***RE-351***

# *Country Program Evaluation: Venezuela 1999-2007*

***Office of Evaluation and Oversight (OVE)***

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CONTENTS

## ABBREVIATIONS

| | |
|---|---|
| BCV | Central Bank of Venezuela |
| CADAFE | Compañía Anónima de Administración y Fomento Eléctrico [Electric Power Administration and Development Corporation] |
| CAF | Andean Development Corporation |
| CPE | Country program evaluation |
| CVG EDELCA | Corporación Venezolana de Guayana Electrificación del Caroní |
| FIEM | Macroeconomic Stabilization Investment Fund |
| FONDEN | Fondo de Desarrollo Nacional, S.A. |
| GDP | Gross domestic product |
| ICSVM | Luxury and wholesale goods and services tax |
| IDB | Inter-American Development Bank |
| IIC | Inter-American Investment Corporation |
| IMF | International Monetary Fund |
| INE | Instituto Nacional de Estadística [National Institute of Statistics] |
| kWh | Kilowatt hours |
| ME | Macroeconomic equilibrium |
| MS | Modernization of the State |
| MW | Megawatts |
| OPAM | Office of Programming and Macroeconomic Analysis |
| OVE | Office of Evaluation and Oversight |
| OVEDA | Office of Evaluation and Oversight data analyzer |
| PBL | Policy-based loan (IDB) |
| PCR | Project completion report (IDB) |
| PDVSA | Petróleos de Venezuela, S.A. |
| PPMR | Project performance monitoring report (IDB) |
| PRODEV | Program to implement the external pillar of the medium-term action plan for development effectiveness (IDB) |
| SC | Support for competitiveness |
| SD | Social development |
| SENIAT | Servicio Nacional Integrado de Administración Aduanera y Tributaria [National Integrated Customs and Tax Administration Service] |
| SEN | National Statistics System |
| SISOV | Integrated system of social indicators for Venezuela |
| UAM | Macroeconomic Analysis Unit |
| VAT | Value-added tax |

## EXECUTIVE SUMMARY

This country program evaluation (CPE) was prepared following the guidelines of a pre-established protocol that has already been applied in the rest of the Bank's borrowing member countries. The application of this protocol has made it possible to develop an independent, long-term view of the Bank's relationship with Venezuela, the results of which are presented as an input for the Bank's Management in its process of preparing the future country strategy with the Bolivarian Republic of Venezuela.

The CPE found that from 1999 to 2007, the Bank program had proposed an ambitious set of 81 development objectives that, in practice, despite their relevance to the country's development, far exceeded the Bank's effective capacity to act in Venezuela. With far fewer resources than contributed by the country in each subsector, and facing disagreements on policies and programs, the Bank found its range of action to be severely diminished. This situation was compounded by the abundance of alternative resources from the oil sector, as well as by the country's serious questioning of the role of multilateral agencies.

Numerous failed attempts, approved operations that ultimately languished until they were cancelled, and the government's stated intent to reduce its debt with the Bank through prepayments are all symptoms of a relationship whose importance has been waning for both parties.[1] Flows from the Bank to the country did not even increase during the 2002-2003 crisis. Accordingly, the Bank has also lost substantial technical expertise on the country.

If not for the infrequent approval of a large niche operation—such as the US$750 million approved in 2005 for the Tocoma power plant—the Bank's Venezuela portfolio would have been repaid in approximately six years. The maturation cycles of these large projects has averaged 6 to 12 years, exposing the Bank's presence in Venezuela to uncertainty as to their eventual approval. This, in turn, has worsened the Bank's competitive position with respect to the Andean Development Corporation, or potential alternatives like the Banco del Sur, which would provide more flexible solutions.

As a result, the *anticipation* of the Bank's programming was very poor. Only 30% of programmed operations were ultimately approved, suffering subsequent delays, modifications, and cancellations at a rate five times higher than Bank averages. Approvals did not offset disbursements and cancellations, leading to a net decline of 45% in the portfolio pending disbursement and 35% in the portfolio in repayment. The Bank program was also weak in terms of *relevance*, as the Bank tended to program activities in its areas of greatest expertise, but only managed to approve and execute operations in a small number of niche areas involving fewer political differences.

