic strategy. President Virgilio Barco (1986 – 1990) introduced a set of structural reforms that were also seen as a strategy for modernizing both production and the state. He strengthened the internationalization of the economy by deepening traditional economic relationships, integrating Colombia more intensely into the Cuenca del Pacífico (Pacific Rim), and by awarding drilling and mining licenses and major hydroelectric projects to transnational companies.

César Gaviria’s administration (1990 – 1994) effectively pursued economic reforms and the internationalization of the economy. Gaviria managed to liberalize up to 97% of foreign trade. The customs tariff was reduced from 23% to 11% starting at the end

of 1991; the labor market was made more flexible; state-owned enterprises were privatized; the foreign-exchange market was largely liberalized; and regulations for foreign investment were loosened. The exchange rates were liberalized, but a fully floating exchange rate was only introduced in 1999. However, President Ernesto Samper (1994 – 1998) took a slower approach to the neoliberal reform model and at the end of his term in office, a major economic crisis set in. Among its causes was the growing fiscal deficit brought on by the state's failed expenditures policy, corruption and unprofitable state-owned enterprises. Added to these problems were the results of a misdirected decentralization policy, which led to overextension of Colombia's departments and communities. This negative development accelerated the deterioration of general political and international conditions. The economy had turned out to be more crisis-prone, and was no longer isolated from international financial crises, such as the 1997 Asian crisis.

President Andrés Pastrana (1998 – 2002) continued privatization and other liberalizing reforms, but these reforms pushed social costs upwards. Unemployment and structural poverty reached the highest rates ever recorded in Colombia. The economy suffered a deep crisis due to structural economic problems that had accumulated over years, and was reinforced by the neoliberal course as well as globalization. This was the situation facing the Uribe government when it came to power in August 2002. The new president managed to reduce the inflation rate and succeed in macroeconomic stabilization. Nevertheless, public and state debt remained high and the expectations in reducing unemployment were not met. Additionally corruption and other scandals have persisted, and the reform of the pension system has proved more difficult than expected.

## Transformation Status

### I. Democracy

Despite the introduction of reforms, Colombia has made no significant progress in the transformation of its political system, save a few reforms in the party and electoral systems. Moreover, there is some indication that the level of stability achieved through the reforms of the late 1980s and early 1990s has begun to fall. Stateness and the rule of law have remained stable since the Pastrana administration, but political participation deteriorated during the period of review. In addition to the repressive security policy of the Uribe government, shortcomings can also be seen in the perception of the state monopoly regarding force and the guarantee of public safety and order. The effectiveness of the administrative system varies greatly according to the region. It is extremely precarious in some regions due to the financial crises in those regions and provinces, as well as to widespread patronage. Deficiencies have worsened in some areas of Colombia. The functionality and independence of the courts is not yet universally guaranteed. In such a hybrid political regime, the future may hold real threats to political participation, civil and political rights and general liberty.

#### 1 | Stateness

In comparison to the rest of Latin America, Colombia has serious stateness problems. The failed states index published by the magazine Foreign Policy collects different indicators of instability. Colombia is ranked 27th out of 60 unstable countries, showing its highest deficits in the indicators “security apparatus,” “refugees and displaced persons,” “delegitimization of the state” and “factionalized elite.” These factors point to the state’s ineffectiveness in making use of its monopoly on the use of force. It in fact forgoes this license voluntarily to enter alliances with private paramilitary actors. Paramilitaries have been accused of infiltrating the state security sector, especially in the DAS (Departamento Administrativo de Seguridad). Under the Uribe administration, the state tried to recover its monopoly on the use of force by means of a strategy of “democratic security,” which enacted anti-terrorist decrees and laws and bestowed extraordinary rights on the military, especially in conflict regions, including the right to arrest people without a warrant from a judge. On the other hand, the government conducted “peace talks” with the “right-wing” paramilitary

Monopoly on the use of force

groups, in order to pacify part of the country, while the guerrillas continued fighting. The final outcome and the long-term consequences of those peace talks are inconclusive, but it can already be foreseen that most crimes committed by paramilitaries will receive impunity or minor punishment, and that a “new generation” of paramilitaries will be taking over “outstanding tasks.” The government presents the reduced homicide rate and the decline of kidnappings and massacres as a direct result of the “democratic security” policy. Nevertheless, public safety was guaranteed regionally and temporarily at best, and the long-term effects of the government’s efforts are still unknown. If the process with the paramilitary groups fails and the guerrillas take over the initiative once more, the success may only be temporary. The government’s understanding of strengthening security was not based on a structural long-term approach – such as the United Nations’ concept of human security – but rather on short-sighted military measures. As a negative consequence of the new government policy, civic associations and individual activists became more involved in the armed conflict, and innocent people were criminalized.

The formal determination of who qualifies as a citizen has not been discussed politically. By law, all citizens have the same civil rights, but in practice, these rights are limited by social, gender- and ethnic-related exclusion mechanisms, and social class divisions within those marginalized groups limit rights even further. Indigenous and Afro-Colombian population groups have secured certain representational rights in Congress. The Indígenas’ traditional legal system is more or less respected in their territories as long as there are no conflicts with the state system and no confrontations with the economic and political interests of powerful stakeholders. The possibility of violent conflict, and the national legal system to some degree, highlights the limits of the right to representation.

There is a separation of church and state, notwithstanding the lobbying attempts by the Roman Catholic and Protestant churches. These lobbying efforts are gaining strength, particularly in the electoral and peace processes, and the involvement of the church in the education sector, particularly as concerns the current debate surrounding abortion in the country. The church takes a firm stance on this issue. It has in fact intervened in politics by threatening to excommunicate the members of the Constitutional Court that ruled in favor of allowing exceptions to the strict anti-abortion law in Colombia in the event of special circumstances. The political process is nonetheless formally secularized.

The state’s infrastructure and its powers extend beyond maintaining law and order, but either they do not encompass the entire population, or are unable to implement policies effectively. In some regions, paramilitary and/or guerrilla groups still carry out state functions, which restricts the presence, effectiveness and efficiency of the state administration.

State identity

No interference  
of religious  
dogmas

Basic  
administration

## 2 | Political Participation

The constitution guarantees the rights to vote and to run for office. Yet, these rights are not exercised universally or in all regions of the country, due to obstructions to the state's effectiveness and the rule of law, such as the influence and threats of violent political actors. These obstructions make it difficult to consider Colombian elections free and fair. Congress and president were elected in March and May 2006 respectively. The government's proposal to change the constitution to allow the president to run immediately for a second term was approved in 2005. The election campaign was polemic, rather than presenting serious proposals. The voter turnout of 45% is alarming in terms of democratic participation even compared to other Latin American countries, but was not really below average compared with other presidential elections in Colombia. There has also been a lack of participation in congressional elections, showing the highest electoral abstention in Latin America. Even taking into consideration that in some of the countries, voting is compulsory, this is not a good outcome for a regime claiming to be democratic. According to Latinobarómetro data of 2006 only 29% of the Colombian population recognize the elections to be a clean process, compared to 83% in Uruguay, 69% in Chile and 56% in Venezuela. The elections for Congress held during the evaluation period also showed some shortcomings in the democratic process, as there were no guarantees in some regions for citizens to exercise freely their rights to vote and to run for office. This lack of guarantee owed to problems concerning state identity, state-building and the rule of law, along with flaws in the financing and organization of political parties. Freedom of association and freedom of speech were increasingly restricted in conflict regions. The security situation during presidential elections was better than during the legislative elections, because the Revolutionary Armed Forces of Colombia (FARC) appealed to the voters to go to the polls. Nevertheless, in conflict regions elections cannot be described as either free or fair. The intervention of violent actors limits the rights to political organization and communication, as the government fails to guarantee security. Rumors claim that paramilitary groups "elected" one-third of Congress. Even though this might be exaggerated, there is an open investigation in Congress underway to examine the close relationship between paramilitary groups and politicians, which paramilitary groups have openly acknowledged. The allegation is that 12 members of Congress had affirmed a declaration of intent with paramilitary groups to open up a peace process in 2001. This can be interpreted as dirty work on both sides aimed at absolving paramilitary groups, which politicians have supported for years, of their problems with the state without real punishment. The Supreme Court also issued warrants to various members of Congress belonging to the government coalition who were accused of having had close ties with paramilitary groups. Because of the new electoral legislation voters also had some difficulties in participating,

Free and fair  
elections

which the 13% of votes deemed invalid after the legislative elections revealed. Another noteworthy result of this legislation was the meager opportunity for participation afforded to small parties such as the party “Visionarios con Mockus” of the former mayor of Bogotá. Also due to the new electoral legislation there were some convergence tendencies in the party system. Now politicians at the national level have to combine forces and form larger parties, if they want to win elections. If these amalgamated parties resolve the problem of inner factionalism, their merging may prove a positive development, but if they discourage participation, they will only frustrate progress in the political system.