The program's *effectiveness* was also very low, revealing the constraints on the Bank's relationship with Venezuela in all areas of work. In the area of *support for macroeconomic equilibrium*, for instance, the Bank acknowledged the relative modesty of its financing flows in relation to the national budget, and opted to promote fiscal savings and expenditure rules and to build greater analytical capacity for the budget process. Although many of these rules did translate into new legal frameworks, they were promptly abandoned when oil prices rose.

On the *social* front, the Bank attempted comprehensive health and education reform programs, but these were not implemented to any significant extent. In contrast, it obtained better results with targeted, innovative programs, such as the music education program. Another way the Bank was able to maintain a presence was by introducing flexibility into originally ambitious programs, adapting them to the needs of the country, as it did in the area of justice, for example. Nevertheless, the Bank has found it increasingly difficult in recent years to adjust to working with the new system of social services provided through the missions.[2]

In the area of *modernization of the State*, the Bank worked effectively with technical executing agencies. For instance, in the areas of fiscal management, science and technology, statistical systems, and agricultural technologies, it found executing agencies that valued its technical and administrative support. These agencies also helped to improve the country's perception of the Bank. Despite their importance, the determining factors and impact of the relationship with these technical executing agencies have not been systematically evaluated, nor has the use of technical cooperation for purposes of cultivating similar relationships in new areas of work been optimized.

In the area of *support for competitiveness*, the Bank has been unable to implement major operations with the private sector—mainly because the Venezuelan government has maintained an active policy of providing financing to the private sector under very favorable conditions. The Bank has had similarly unfruitful experiences in the public sector, where it has attempted broad reforms in areas such as the road sector. In contrast, the experience has been more positive when the Bank has separated technical and works-related elements from sector policy and regulation elements, thereby enabling it to make a contribution in sectors such as water and sanitation and electric power.

The CPE found that operations in Venezuela were approved and successfully executed only under certain conditions: (i) focus on *very specific activities, instead of broad sector reforms*; (ii) support for *executing agencies that are relatively more professional and specialized than average in the national public administration*; and (iii) executing agencies that perceived the *Bank's administrative procedures and work culture as comparative advantages over other financing options*. Nevertheless, *to date there is no evidence that the Bank has actively applied these lessons learned*; and the *program's lack of evaluability* has not allowed for results-based management.

Accordingly, the Office of Evaluation and Oversight has formulated five recommendations: (i) *increase technical-cooperation activities and studies, with particular emphasis on the evaluation of alternative ways of addressing social problems and on the promotion of mechanisms to optimize the effectiveness of public spending*; (ii) *develop an active niche strategy in the Bank's areas of technical expertise*; (iii) *increase the evaluability of the program and operations, seeking to strengthen and utilize national management systems*; (iv) *unleash the potential of the Bank's new organization and tools in order to adapt them to the needs of the country*; and (v) *generate activities in the infrastructure and productive sectors, emphasizing optimization of social impacts*.

## INTRODUCTION

This country program evaluation (CPE) was prepared by the Office of Evaluation and Oversight (OVE) following the guidelines of a pre-established protocol that has already been applied in the rest of the Bank's borrowing member countries. The methodology described in that protocol permits development of an independent long-term view of the Bank's relationship with Venezuela and of the outcomes of that relationship from 1999 to 2007.[3] Accordingly, the evaluation is meant to become an input for the process of preparing the Bank's future strategy with Venezuela.

With this objective in mind, the CPE evaluated the program's *relevance* with respect to the priorities of the country and the Bank. It also assessed the *effectiveness* of the programming process and the resulting program's *coherence* with respect to the types of tools used, the feasibility of the anticipated outcomes, and the specified division of labor with the country. Lastly, the CPE evaluated the *efficiency* of program implementation, as well as achievement of the proposed development objectives.

The CPE required fieldwork combined with interviews at Headquarters and in country.[4] The Bank's Management and representatives of the Venezuelan government were extremely helpful, coordinating closely with the working group. OVE believes that this relationship contributed favorably to attainment of the final objective of this evaluation, which is to improve the services the Bank provides to the country.

The evaluation attempted to use the Bank's tracking data and studies, but these proved insufficient to reflect progress toward the development objectives proposed for the country. As the first CPE for Venezuela, there were also no prior OVE recommendations on which progress could be reported. Consequently, the CPE had to reconstruct changes over time in the development indicators (based on official and supplemental sources, such as the Economic Commission for Latin America and the Caribbean), as well as objective evidence on the working relationship between the Bank and the country.

The Bank identified four main development challenges for Venezuela: (i) how to maintain macroeconomic equilibrium and achieve sustainable growth; (ii) how to promote a diversified economy and enhance competitiveness; (iii) how to promote social development; and (iv) how to improve governance and strengthen institutions.[5] The CPE was structured around these same questions to maximize its contribution to the dialogue between Bank Management and the country authorities.

This evaluation contains five chapters. Chapter I analyzes the context surrounding Venezuela's main development challenges. Chapter II examines the objectives of the programming agreed by the Bank and the country. Chapter III examines the execution status of programmed activities. Chapter IV reports on progress in attaining the development objectives proposed in the program, as well as the Bank's contribution. Finally, Chapter V presents conclusions and recommendations for the Bank's future strategies and programs with Venezuela.

# I. VENEZUELA'S DEVELOPMENT CHALLENGES

## A. Evaluation period: 1999-2007

1.1 **For nearly a century, oil has dominated Venezuela's political and economic scene.** Oil production has accounted for approximately 25% of gross domestic product and 80% of exports, and has generated 55% of the central government's revenue since 1990.[6] This wealth of resources derived from oil has created an incentive to meet a high proportion of the country's nonoil investment and consumption needs via imports.

1.2 **Prior to the evaluation period, the Bank noted that "historically, the country's enormous oil revenues have gone to waste owing to ineffective public-sector management.** *[...I]ts receipts are so dependent on oil prices and thus can zigzag [...]The result of weak fiscal management institutions and the rigid budgeting system in place has been inefficient resource management and, generally, a public sector in need of better fiscal management along with improvements in the areas of justice and public safety.*"[7]

1.3 **Elections held in December 1998 resulted in election of the current President, Hugo Rafael Chávez Frías, who proposed profound changes through a constituent assembly.** The new constitution, adopted in 1999, declared the Bolivarian Republic of Venezuela a federal democratic and social State of law and justice; changed the system of government from representative to participatory; broadened political, economic, social, educational, labor, and health rights; expanded the rights of women, children, and indigenous communities; and established mechanisms to maximize participation by the people in the benefits derived from national income.[8]

1.4 **Oil prices began to recover in 1999,[9] but the expansionary effect on the economy was hampered by political and economic crises.** After several quarters of growth, a string of political and social conflicts led to a failed coup d'état in April 2002, followed by a series of strikes that reached a turning point with the oil strike that began on 4 December 2002 and ended in early February 2003. That strike resulted in a government takeover of the oil industry, but its economic effects persisted through the third quarter of 2003.[10]

1.5 **Starting with the fourth quarter of 2003, the economy has seen 20 consecutive quarters of growth, in a context of greater political stability and rising crude oil prices.** Following a presidential referendum in 2004 and reelection of the President in 2006, the government sped up implementation of a development model known as "21st Century Socialism."[11] Oil exports rose at an average annual rate of 30% from 2003 to 2007 (from US$22 billion to US$62.5 billion). Imports grew at an even faster pace (with a 44% annual average from 2003 to 2007). At the same time, both consumption and investment increased at an average annual rate of around 17% in real terms. That growth, however, was not accompanied by significant improvements in total factor productivity (which grew by only 0.07% a year from 2000 to 2004).[12]

1.6 **Despite highly procyclical spending, the country has maintained balanced fiscal accounts.** Fiscal revenues increased from 18% of GDP in 1999 to 30% in 2007, whereas spending rose from 19.8% to 30% in the same period.[13] As a result of regulatory and operational improvements,[14] nonoil fiscal receipts have grown at an average annual rate of 21% in real terms since 1999. Because of budget resource management, even in the context of an oil boom, the share of nonoil revenues as a percentage of total public sector income were reduced to only 46%, contrasting favorably with levels below 20% in the early 1990s.