The national government’s effective power to govern is limited, as is that of many regional and local governments. Guerrillas, paramilitary groups, drug traffickers, and sometimes landowners and entrepreneurs exercise veto power over political processes. Selective alliances are made between the state military and individual violent actors such as paramilitary groups or drug traders. These alliances seriously undermine certain rights guaranteed in the constitution. After the implementation of the anti-terrorist rules, members of the military rather than elected representatives head individual communities in conflict-ridden regions. Some mayors and governors have been kidnapped. Others “govern” in absentia from the capital of the state Bogota, which generally lies at a safe distance from problem areas. The Anti-terrorism Act, which took effect on 20 August 2001, has expanded the role of the military leadership relative to civilian agencies, and further hobbled the already hybrid constitutional state. The act led, in some cases, to military and police interventions that were in direct conflict with international law.

Effective power  
to govern

According to the constitution, political and civic organizations and unions are free to assemble. However, in practice they are limited in terms of their political and ideological direction, their right to criticism, and their choice of field and location of activity.

Association /  
assembly rights

Freedoms of information, speech and organization are reaching their limits due to merging boundaries between the economic, political and media elite, and because of the violent conflict involving guerrillas, drug traffickers, paramilitary groups, and the state’s security forces. Core elements of a public sphere and public debate exist, but they are vulnerable to massive intervention, distortion and manipulation. Colombia continues to be the most dangerous country for journalists in continental Latin America.

Freedom of  
expression

### 3 | Rule of Law

Shortcomings are evident in the separation of powers and in the system of checks and balances. Although the executive branch usually prevails in any power

Separation of  
powers



struggles with the legislative branch, there is negotiation between Congress and the president. To get bills passed the executive branch must make financial and personal concessions to members of Congress. Politicians who supported the president's electoral campaign, including the electoral coalition of President Uribe during the 2006 elections, expect benefits afterwards. Bills proposed by members of Congress were restricted to regional projects of lesser importance, with an eye on the relevant constituencies. As an institution, the judiciary branch in Colombia is sufficiently independent. However, independence tends to decrease in the lower courts, especially those located in conflict zones. By utilizing the associated decree powers, informal electoral coalitions, the opposition's incompetence and the support for presidential policy that Uribe's post-election popularity (which would decrease later) afforded his government, the Uribe administration tipped the balance between the executive and the legislative branch to its advantage. Uribe was thus able to compensate for deficiencies in governmental capability and the rule of law, which structural reforms might better have remedied. The Constitutional Court of Colombia monitors the legitimacy of imposing a state of emergency as well as legislation.

The Constitutional Court has played an important role in the balance of power and has functioned as something of an "opposition" force by providing a check on the executive. The constitutional judges who served on Colombia's Supreme Court under Uribe's government, generally speaking, made independent decisions. However, threats, demotions and new appointments initiated by the government led the court to alleviate its oversight power and focus on pragmatic political considerations when prudent. In October 2005, members of the Constitutional Court publicly accused one another of taking money to approve legislation, allowing President Uribe to serve more than a four-year term and finally approving the law of re-election in November 2005. On the other hand, the Court won the discussion with the government about the reform of the tutela decisions, which provide for the attainment of basic rights. The Constitutional Court still has the right to revise such decisions. Tutela trials have to be decided within 10 days, and are still an important compensation for the weakness of the regular judiciary system. In general, the judicial branch has limited effectiveness in the eyes of the citizens due to several factors: lengthy proceedings; de facto limited access to courts; lack of equality before the law; corruption and a high degree of impunity. In addition, if white-collar criminals are convicted, they receive privileges within the penal system, such as house arrest instead of imprisonment in jail, a practice that also owes in part to overcrowded prisons. Most of the paramilitary groups included in the "peace process" with the government are under house arrest in their regions and not in prison, whereas several "common criminals," who have not been sentenced yet, are in prison. The Uribe government was discussing the possibility of suiting them with electronic tags. On a positive note, a new criminal code enacted in 2003 took effect in

Independent  
judiciary

Bogotá and cities in the coffee-growing region on January 1, 2005. The reforms include the abandonment of the traditional modalities of the civil law system – investigation by judges, written testimony, judicially rendered verdicts. The code assigns investigation and charging to a prosecutorial corps independent of the judiciary, requires that oral testimony be given in open court and verdicts rendered by lay juries. As a result, cases in Bogotá that normally took up to four years to come to trial were processed in less than two months. The penal code increased penalties for hijacking, money laundering, genetic manipulation, torture, extortion, drug trade, speculation and rebellion, to name a few. But it will take three years until the reforms are completely implemented. Therefore, the whole range of effects remains to be seen. It can be said, however, that currently, there is a lack of money as well as of training for the members of the judiciary system and the barriers to filing charges are higher than ever.

The constitution foresees legal penalties for officeholders who abuse their positions, in particular during elections or in order to extract money from state coffers. However, most offences committed by corrupt elected officials are not prosecuted. The justice system remains compromised by corruption and extortion.

Prosecution of  
office abuse

Colombia remains one of the most violent countries in the world, although homicides per 100,000 habitants declined to 35. There are still murders of political activists like Jaime Gómez, a city councilor and assistant of the famous liberal politician Piedad Córdoba, who was critical of the government. There have been assaults on the metro bus system Transmilenio and in different residential quarters such as the attack in April in Bogotá, which resulted in six deaths. Civil rights are violated regularly in certain areas of the country, and are temporarily suspended during states of emergency or in regions that the president has declared “special zones.” In these special zones, the military is granted exclusive rights. International observers speak of the internal displacement of 3.5 million people in recent years, or 500 people daily according to the UNHCR, making it the highest rate after Sudan and Congo. Data published by the Colombian government report more than one million were displaced between Uribe’s accession to power in August 2002 and the end of December 2005. Most of them took refuge in Colombia’s urban centers, precipitating a humanitarian crisis causing tremendous problems for families and the society as a whole. Many Colombians also seek international asylum, or choose to live and work in Europe or the United States as a consequence of the volatile political situation. Violent groups finance their operations through extortion and kidnapping. In April 2006, former President Gaviria’s sister, Liliana Gaviria, was murdered during a kidnapping. The Revolutionary Armed Forces of Colombia (FARC) regularly extort payments from hundreds of businessmen. The País Libre foundation estimates that between 1996 and 2006, 23,078 people were kidnapped. In 2006 alone, 621 cases were registered. Nevertheless, the number of kidnappings has decreased during the

Civil rights

Uribe government. Violent groups use hostages as “human shields” as they seek to escape from pursuit by the security forces. NGOs reported that “social cleansing,” the elimination of drug addicts, street children and other marginal citizens by vigilante groups often linked to the police continued.

#### 4 | Stability of Democratic Institutions

Democratic institutions perform differently, depending on their budget, leadership and support. Those introduced through various reforms in the 1980s and 1990s were unable to achieve their full democratic potential. These democratic institutions are part of a hybrid regime; therefore, they are not utilized to their full potential.

Performance of democratic institutions

The acceptance of government institutions is limited, as revealed by the Uribe government’s ongoing institutional engineering. Examples include attempts to change the constitution, to re-elect the president, and to curtail the power of the judiciary. The opposition has also proposed reform initiatives and suggestions for a new constitutional convention, including a proposition from the National Liberation Army (Ejército de Liberación Nacional, ELN) guerrilla group. The veto powers, such as the drug mafia, paramilitary groups and guerrillas, pose concrete threats to institutional stability. Civil society and political representatives accept the function of most democratic institutions, but some of them attempt to manipulate the system to their own advantage.