**Table 1.2. Main macroeconomic indicators (1999-2007)**

| Variable | Unit | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Constant GDP (1997 prices) | (millions of bolivars) | 39.554.925 | 41.013.293 | 42.405.381 | 38.650.110 | 35.652.678 | 42.172.343 | 46.530.000 | 51.337.866 | 55.635.929 |
| GDP | (growth rate) | -6,0% | 3,7% | 3,4% | -8,9% | -7,8% | 18,3% | 10,3% | 10,3% | 8,4% |
| Poverty | (incidence) | 42% | 40% | 39% | 49% | 55% | 47% | 38% | 31% | 29% |
| Unemployment | (rate) | 14,5% | 13,2% | 12,8% | 16,2% | 16,8% | 13,9% | 11,4% | 9,5% | 7,5% |
| Central government primary surplus | (% GDP) | 1,1% | 0,7% | -2,0% | -0,3% | -1,0% | 1,3% | 4,7% | 2,2% | 0.3%* |
| Exports (FOB) | (millions of dollars) | 20.963 | 33.529 | 26.667 | 26.781 | 27.230 | 39.668 | 55.473 | 65.210 | 69,700* |
| Imports | (millions of dollars) | 14.492 | 16.865 | 19.211 | 13.360 | 10.483 | 17.021 | 22.693 | 32.226 | 41,600* |
| Current account balance | (millions of dollars) | 2.112 | 11.853 | 1.983 | 7.599 | 11.796 | 15.519 | 25.534 | 27.167 | 23,200* |
| Capital and financial account balance | (millions of dollars) | -510 | -2.974 | -219 | -9.243 | -5.558 | -11.116 | -16.400 | -19.147 | -22,944* |
| Gross international reserves | (millions of dollars) | 15.379 | 20.471 | 18.523 | 14.860 | 21.366 | 24.208 | 30.368 | 37.440 | 34.309 |
| Annual inflation | (%) | 20,0% | 13,4% | 12,3% | 31,2% | 27,1% | 19,2% | 14,4% | 17,0% | 22,5% |

* Provisional estimates for 2007 - Sources: Central Bank of Venezuela, Integrated System of Social Indicators for Venezuela (SISOV).

1.7 **From 1999 to 2007, half of the increase in budgeted public expenditure was allocated to social spending. That amount, in turn, was supplemented with extrabudgetary resources, bringing total social spending to more than 20% of GDP.**[15] Budgeted social spending rose from 9.4% of GDP in 1999 to 13.6% in 2006—a per capita increase of 190%.[16] At the same time, extrabudgetary social spending was increased by using surplus revenues from the state-owned oil company Petróleos de Venezuela, S.A. (PDVSA) and other reserve funds.[17] That contribution represented approximately 7% of GDP in 2006.[18]

1.8 **Special-purpose entities known as "social missions" executed a growing proportion of those resources, benefiting more than two thirds of the population.**[19] Since 2003, the government has implemented more than 20 missions to address needs in areas such as health, education, science and technology, environment, justice and public safety, energy efficiency, and employment.[20] Started with off-budget appropriations, the missions have revitalized the government's social efforts, and over time have become merged with other social expenditures.

1.9 **Social indicators show strong improvements in the living conditions of the population, with the exception of the years of economic crisis (2002 and 2003).**

In 1999, 42% of homes were classified as poor, with the percentage rising to 55% in 2003 and falling to 23% in 2007.[21] The population living in extreme poverty dropped from 16.8% in 1999 to 8.4% in 2007.[22] It is also estimated that the benefits of free health and education services provided through the missions would have reduced poverty levels by an additional 2% if the value of those services were to have been added to income.[23]

## B. Plans for the Nation

1.10 **The 2001-2007 Economic and Social Development Plan for the Nation identified five long-term challenges.** The plan for the 2001-2007 period sought to achieve *"five balances"*: (i) economic: developing and diversifying the productive economy; (ii) social: broadening social justice by progressively incorporating excluded groups; (iii) political: building a democracy upon responsible participation, with the people in a leading role; (iv) territorial: settling and consolidating the national territory through decentralization; and (v) international: strengthening national sovereignty and promoting a multipolar world.

1.11 **In 2007, the Simon Bolivar National Project, in its First Socialist Plan for Economic and Social Development of the Nation for the 2007-2013 Period, specifies seven guiding principles for building 21st Century Socialism.** In this new phase, the government seeks to produce structural changes for building a new society, advancing the following seven guiding principles: (i) a new socialist ethic; (ii) supreme social happiness; (iii) revolutionary democracy led by the people; (iv) a socialist production model; (v) new national geopolitics; (vi) Venezuela: Global energy power; and (vii) new international geopolitics.[24]

# II. DEVELOPMENT OF THE COUNTRY PROGRAM

2.1 **This chapter evaluates the process and outcomes of the Bank's programming in Venezuela.** Programming is evaluated in terms of its (i) **anticipation:** defined as the capacity of the programming process to anticipate the activities carried out; (ii) **relevance:** defined as the degree of alignment between the country's priorities, the program objectives, and the Bank's priorities; and (iii) **quality:** defined based on the extent to which the Bank's comparative advantages are utilized, interaction and cofinancing with other stakeholders, and the presence of an evaluative framework for the program and lessons learned.

**Box 2.1 - Bank programming in Venezuela in the period prior to the evaluation**

During the 1990s, the IDB and Venezuela were only able to agree on two strategies (covering the periods from 1990 to 1992 and from 1993 to 1995). Between 1996 and 2000, there was a gap in programming, primarily because the Bank, owing to the economic crisis, made its action contingent upon International Monetary Fund (IMF) assistance in implementing a structural reform agenda. Notwithstanding the lack of a formal strategy, there was a significant number of approvals from 1996 to 2000: 22 operations for US$1.077 billion. However, 46% of this amount was subsequently canceled at the request of Venezuela's new administration, which expressed reservations about the role hitherto played by multilateral financing.

## A. Anticipation

2.2 **During the evaluation period, the Bank's formal programming only materialized in 2001 through a single country strategy that called itself "ambitious".** The strategy proposed allocating more than 50% of resources to social development, 29% to competitiveness support, and 20% to modernization of the State. No direct support for macroeconomic equilibrium was planned. All of the objectives were considered to be a priority. The strategy covered the period from 2001 to 2003[25] and anticipated approvals of US$840 million. In practice, however, only US$128 million were approved. In contrast, US$944 million were approved from 2004 to 2007, despite the absence of a formal strategy.

**Table 2.1. Bank's long-term strategic intent**[26]

| Programming periods and number of objectives by sector* | | Latest strategy | Prior strategies | | *Total* |
|---|---|---|---|---|---|
| | | 2001-07 | 1993-95 | 1990-92 | *1990-2007* |
| **Macroeconomic equilibrium** | | | **1** | **1** | **3%** |
| Economic structure – External sector and monetary policy | ME 1 | | | 1 | **2%** |
| Fiscal sector | ME 2 | | 1 | | **2%** |
| **Support for competitiveness** | | **14** | **11** | **11** | **55%** |
| Policy of support for competitiveness | SC 1 | | 4 | 3 | **11%** |
| Oil and mining | SC 2 | | | | **0%** |
| Electric energy | SC 3 | 1 | 1 | 3 | **8%** |
| Agriculture and livestock and forestry | SC 4 | 5 | 1 | 1 | **11%** |
| Road infrastructure and telecommunications | SC 5 | 2 | 3 | | **8%** |
| Financial sector | SC 6 | 3 | 1 | 2 | **9%** |
| Science and technology | SC 7 | 2 | | 1 | **5%** |
| Environment | SC 8 | 1 | 1 | 1 | **5%** |
| **Social development** | | **7** | **10** | **3** | **30%** |
| Poverty, inequality, and social spending | DS 1 | 1 | 2 | 2 | **8%** |
| Employment and social security | DS 2 | | | | **0%** |
| Health | DS 3 | 1 | 2 | | **5%** |
| Education | DS 4 | 2 | 3 | | **8%** |
| Housing and residential services | DS 5 | 3 | 3 | 1 | **11%** |
| Indigenous peoples | DS 6 | | | | **0%** |
| **Modernization of the State** | | **4** | **2** | **2** | **12%** |
| Public administration | ME 1 | 1 | 2 | 1 | **6%** |
| Planning and budget | ME 2 | 1 | | 1 | **3%** |
| Justice, public safety, and citizen participation | ME 3 | 2 | | | **3%** |
| Disaster management and prevention | ME 4 | | | | **0%** |