Commitment to democratic institutions

#### 5 | Political and Social Integration

Problems of institutional efficiency relate to problems in the party system. While the exclusive character of the two-party system has eroded, most of the “new” powers are either spin-offs (founded by politicians who were members of the traditional parties, but who cut their ties) or satellite parties. The latter were founded by politicians who were members of the traditional parties and did not cut their ties; they still participate in the liberal or conservative caucus and have close relations to the PLC or the PC. This is also the case for the president’s party, which functions more as an electoral coalition of ex-liberals and ex-conservatives than as a real party. Even the president’s party has changed its name several times, a fact that is true of many of the new parties that participate under different names in different elections. The majority of these “new parties” function as personality-oriented voter associations with a regional focus. They usually depend on one party leader or sometimes a few party leaders. These smaller parties have neither a stable social basis nor long-term membership structures. The main deficiency of the political system does not owe to the factionalism of the party system itself so much as to how internal factions are

Party system

structured, and how individual politicians behave inside their parties. The total number of parties is not very meaningful because candidates and parties constantly change their names and affiliations. Apportionment problems have also plagued the system due to gerrymandering in rural constituencies. The latest electoral reform, approved unexpectedly by Congress in July 2003, presented an opportunity to partially resolve these troubles in the party system. Each party would have to receive at least 2% in valid votes to maintain its official status as a party, and it could present only one party list. The reform also introduced a “divisor” or “quotient” system (*cifra repartidora*) that was supposed to strengthen big parties and weaken small ones, thereby diminishing party system fragmentation. Changes were visible already in 2003. The parties presented fewer party lists for the local and regional elections than in the past. The same occurred during the congressional elections in 2006, in which “only” 21 parties (compared to more than 60 in former elections) presented candidates to the Senate. After the election, the Consejo Nacional Electoral still recognized, in the July 2006 resolution 1057, 15 political parties. Although the reform reduced the number of parties, it had little effect on the internal structures in which, with few exceptions, people still do not identify with their party, but rather integrate for pragmatic reasons. Together with the low level of polarization, the centralization of the party system also means that central societal cleavages are not being conveyed. As even civic organizations cannot work without limitations, conflicts remain latent over long periods or rigidify. Thus political actors look for extralegal means to resolve conflicts. Patronage continues to predominate, particularly with regard to traditional parties and those stemming from them.

The network of interest groups is relatively close-knit, partly because the opportunity to found parties was limited for a long time. Interest groups comprise trade associations, unions, indigenous and Afro-Colombian organizations, women’s, environmental and human rights groups. Most of the organizations have steadily lost their “movement character.” Some were formed in part due to threatening situations; others decided to organize as NGOs. Channeling state funds to these organizations as part of the privatization of state services threatens their independence. Their room for action varies greatly from region to region, because of state-effectiveness problems, anti-terrorism measures of the Uribe government and concrete policies toward the violent actors. Nevertheless, civic organizations have been somewhat successful in mobilizing people for mass demonstrations regarding specific peace-related and social topics.

Interest groups

The level of contentment with democracy is still low in Colombia. While in 1997, 69% of respondents agreed with the statement, “democracy is preferable to any other kind of government,” that figure was 36% in 2001 and 46% in 2004 (the Latin American average was 53%). Responding to the same question in 2006, 53 % of the participants agreed, compared to 77% in Uruguay. Only 33% of the

Consent to  
democratic  
norms

Colombians included in the Latinobarómetro survey in 2006 were “very satisfied” or “fairly satisfied” with the specific way democracy was working in their country (Uruguay: 66%, Venezuela: 57%).

Civic self-organization is unevenly distributed. It is spontaneous and temporary in conflict-ridden regions, where a relatively low level of trust among the population coincides with high polarization. In the rest of the country, there are many self-organized groups and associations. In a climate of increasing repression, society as a whole has not been able to deal with past human rights abuses, and there has been no effort by the state to do so. Instead, the initiative to work through the past has come from NGOs and universities. International and human rights organizations have also criticized the government’s negotiation process with the paramilitary groups, followed by the disarmament of about 36,000 participants of the big paramilitary groups. However, despite the disarmament and “reintegration” of those groups to society, the process, however, does not automatically propose an opportunity for reconciliation and reparation, and it is not clear if it will lead to the groups’ total disempowerment. Congress approved a law on “justice and peace” to be applied to the peace process with the AUC and possibly later to a potential peace process with the Revolutionary Armed Forces of Colombia (FARC), which is not yet in sight. But human rights organizations claim that the penalties are too low and that the outcome of the process in the long run is uncertain.

Associational  
activities

## II. Market Economy

Since the late 1980s, Colombian governments have made transforming the economic system into a (neo)-liberal market economy a priority. The major problems comprise fighting illegal – especially drug-related – economic activities, consolidating budget policy, reducing debt and reorganizing and stabilizing the banking system and capital markets. On top of these problems, we still see questionable results in terms of poverty, unemployment and societal fragmentation, as well as the continued unequal distribution of wealth.

### 6 | Level of Socioeconomic Development

The HDI (2006, data: 2004) for Colombia is 0.790, which gives Colombia a rank of 70th out of 177 countries evaluated. The key indicators show a medium level of development in Colombia compared to the rest of Latin America. Social exclusion is pronounced both quantitatively and qualitatively, and is in part structurally entrenched. Exclusion based on poverty and lack of education correlates in many cases with gender-based and ethnic discrimination patterns. Colombia’s latest available Gini index value was 0.586 in the HDI report 2006,

Socioeconomic  
barriers

compared with 0.571 in 1996. Income distribution is extremely uneven. The poverty rate in Colombia is higher than in most countries in the southern cone of Latin America. On the international scale, Colombia, with a value of 7.6, ranks tenth out of 95 countries for which the Human Poverty Index has been calculated. This rating has not changed in recent years. According to the Human Development Report (2006), the ratio of incomes of the richest 10% to incomes of the poorest 10% was 63:8. Colombia ranked 56th in the UNDP's Gender-related Development Index with a score of 0.787. This means that equality between women and men is not as pronounced as in Mexico, Brazil, Argentina, Costa Rica, Panama, Cuba, Chile and Uruguay.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	81,244	79,411	96,783	<b>122,309</b>
Growth of GDP	%	1.9	3.9	4.8	<b>5.1</b>
Inflation (CPI)	%	6.3	7.1	5.9	<b>5</b>
Unemployment	%	15.7	14.1	13.7	-
Foreign direct investment	% of GDP	2.6	2.2	3.2	<b>8.5</b>
Export growth	%	-5	5.7	11.4	<b>4.6</b>
Import growth	%	1.7	4.7	16.9	<b>25.2</b>
Current account balance	\$ mn.	-1357.8	-974.3	-938.3	<b>-1981.2</b>
Public debt	\$ mn.	20,668.8	22,783.5	23,771.4	<b>22,491.4</b>
External debt	\$ mn.	33,203.6	36,996.8	37,909.9	<b>37,656.3</b>
External debt service	% of GNI	8.7	11.4	8.3	<b>8.7</b>
Cash surplus or deficit	% of GDP	-	-6.0	-5.6	<b>3.9</b>
Tax Revenue	% of GDP	-	13.4	13.6	<b>15.1</b>
Government consumption	% of GDP	20.7	19.7	19.5	<b>19.3</b>
Public expnd. on edu.	% of GDP	5.2	5.2	4.9	<b>4.8</b>
Public expnd. on health	% of GDP	6.3	6.5	6.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.6	3.8	3.8	<b>3.7</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

The fundamentals of free market competition are largely guaranteed. Colombia has a codified competition law. Four persistent phenomena obstruct its implementation: the high level of illegal and war-related economic activities; the pronounced informal sector; informal restraint on competition; an insufficiently developed competitive culture.

Market-based  
competition

Anti-trust regulations were introduced in 1959; however, the Uribe administration does not always apply the regulations uniformly. There has been a process of market concentration in the economy in recent years. For example, a total of five important economic groups control approximately 80% of the mass media and namely, the vice president and the minister of defense, both members of the Santos dynasty, own some of the most important mass media. International investors have also begun to acquire Colombian business, such as the acquisition of the beverages company Bavaria by SAB Miller and the takeover of Compañía Colombiana de Tabaco S.A. by Phillip Morris.

Anti-monopoly  
policy

Since the early 1990s, liberalization of foreign trade has increased. President Pastrana (1998 – 2002) introduced some export-promotion programs, but legal exports decreased during his administration. There was considerable export growth in 2003 due to the recovery of the economy in the United States and worldwide. Imports have been subject to extreme fluctuations, declining in 2002 and experiencing extreme growth in 2005. The hope that Colombia could develop a stable export industry is thus far from certain. The current account balance was negative during the last few years.