* Objectives are compiled based on the number of times are repeated in the corresponding strategies.

2.3 **Support for competitiveness was the strategic area with the greatest number of objectives (55% of the total). In practice, however, the Bank did not find areas for action with a private sector that had good access to direct or indirect government funding.** Excepting a large loan for the Tocoma Hydroelectric Power Plant, competitiveness support accounted for less than 3% of total approvals from 2001 to 2007. Although the 2001 strategy emphasized the search for operations in several competitiveness-related sectors, such as financial services, roads, and science and technology, those operations never materialized.

2.4 **The Bank had similar difficulties implementing its support for modernization of the State and social development, mainly due to a lack of agreement with respect to technical operation design issues.** Of the objectives in the 2001 strategy, 28% focused on social development. In practice, however, approvals in that sector were proportionally lower (14%). The 2001 strategy sought to expand Bank support for modernization of the State, particularly in the areas of justice and public safety, but the objectives and amounts approved only represented about 10% of the portfolio.

2.5 **As a result, the anticipation of the Bank's program in Venezuela was poor.** In the last three programming cycles, only 30% of operations and 44% of amounts programmed were ultimately approved.[27] Because of this low approval rate, most of the operations approved (83% of the number of operations or 70% of amounts) had been anticipated in the programming. The anticipation rate for this programming cycle also improved due to the lack of unanticipated untied policy-based loans, such as the two loans approved in 1998 for nearly US$800 million.[28]

## B. Relevance

2.6 **Venezuela's share of the Bank's portfolio fell from 4.4% for 1990-1998 to 2.3% for 1999-2007**. From 1999 to 2007, the Bank approved a yearly average of 2.1 operations for Venezuela, versus an overall annual average of 5.2 reimbursable operations per country.[29] Similarly, Venezuela has sharply scaled back its participation in nonreimbursable technical-cooperation activities,[30] from 15.6 approvals a year for 1990-1998 to 5.3 for 1999-2007.[31] Given that until 2001 Venezuela had participated as a net donor in aid to other Bank member countries, this lack of reciprocity in nonreimbursable technical support for Venezuela seems even more questionable.[32]