Liberalization of  
foreign trade

Under pressure from the IMF, the Pastrana administration issued a decree in 1999 that standardized customs laws. Regulatory exceptions (differentiated tariff rates) existed for individual enterprises and industries. In May 2004, the United States, Peru, Ecuador and Colombia initiated negotiations to firm up a free trade agreement. There was also an attempt to reduce trade barriers between the Andean region and the United States in the framework of the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The ATPDEA is part of the U.S. Trade Act from 1992 and provides the four Andean countries with duty-free access to U.S. markets for approximately 5,600 products. Since the Uribe administration follows the United States' drug policy, it received all the benefits of the agreement. Nevertheless, it was set to expire on 31 December 2006, while the Uribe government worked for its extension until mid- 2007.

Moreover, the United States and the Uribe government intensified the negotiation process to obtain a free trade agreement, which concluded successfully in November 2006. Besides commercial issues, it incorporates economic,

institutional, intellectual property, labor and environmental policies, among others. The Colombian government expects a 1% growth of the GNP, but will lose approximately 1.2 billions of tariff revenue per year.

Colombia must prepare itself for the challenges involved in signing a Free Trade Agreement with the United States. Although the Colombian economy is quite solid, there are certain sectors, such as agriculture, where small producers will disappear if they cannot make a few crucial adjustments. Colombian farmers fear the competition of the U.S. agricultural market. President Uribe promised them subsidies of \$220 million. Despite some criticism in both countries, on 22 November 2006 U.S. Trade Representative John Veroneau and Jorge Humberto Botero on behalf of Colombia signed the agreement. It now faces the challenge of ratification by the U.S. Congress. However, it is highly unlikely that the U.S. Congress would approve the FTA with Colombia any time soon, let alone in order for it to be operative by January 2008. The Democratic majority in the Senate and House of Representatives has demanded several significant changes to the existing treaty before approving it, especially in the area of labor relations, union rights and environmental protection. Colombia also signed a free trade agreement with Chile on 26 November 2006. It is interested in a free trade agreement with the EFTA countries as well, and wishes to augment bilateral free trade agreements.

The banking system, which has been privatized to a great degree, and the highly indebted public banking sector, are not self-sufficient. In 1999 alone, nine financial institutions went bankrupt. In that same year, President Pastrana enacted a law to restructure the finance sector. The banking system is more differentiated than before, but remains inefficient and vulnerable to external fluctuations. Several private banks closed their branches and switched to online banking only, in return for outrageous prices for each transaction. The Uribe government privatized several banks including the Banco Popular, the Banco del Estado and Megabanco. The staff of the IMF has also urged President Uribe to sell two other big state-owned banks (Granbanco-Bancafé and Granahorrar), which were both considered distressed banks. The Government intervened and rehabilitated the finances of both with the help of the Fondo de Garantías Financieras (Fogarín) before selling them. The Banco Bilbao Vizcaya Argentaria (BBVA) in Colombia bought Granahorrar at the end of October 2005. Granbanco-Bancafé was the bank of Colombian coffee producers, which entered into crisis ten years ago. At the end of January 2007, the financial supervision agency allowed the Banco Davivienda to acquire Granbanco-Bancafé, which was the biggest privatization in Colombian history. A banking supervision agency (Superintendencia Bancaria) was introduced in Colombia as early as 1924, but its function has changed over time, and there is a de facto lack of supervision and control. Banks do not always follow the instructions of the supervision agency. The high level of debt and the

Banking system



crisis in the banking sector demonstrate that the supervisory mechanisms are inefficient. Capital flight has decreased due to the perceived improvement of the security situation and the new “left-wing” populist governments in Colombia’s neighboring countries.

## 8 | Currency and Price Stability

The Constitution of 1991 included inflation control as one of the main tasks of the central bank, and recognized an adequate exchange-rate policy, along with inflation control, a priority. Inflation declined consistently in recent years from 16.7% in 1998 to 7.0% in 2002 and it is projected at 4.5 % in 2006. This rate is still higher than agreed with the IMF, but it was the lowest level seen in Colombia since 1962.

Anti-inflation /  
forex policy

Colombia has a central bank (Banco de la República) with a relatively high capacity for control and formal independence. The leading members of the executive board generally have close ties to a party or party faction, sometimes directly to the government in office, which make it more difficult to create purposeful and long-lasting policies. However, overall, the bank does not change its position much. One of the striking features of the Colombian political economy compared with its neighbors in the region has been the stability of macroeconomic policy and institutions, interrupted only in 1990 – 1991 by the rapid liberalization process. The board of the central bank traditionally has had a much more neoliberal leaning than the president, but during the Uribe government positions widely coincided, albeit with exceptions (e.g., exchange-rate policy). For its members, inflation control is a “holy cow” and, if necessary, takes precedence over short-term improvements in economic growth.

In 1999, following the recommendation of the IMF, the central bank gave up the limitations on the exchange-rate policy that had been in place since January 1994. Given the nominal appreciation of the peso of almost 15% in 2004, the president – under pressure from the export industries – pushed the central bank to adopt more stringent measures to tackle the appreciation of the Colombian currency. This created a public row between the president and the central bank board, who was afraid of lowering interest rates for fear of sacrificing their inflation target. According to IMF data, Colombia’s real effective exchange rate has displayed significant fluctuations in recent years. After reaching the most depreciated level in more than a decade in early 2003, the real exchange rate appreciated subsequently by more than 25% through March 2006, as growth recovered and the political and security situation stabilized. In January 2007, the bank bought \$1 billion to stop the appreciation of the peso.

The consolidation of fiscal and debt policies has become a central theme in Colombian politics. The containment of the fiscal deficit – even with the help of the IMF – has proved to be a task manageable only in the long term. The public debt as a percent of the GDP reached 45.8% in 2005 and was expected to be at the same level in 2006. In 2005, the budget balance in percent of the GDP could be reduced to zero because of unexpectedly high tax revenues and the profits of the state from the oil industry, an aspect that increases in significance in light of the government's intention to sell 20% of Ecopetrol. The government managed to control external debt, even though the debt service seeks to be high. However, the total value of foreign debt has gone down due to the strong appreciation of the peso.

Macrostability

## 9 | Private Property

The constitution guarantees the right to property and defines it in adequate legal terms. In June 1999, Congress modified the clauses in Article 58 of the constitution that had allowed expropriation without compensation. Article 58 was considered an impediment to foreign direct investments. Expropriated enterprises must now be compensated. Private enterprises are the backbone of the economy. Some of the companies that are still state-owned, like Ecopetrol, produced solid results in 2004 and 2005, and provided additional income of the GDP, which helped the government to reduce the fiscal deficit.

Property rights

The Uribe government privatized financial entities, and enterprises of the electrification, communication and petrochemical sector such as Intravisión. The privatization of state-owned enterprises was pushed through despite the protests of unions, particularly those unions active in production, communication, ports and financial services. Social organizations protested against the privatization of strategic sectors such as parts of the telecommunications industry and crude-oil production. The Uribe government has plans to privatize 20% of state-owned Ecopetrol and parliament has already passed bill no. 113 in 2006. In September 1999, Colombia was still on the Special 301 Watch List of the World Trade Organization. The country ratified the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and has adjusted most state legislation accordingly. Agreements on regional integration, such as the Group of Three (G-3: Colombia, Venezuela and Mexico) and the Andean Community, have been changed to accommodate the TRIPS Agreement. Nevertheless, some civil society organizations, especially the indigenous groups, fear the negative consequences of those agreements for their communities and the country as a whole. They complain that pharmaceutical companies of industrialized countries are obtaining increasingly more global patents for products based on natural resources found in Colombia, while Colombians themselves will no longer be able to afford these products or to produce similar and cheaper generic products in Colombia.

Private  
enterprise

## 10 | Welfare Regime

The Colombian welfare regime was privatized to a certain extent in the 1990s. The social security law of November 1993 originated private health entities (empresas prestadoras de salud) and private pension funds. Law 100 of December 1993 transformed the Colombian national health care system, which was based on governmental assistance and characterized by its integration into a general social security system. The reform started off by defining two regimes: the contributory regime, aimed at people who can afford contributing to the social security system through their jobs or independent incomes, and the subsidized regime, aimed at people who cannot afford contributions and therefore must be subsidized by the government for the total or partial cost of the obligatory insurance. As part of those reforms, between 2003 and 2006, the Social Security Institute (Instituto de los Seguros Sociales, ISS) had to hire its medical services from Empresas Sociales del Estado (ESE), which were under the direction of the Ministerio de la Seguridad Social, when the government decided to remove the ISS from the position of coordinator of the 220 medical centers in Colombia. But a large part of those ESE entered into crisis since the state did not fulfill its supervision functions. Local politicians have misused those enterprises, as the knowledge that the ISS will buy their services prevents any sense of competitiveness from motivating cost-effective work. Thus, the ISS ended up receiving persons that the ESE did not receive, which worsened its financial problems. In February 2007, the National Planning Department (Departamento Nacional de Planeación, DNP) presented a bill to Congress to restructure the ISS and other state entities. At the moment, the government still emphasizes that it will guarantee the workers' acquired rights. Each worker costs the state about 3.1 million Colombian pesos (about \$1,600) each month. Trade unions, on the contrary, hold that the problem has arisen because government owes 60 billion Colombian pesos (about \$30 million) to the ISS. The pension system was converted from a state allocation system to a combination of pay-as-you-go financing and capital-based financing. The privatization of the pension system has led to new forms of discrimination against certain groups, such as women, single parents and casual laborers. A very large share of people that could have stayed in the state allocation system switched to private funds. Approximately 25 billion Colombian pesos were used for this shift in models, but only the upper-middle and higher social classes are able to make private provisions for whatever hard times may come. The Pastrana and Uribe administrations have discussed further reform of the pension system, because it still results in high state expenditures. The Uribe government saw the reform as one of the main measures to reduce public spending. However, even if the state's burden was very high, only about 20% of those working in the formal sector received pensions at all. More than 40% of the working population works in the informal sector. Uribe tried to integrate part of the reform into the 2003

Social safety nets

referendum, intending to end up with collective negotiations on pensions and to freeze salaries and pensions of state employees. However, the referendum failed in the end. Even though the IMF insisted on the reform, the ordinary democratic legislative procedure had produced much more complex results. Finally, law no.100 from 1993 was changed again in January 2003 by passing law no. 797. The pension age will rise to 65 years in 2015; the contribution to the pension system augments at one percentage point up to 14.5% of the remuneration. There will no longer be a minimum pension and the basis for calculating the pension has been changed. On the other hand, the government plans to give new privileges to demobilized persons (which in this case means paramilitary groups), which can receive a pension as part of the government's "reintegration program." The questionable bill no. 279 of 2006 is already introduced into the Congress. Overall, the government assigns low priority to social reforms. State and private social institutions provide very disparate services. In the health care sector, for example, this disparity of services leads to undertreatment of the poor. There is no unemployment insurance in Colombia. During the Uribe administration the official unemployment rate decreased, but underemployment decreased only moderately. The latest polls show that Colombians also find that their living standard is decreasing. Pastrana's predecessor, Samper, made an attempt at fighting poverty with the Red de Solidaridad Social, founded with the help of external funds. Poverty reduction is now also an explicit priority of the Uribe government. In August 2005 the government published the document *Visión Colombia*, in which it promised to reduce poverty by 20% and to reduce the Gini index from 0.58 to 0.47. In August 2006 the new director of the National Planning Bureau announced a developmental plan (2007 to 2010), in which one goal is the reduction of poverty.

President Pastrana (1998 – 2002) did not fully implement the Quota Act, which mandates that at least 30% of leading state officeholders must be women. The Uribe administration achieved the quota at the ministerial level, with six women ministers (46%) at first, and later five (38%), but was not successful at higher levels of administration. At the regional and local levels (departamentos), the implementation of the act is also not enforced. A suggestion from the Ombudsman (Defensoría del Pueblo) to improve the advanced training of women for state duties has not been taken seriously. Furthermore, a real policy change cannot be expected from the women in leadership positions, in part because of their involvement in the state framework or because they share neoliberal values. These women mainly come from traditional political families or are friends of the president and his political followers. With few exceptions, it is nearly impossible to attain high state office without an "appropriate" social background. Women formally have the same access to education as men. Nevertheless, because of the partly private educational system there are de facto restrictions for economically disadvantaged women. There is also discrimination against homosexuals. In

Equal opportunity

October 2006, finally the Senate approved a bill that permits homosexuals to hand their pensions down to their partners. It also permits the heritage of patrimony and to affiliate the partner to the social security system.

## 11 | Economic Performance

The progress of fundamental development factors and modernization indicators was in constant flux during the period of evaluation. Ultimately, the status of development measured by the HDI has not improved significantly in recent years. This applies to sustainability indicators as well. During the Pastrana administration the Colombian economy had experienced one of its worst crises ever, surpassing the normal economic fluctuations by far. In 1999, for the first time in many years, the economy shrank. The crisis had implications that could still be felt when President Uribe took office. Despite this, the economy started to grow under the new government, the official level of unemployment was reduced, and underemployment slightly reduced. However, the high budget deficit, high debt (particularly in the public sector) and poverty continue to be a serious concern. Economic recovery in agriculture and industry came slowly. The export of oil and mining products increased. Construction became the most dynamic sector of the economy, but its growth began to slow in 2005. The same happened to the overall economic development, which did not increase as fast as it did before in 2006. The overall institutional conditions for trade have been changing only gradually. The pace of reform has been maintained due to the economic interests of a segment of the elite and an agreement with the IMF. Macroeconomic development improved when compared to the extreme crisis of the Pastrana administration, but has not been consolidated, particularly when one considers the fiscal deficit and the debt burden. Nevertheless, the export rate in 2003 and 2004 grew and inflation was reduced. Although the official unemployment rate fell, it fluctuated widely (higher at the end of the year) and can be considered an ongoing problem, along with underemployment. The government's development policy was only partially successful, although GDP reached a good growth rate again. Within the historic context of Colombia, it is still a normal rate of growth (long-term average: 4.5%), which was celebrated after the economic crisis of the last years.

Output strength

## 12 | Sustainability

After the new Colombian constitution that came into force in 1991 established a legal framework for environmental policies, and the 1993 ratification of Act 99 established an institutional framework. The institutions originating from this legislation were the Ministry of Environment (from 2003 called Ministerio del Ambiente, Vivienda y Desarrollo Territorial) and the National Environmental

Environmental  
policy

System (SINA). In practice, officials only pay lip service to environmentally compatible growth; there has been little effect on the actual economic policy. Environmental protection criteria generally take a back seat to economic growth concerns. The Uribe administration places a high priority on economic recovery. However, the overall political conditions and the violent conflict hinder the efficiency and the expansion of the environmental sector. Climate change produces less humidity and more heat, so traditionally humid regions like the Choco department suffer from it. During the Uribe government, there were several forest fires, some a result of climate change and others set by arsonists. Coca cultivation and aerial spraying with herbicides in environmentally sensitive regions are destroying parts of the original rain forest.

Nevertheless, national and local governments have initiated some – often isolated but laudable – environmental projects. Examples include water body restoration and traffic reduction measures. Uribe also restructured the well-established nature reserve system (UAESPNN, Unidad Administrativa Especial del Sistema de Parques). Critics fear that this well-functioning system might be weakened by these reforms. Despite German development cooperation and new environmental legislation, such as that for the mining industry, reinforcing such laws remains a formidable challenge, as those enterprises tend to be situated in conflict regions where the rule of law does not necessarily apply to everybody in the same way. The Uribe government is also interested in new environmental technology. It holds exhibitions and has installed a new wind park. At the same time, the government still focuses on the traditional oil industry, which has negative consequences for the environment. The government's decision to partially privatize the state-owned Ecopetrol is driven by a desire to make it more profitable and able to cope with national and international demands.

Education in Colombia is fraught with several problems. Regions and municipalities still complain about shortage of funds for education on the regional and local level and lack of equal treatment between the states (Departamentos) and municipalities. The expenditure in education was at 2.4% of GDP in 1991, 3.1% in 1995 and 4.9% between 2002 and 2004 based on UN data. Enrollment in higher education increased from 673,000 in 1996 to 1,212,000 in 2005, which means that according to UNESCO, Colombia reaches a medium level and lies above countries with a medium development level, but under those with a high one. In 2005, 131,300 persons had attained a university degree; 86% of those with university degrees belong to the 40% of the population with a higher income (quintil 4 and 5). Ninety percent of those with a master's degree belong to the very richest of the country (quintil 5). Youth (18 – 23) enrollment figures went down from 30% in 1996 to 27% in 2005, but have been increasing in recent years. The dire state of affairs for the displaced limits their access to the education system. The Uribe administration stressed the importance of education

Education policy  
/ R&D

during the election campaign. In practice, there is more emphasis on the number of schools than on their quality. According to the government, there are 1,419,427 new slots open in the education system. New education policies have been drafted concerning very young children (between three and five years), who usually attend private school. Some efforts have also been made to restructure the education system, such as the modernization of the ministry of education, but the main aim of the government is reducing the fiscal deficit, rather than improving the efficiency of the education sector itself. Critics also argue that pedagogy is only based on evaluation and measuring, leaving less room for creativity and autonomous learning. The overall literacy rate was 89.9% in 2005, according to the data of the federal statistical office DANE. The government also continues to cooperate with the industrial sector in Colombia and other regions of the world. An alliance with Microsoft in the program “Entre padres” introduces new technologies into state schools.

Within the splintered education system, major differences in quality prevail between state and private schools. The well-known private primary and secondary schools guarantee an education that is on par with international standards. Many state-owned schools could not always guarantee a quality of education that permitted access to higher education at university. There are more than 40 different universities in Colombia with spin-offs in different cities. Only a few of the elite private universities, however, can be compared with the most important state universities in Bogotá, Medellín and Cali. Those have been compared favorably with many Latin American universities. Meanwhile, numerous private “garage universities” turn out a mass of poorly qualified graduates. The government is interested in enhancing the level of bilingual education, especially as concerns the quality of the English lessons at the university level, and therefore commissioned a study with the British Council (not yet published). A lack of funding and a lack of infrastructure account for clear shortcomings in scientific research. In addition, individual Colombian researchers have been threatened and, in some cases, assassinated.

Despite the tenuous situation at many of the Colombian universities and research institutes, outstanding research is still possible, but often with the help of external financing. President Uribe launched plans to improve investigation (Plan Estratégico Nacional de Ciencia, Tecnología e Innovación” and “Colombia – Visión 2019). The objective of the plan was to augment the expenditures for investigation, development and technical innovation up to 0.6% of the GDP by the end of 2006 and to reach internationally recommended standards by the end of 2015.

## Transformation Management

### I. Level of Difficulty

The conditions at the beginning of the evaluation period were quite difficult, despite the medium level of economic development that had been reached, the medium to high level of education of the populace and Colombia's significant civic traditions. These difficult circumstances are tied to numerous factors: the legacy of an economic crisis of the Samper and Pastrana governments; high state deficit and debts from the former governments; ongoing social conflicts, especially due to neoliberal economic policies, and in particular the government's privatization politics; a failed peace process with the guerrilla group FARC and little progress with the ELN, criticism coming (especially) from the victims and the human rights movement with reference to the peace process with the paramilitary groups; problems with stateness, state-building and the rule of law; and serious shortcomings in the political system. Several issues complicated transformation management: a long legacy of no civilian conflict resolution; overly tight integration of politics and the economy; and a tradition of corruption supported by the drug mafia, the emerald trade and smuggling; paramilitary groups remained active despite the peace process, and participated, like the guerrillas, in the well-established war economy. There has also been a difficult process of reforming social security and augmenting HIV/AIDS prevention. The Uribe administration was buoyed only thanks to global economic conditions and support in the form of his re-election.

Structural  
constraints

There is a selection of civic traditions. Nevertheless, the different social groups making up civil society have always been fragmented and hindered by the state and by extralegal groups. Many NGOs of varying quality are active in Colombia. The possibility to have an influence on public life is dependent on the topics groups work on and the region they work in. Trust in institutions cannot be generalized. During recent years, for example, political parties have received a low rating according to Latinobarómetro data, while the judicial system, entrepreneurs and armed forces received a good rating. There is a tendency not to participate in public life due to perceived and real dangers it represents, especially for critical journalists, human rights workers, or anyone, including officials, trying to exercise control over illegal actions. Although the Uribe

Civil society  
traditions



government cannot fully guarantee legal certainty, the security situation has improved during the last years. Civil and economic actors must reckon with political and legal insecurity. Because of this difficulty, from his days as a governor of the state (departamento) of Antioquia and later as president, Uribe favored private security forces (including CONVIVIR and peasants' soldiers). However, many of these soldiers collaborated with paramilitary groups to resolve security problems when president Uribe established his politics of "democratic security."

Social differences are quite considerable, although the social elite makes attempts to veil overt social distinctions. Some degree of violent conflict exists in most states (Departamentos), but most obviously in those where paramilitary and guerrilla groups are actually present and active. While the government talks of isolated conflicts, due to a guerrilla movement involved in drug trade, the human rights movement is more inclined to describe the situation as a sort of civil war based on social differences. Because of the growth of the conflict into geographical areas traditionally inhabited by ethnic minorities, there is always the danger that the conflict might take on ethnic undertones, even though most of the Indian and Afro-Colombian communities try, where possible, to remain neutral.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The Uribe administration pursued relatively consistent reform goals regarding economic transformation that were stipulated by the agreements with the IMF and supported by a group of economists mostly related to the faculty of economics of the Universidad de los Andes y Fedesarrollo (Juan Carlos Echeverri, Alberto Carrasquilla, Alejandro Gaviria, Mauricio Cárdenas, among others). These economists also control central state agencies like the Banco de la República, Ministerio de Hacienda and Planeación Nacional. Despite his proclamations, the president implemented his plans only partially, changing them sporadically and subjecting them to considerations of short-term political gain, for example, when the president subordinated reform goals to his ambition of being re-elected in 2006.

Prioritization

The government designed only partial reforms to aid political transformation, and did not coordinate them with the economic reforms. In addition, the reforms

Implementation

contradicted themselves at times, did not clearly pursue the aim of democracy, and proved difficult to implement. Reforms were, instead, meant primarily to increase the ability of the president to govern, that is, to stabilize and to strengthen the executive through restriction of civil liberties, especially in conflict-ridden regions. Some changes were made in the party and electoral system in 2003, the legislative elections in 2006 revealed the first consequences at the national level. Uribe failed in the end to abolish bodies for democratic monitoring such as regional and local audit divisions and human rights watch centers in the mayors office (personerías, controlorías), which partially fulfilled their duties, but sometimes only served to distribute political positions in the state apparatus. Apparently, the president felt the administration was already democratic enough, and saw little need to expand democratic reforms. During his second term, he had to give up plans to curtail the powers of the Constitutional Court and of the Defensoría del Pueblo (Ombudsman), because of the overall resistance to them. His counter-terrorism policy served to further strengthen the regime's repressive character and was criticized by national and international human rights organizations. His so-called peace process with the paramilitary groups was, on the one hand, welcomed as a means of reducing violence in the country, but on the other hand, criticized for the problems related to that process (such as impunity, reconciliation, reparation, form of imprisonment and reintegration of the people, etc.).

The political leadership proved to have limited capabilities to act flexibly on economic reforms, partly because of the intervention of international organizations and social actors. With regard to political reforms there has been some effort to act flexibly, but always when combined with economic measures and interest policies. Though the government has learned from experiences during its first term of government, this did not automatically produce greater democracy. In dealing with violent conflict, the Uribe government learned from the Pastrana experience. However, this only resulted in an intensified confrontation with the FARC guerrillas, and not in finding peaceful solutions, nor even a humanitarian exchange of hostages and prisoners. However, it is important to bear in mind that the failure to achieve genuine peace negotiations with the FARC is not entirely the fault of the Uribe government, as the FARC tends to demand unrealistic goals. An intensifying drug trade and the splintering of the former two big cartels into several small ones has allowed all extra-legal armed actors (guerrilla and paramilitaries) to continue in armed conflict against each other and the state. Peaceful solutions can be found only if all groups involved are willing to negotiate.

Policy learning

## 15 | Resource Efficiency

The Uribe administration used its available personnel and organizational resources – insofar as it could actually control them – to implement the governing elite’s ideas for development and transformation. In the process, it focused on the technocratic specifications of international organizations such as the IMF and the World Bank. The president did not hold a serious debate regarding the use of resources within the administration. He essentially abstained from the debate with other relevant political actors. But it is noteworthy that while Uribe had appointed many like-minded people and close friends, especially economists, during his first term, during his second term he had to consider the interests of his electoral coalition much more in appointing his cabinet and redistributing state functions. Politically motivated nominations and dismissals – like former foreign minister Maria Consuelo Araujo or the new finance minister Oscar Ivan Zuluaga – are increasingly more common. Budget resources are used with only limited effectiveness, due to high expenditures for administration at nearly all levels of the state. Auditing authorities at local and regional levels in particular are politically dependent and not effective enough to monitor the government. Congress does not carry out its oversight role adequately, though it is important to note that the majority is held by the president’s electoral coalition. Nevertheless, the opposition is stronger now, due to the fact that the Polo Democrático also gained power during the last legislative and presidential elections in 2006. Within the Polo Democrático there are a few experienced politicians fulfilling the task of constituting a real opposition force aiming to keep the government in check. State budget planning is still based on patronage priorities. Some communities implement participatory planning, which grants at least some degree of control to the inhabitants of the municipalities. In his famous local assemblies (Consejos comunitarios), the president sometimes “plans” spontaneous new projects in order to satisfy – in a pseudo-populist manner – the claims of the attending population. Coordination between the ministries and the territorial authorities is insufficient, and is not really focused on a general strategy of development policy. Although decentralization has expanded, communities still do not have sufficient financial resources and autonomy. The need remains for more intensive external monitoring, as well as to modernize the administrative apparatus. Public service distribution is disparate and not equally accessible to all social groups. As part of the austerity measures, more and more responsibility for social services is being shifted to individual families, which have to pay private enterprises for this service. This problem will improve with the privatization of the Social Security Institute ISS. Generally speaking, additional care, support and provision services have to be provided by women from lower social classes.

Efficient use of assets

The government frequently fails to coordinate conflicting objectives or interests. Some policies have counterproductive effects on others, for example, the need to reduce the budget deficit versus the intention to spend more money on education or increased military expenditures.

Policy coordination

Private legal and illegal (i.e., the drug mafia, guerrillas and paramilitary groups) interest groups control parts of the state. There is also an intimate relationship between the political and economic elite of the country. Corruption and patronage remain integral characteristics of the state and administrative culture under the Uribe administration. Corruption affects virtually all aspects of public life. Anti-corruption activists have claimed that the annual cost of systemic problems exceeds \$2.2 billion. There have been scandals in Congress that revealed to the public payments and relations between part of the president's electoral coalition and paramilitary groups.

Anti-corruption policy

## 16 | Consensus-Building

It is difficult to talk about a market-based democracy in Colombia. What would usually be defined as market-based by the elite means neoliberal in practice. What would be called democracy is in practice a hybrid political system. The Uribe administration, as well as some members of Congress (a flexible coalition of Uribe partisans), the technocratic state elite, economic researchers and specialists and the majority of entrepreneurs all view the goal of neoliberal economic reform positively. Most civic organizations, including the unions, oppose this goal and its implications. They prefer a market economy more effectively constrained by social policy measures. Even within the neoliberal elite there are different ideas about the speed of the reforms and the concrete goals. Interestingly, few actors prefer a socialist economic system to a social market economy. Even the guerrillas do not have a clear-cut position on this matter. During peace talks with the Pastrana government, FARC guerrillas traveled to northern Europe to learn about social market economies. The Uribe administration, the majority of Congress and the majority of the economic elite do not see an urgent need for further democratization of the political system. The government's ideas point to a direction completely different from that taken by the constitutional reform of 1991, when some of the opposition forces and their plans for democracy were integrated for the first time into a state reform project. The space for societal participation was further reduced by the government's counter-terrorism policy. The opposition to the Uribe government in parliament drafted its own reform plans, envisioning different degrees of intervention in existing structures.

Consensus on goals

The various antidemocratic veto agents include the drug mafia, guerrillas, paramilitary groups and violent criminals, as well as some factions of the state military and of the economic elite. Those interested in democratic reform did not succeed in weakening the power of anti-reform supporters. These supporters actively used their blockade powers for financial or political gain. Nevertheless, we have to keep in mind that various grassroots groups and NGOs use the space left to nurture deliberative culture and any democratic project possible.

Anti-democratic veto actors

As regards violent conflict, the Uribe government has succeeded in generating the perception that the country is more secure now, especially in the eyes of the urban population and international observers. It has also succeeded in reducing the official figure of some human rights violations. On the other hand, existing cleavages in society have deepened. The government's policies do not inspire confidence in terms of resolving conflicts peacefully and definitively. Instead, they split and polarize society itself, and aggravate society's relation to the government. This increased societal division influences citizens' willingness to display solidarity. The government abuses the term "solidarity" in its standard sense. Through a system of citizen militias, embroiling civil society in conflict, Uribe developed his own unique understanding of civic solidarity regarding public order. Generally speaking, social cleavages could not be integrated into a well-functioning party system or mitigated by social movements, even though the legal leftist force is now more active, which can weaken the legitimacy of the guerrillas and make their violent struggle even less justifiable.

Cleavage / conflict management

The political leadership excludes parts of civil society, such as human rights groups, from the political process, but includes others, using for example a populist form of public hearing (Consejo Comunitario). This generates the sense that the president is present throughout the country and is engaged with the affairs of his citizens. The president stays abreast of such opportunities by phone calls to local staff. For example, if there is a program and money to build a football field in a village, he visits and thereby impresses his potential voters. The extent to which the president incorporates feedback culled from those hearings into government policies and political change is nevertheless limited.

Civil society participation

The political leadership does not effectively address acts of past injustice nor initiate a process of reconciliation with the victims of the paramilitary groups. The political elite, for the most part, denies historical injustices. This denial covers particularly crimes committed by the state, but also by the paramilitary groups. Trials in these cases were either delayed or settled by the public prosecutor. One goal of the peace process with some paramilitary groups was to legalize land ownership acquired – most likely – through killings and forced displacement. But the Uribe government did not place any importance on serious crimes against humanity, on reconciliation measures, a genuine truth-finding investigation, or on forming an effective international monitoring process, even

Reconciliation

though some leading members of paramilitary groups were put in high-security prisons in response to internal and international pressure. Though the intent to bring together victims and perpetrators has been voiced, in effect, victims have no genuine opportunity to seek justice or take part in a process of reconciliation.

## 17 | International Cooperation

Colombian actors work with international actors (IMF, World Bank) toward economic transformation. The IMF fixed the economic policy more clearly by maintaining stability criteria and a strict fiscal policy. These goals were put forward, but not always fulfilled, by the Uribe government. There is no guarantee that external advice is really appropriate for the Colombian situation and thus whether cooperation with those external actors makes sense. Certainly, we have to consider that the Colombian government had no real choice when deciding to seek IMF financial assistance during the crisis of 1998 – 1999. The United States also pressured the Uribe government to adopt neoliberal reforms, particularly in preparation for integrating Colombia into the Free Trade Area of the Americas (FTAA). On the other hand there is no doubt that there is also a certain congruence of interests between leading economists in the Colombian government and international actors, as most received their economic education in U.S. universities. Colombia cooperated with various European and Asian states on numerous development policies and is interested in increasing its cooperation partners from 37 to 47. The government is looking to boost its received ODA up 10% from \$1.2 billion to \$1.3 billion. The development programs were always well intended and sometimes successful, but not always very effective, due to the dangers facing the people involved since the programs did not take overall political conditions into account. The indirect role of these programs, and of cooperation programs focusing more on political than on technical cooperation in the democratic transformation situation of the early 1990s, was welcomed and continues to benefit the formation of civil society. Examples include some programs of German political foundations, the new approach of Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) which focuses on conflict management, as well as some NGOs' programs geared toward creating international openness, fostering socially based economic development and concentrating on human rights and conflict treatment.

Effective use of support

External actors are usually ambivalent in their assessment of the Colombian government, pointing to the fact that there are either no or only a few democratic deficits, but nevertheless, a high risk of human rights violations persists due to violent conflicts. In other words, state-building is incomplete, and thus unable to inhibit human rights violations. Democracy and the rule of law are not fully established. After the Pastrana government's peace process collapsed, the international community tended to look positively upon the more repressive politics of the Uribe government towards guerrilla groups without considering

Credibility

the long-term consequences. The counter-terrorism and anti-narcotics policies of the United States as detailed in the Plan Colombia I, also promoted by the Uribe government, are essentially counterproductive to finding a peaceful solution to conflict. Plan Colombia I will expire in 2008. Now the Uribe government is planning Plan Colombia II that will integrate more social and alternative development programs than its predecessor. However, it is likely that it too will end up as an almost purely military support plan. Both Colombia and the United States intended to present themselves to the rest of the world as reliable partners. They sought cooperation in the fight against the drug mafia and the guerrillas. Adopting the Plan Colombia to their counter-terrorism policies, the United States and Colombia are now able to use all means possible in the struggle against the drug warlords and guerrilla groups at the same time, consciously muddling separate problems. Colombia's neighbors have reacted to the activities of paramilitary groups and guerrillas in the border regions, and to the smuggling of drugs and weapons, by increasing their own military presence along their borders. There has been some tension with the government of Hugo Chavez in Venezuela, due to accusations that Chavez harbored guerrilla members on Venezuelan territory. Despite Colombia's problem of violent conflict, it tries to remain a credible and reliable partner internationally. One positive sign is increased foreign investment, which established new records in 2005 and 2006. Commercial risk ratings show more or less the same rates during 2004 and 2005 (Moody's: Ba3; S&P: BB).

The Uribe government makes efforts to cooperate with neighboring countries that it regards as open to confronting the illegal drug trade and guerrilla warfare, and is open to cooperation on various economic integration projects both on the pan-American and Latin American level. Colombia is also encouraging foreign investment and free trade and looks for new international partners. There are plans to construct new transit routes and power supply lines between Colombia, Peru and Bolivia as well as multifunctional pipelines between Colombia and Venezuela. Conversely, several conflicts have occurred with Venezuela and Ecuador in recent times because of security and drug problems. The Ecuadorian President Rafael Correa accuses Colombia of spraying coca crops near the boarder to Ecuador. He wants to take this case to the International Court in Den Haag. Colombia is trying to increase developmental cooperation and to increase the cooperation nations and institutions from 37 to 47. The country abandoned its more politically independent position in international organizations such as the United Nations, and it dares to differ with its Latin American partners to satisfy the political and economic interests of the United States. For example, Colombia voiced its support of the United States during the Iraq conflict, which has led to the United States' intention to propose Colombia as a member of NATO.

Regional cooperation

## Strategic Outlook

There is little hope that Colombia will move toward increased democracy with a more socially based and sustainable market economy in the near future. The re-election of Alvaro Uribe Vélez will mean more of the same politics, with the constraint that his room for maneuver is now more limited due to new scandals and close commitments to political partners. In terms of economic transformation, the continued reduction of the budget deficit and the state and foreign debt, maintaining economic growth and restructuring and stabilizing the mixed state and private systems of social security will be ongoing tasks during the rest of his term. The fight against unemployment and underemployment as well as poverty will be difficult to win.

A Gallup poll in October 2006 showed an 11% decrease in the president's popularity, although at 66% it remains high. Latinobarómetro data in 2006 show that 62% believe in the president, but only 48% in his team. The credibility of the president depends on the long run not only on his success in economic policy but also the introduction of social and political reforms. At the moment, the opportunity for sensible political reforms able to transcend political engineering and genuinely transform the hybrid regime into a more democratic regime appears slim. Instead, Uribe will most likely continue with his security and anti-terrorism policies, and thus his restriction of civil liberties – especially in conflict regions – as long as the violent conflict lasts. Solving the armed conflict is key to achieving progress in all areas of the political and the economic system. Therefore, the success of his government will also depend on the development of the violent conflict. There will have to be peace talks or negotiations with the guerrilla groups, and a humanitarian solution for the kidnapped. While there are ongoing official peace talks in Cuba with the ELN guerrillas, the government's response to the FARC and the FARC's behavior since the last peace process does not bode well for the future.

The government should not decouple the peace process with paramilitary groups from overall developments in the violent conflict. It should instead guarantee that the peace process go beyond providing impunity to paramilitary groups and legalizing land illegally expropriated through the drug mafia. Members of these groups should be barred from holding positions in state institutions, particularly in the police and military. Crimes committed against humanity should be reviewed and punished. If continued, the peace process should be accompanied by competent international observers, preferably a combined group of representatives from the United Nations, European Union, neighboring states and international human rights organizations. Given the



government's clearly flawed approach, most of these organizations have thus far been reluctant to enter into the process. Some of these bodies consider paramilitaries to be common criminals without political goals and believe they should simply be prosecuted and punished. First steps have been taken; some paramilitary leaders have been sent to high-security prisons. However, protests from paramilitary groups in response to this decision temporarily interrupted the peace process.

There have been calls from various NGOs, observers of the peace process and the vice president to set up a truth commission. Involving the Organization of American States (OAS) alone will not suffice in guaranteeing the effective oversight needed. Some governments (Sweden, the Netherlands) are reconsidering their position, and plans are underway to support the peace process more directly. The Colombian government should take a clear position to guarantee adequate punishment of crimes against humanity, and to ensure a fair process of discussion with all groups involved, especially with opponents of the peace talks. Civil society claims to be more involved in state negotiations with the violent actors. There should be reconciliation and indemnification measures for the victims (and their families) of the massacres and other crimes carried out by paramilitary groups. More should be done to start a new peace process with the Revolutionary Armed Forces of Colombia (FARC) and to improve negotiations with the National Liberation Army (ELN). The state should work on developing an integrated and sustainable strategy for handling violent actors that is not abandoned each time a change in government takes place. Peace processes must have substantive political, economic and social agendas, and be based on more than cease-fire talks. The government should offer more help to victims and the surviving dependents of those killed. Other urgent issues in need of greater emphasis include humanitarian exchanges to free those who have been held hostage for years in guerrilla camps, demobilizing adolescents, dismantling the "markets of violence" and refugee repatriation.

Strengthening the state is a key means of advancing political transformation. This would not entail simply improving the functions and tasks of the political process, but rather the implementation of substantial reforms regarding its structure and substance to enhance state-building processes. It is thus imperative that the state establish its monopoly on the use of force. Clearly, in doing so, the state must avoid misusing its privilege and remain bound by the rule of law, unlike past cases in Colombian history. The state would also have to democratize its formal and informal institutions and give itself a code of ethics. Given the implications of non-compliance with the rule of law, the involvement of civil society in the conflict, and the reduction of civil rights, the policy of "democratic security" should be abandoned. In a democracy, security measures

to combat violent groups can only be outlined according to democratic rules and should be in harmony with the rule of law.

The judicial system should be strengthened in such a way that would end impunity and make legal rights more achievable for the now de facto excluded persons. Oversight institutions should not be abolished, but strengthened and improved. The legal opposition – in Congress, political parties and civil society, including social movements and NGOs – should be supported and be given a more active role in strengthening civil reform strategies, and weakening illegal and violent means of conflict resolution. Opposition groups should be encouraged politically and financially by the state. At the very least, the government should create conditions under which legal political opposition does not entail the constant fear for one's life. Claims of threats being waged against the Leftist Polo Democrático should be taken seriously. Political culture in Colombia must undergo substantial change, which would include democratic, human rights and peace education for state representatives and civil society. Non-democratic informal institutions, such as clientelism, need to be dismantled.

The Uribe government or its successor should seek out ways to improve the social and environmental basis of the economy and to create both a more sustainable market economy and long-term development. Progressive tax reform (also called for by the IMF) and other means of increasing the state's income could be one approach, that is, by making state enterprises more profitable, increasing non-traditional exports or by making better use of national natural resources, mining products and oil derivatives. This may also reduce the need for continued long-term public debt, but privatization cannot be the only means of reaching this goal. Thus, it is also important to combat shadow globalization processes and the war economy. Sustainable economies cannot depend on illegal crops. A national rural development strategy should be implemented, including agrarian reform with social and infrastructure investment. Cross-border economic development plans along with humanitarian action and rule of law measures wherever security can be restored deserve a higher priority than increasing security along the borders. An enforced regional integration process with Latin American partners and the diversification of international economic relations, especially regarding relations with the United States, could help Colombia in the long run. Colombia's neighbors as well as the international community must engage proactively. Agreements with the IMF are needed to find a compromise between economic consolidation and social reform, and to wean Colombia off crisis management if the country is to manage the effects of a neoliberal market transformation.