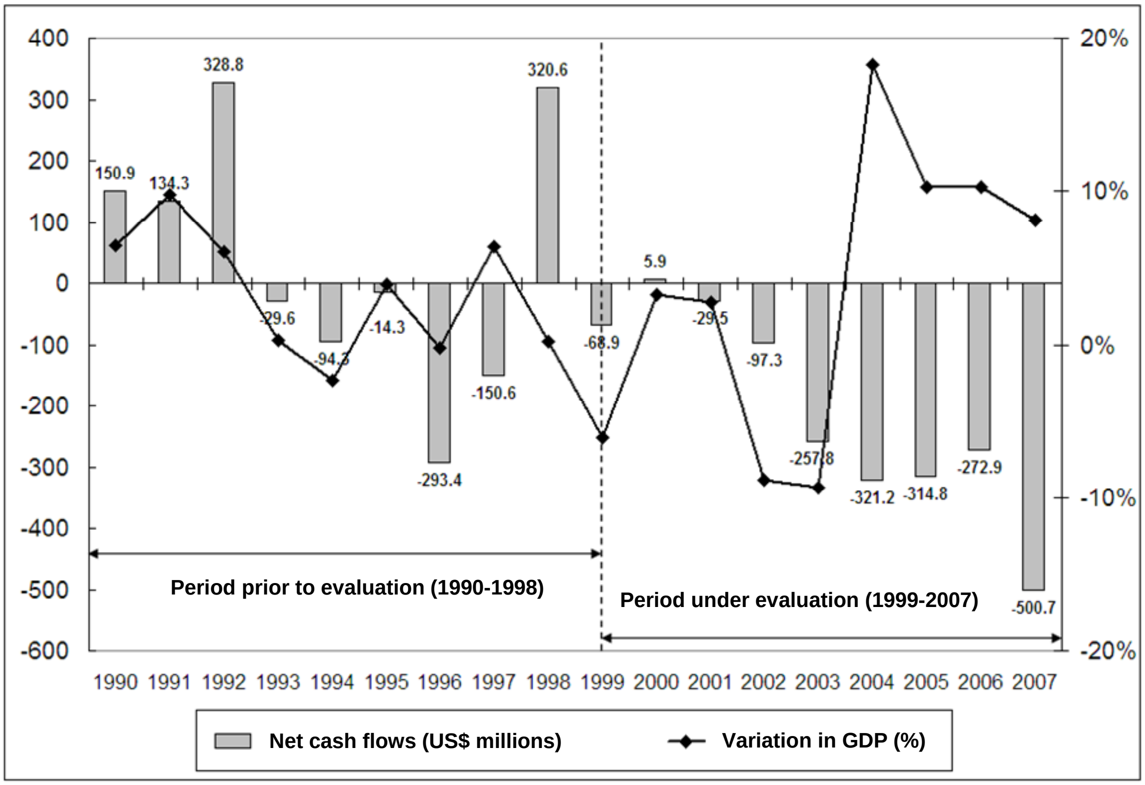
**Table 2.2. Amounts programmed by sector and proportion of the national budget**

| Sector/Programming cycles | | Total amounts programmed in millions of U.S. dollars | | | Average annual amount programmed 1990-2007 | Budget and public investment – annual average 2000-2007 | Programmed in proportion to the national budget |
|---|---|---|---|---|---|---|---|
| | | 1990-1992 cycle | 1993-1995 cycle | 2001-2007 cycle | millions of US$ | millions of US$** | %* |
| **Macroeconomic equilibrium** | | | | | | | |
| Economic structure – External sector and monetary policy | ME 1 | 1045 | 0 | 0 | **61** | **14,085** | **0%** |
| Fiscal sector | ME 2 | 0 | 0 | 0 | **1** | **1,256** | **0%** |
| ***Subtotal*** | | ***1045*** | ***0*** | ***0*** | ***63*** | **15,341** | **0%** |
| **Support for competitiveness** | | | | | | | |
| Competitiveness support policy | CS 1 | 867 | 150 | 0 | **75** | **1,016** | **7%** |
| Oil and mining | CS 2 | 0 | 0 | 0 | **0** | **490** | **0%** |
| Electric power | CS 3 | 250 | 750 | 0 | **59** | **866** | **7%** |
| Agriculture and forestry | CS 4 | 0 | 150 | 230 | **22** | **143** | **16%** |
| Road infrastructure and telecommunications | CS 5 | 0 | 200 | 0 | **12** | **2,355** | **0%** |
| Financial sector | CS 6 | 200 | 170 | 0 | **51** | **-.-** | **N/C** |
| Science and technology | CS 7 | 100 | 0 | 10 | **6** | **184** | **4%** |
| Environment | CS 8 | 100 | 170 | 0 | **16** | **283** | **6%** |
| ***Subtotal*** | | ***1517*** | ***1590*** | ***240*** | ***241*** | ***5,336*** | **5%** |
| **Social development** | | | | | | | |
| Poverty, inequality, and social spending | SD 1 | 270 | 0 | 130 | **52** | **-.-** | **N/C** |
| Employment and social security | SD 2 | 0 | 0 | 0 | **0** | **1,489** | **0%** |
| Health | SD 3 | 0 | 150 | 0 | **9** | **1,880** | **0%** |
| Education | SD 4 | 0 | 200 | 185 | **26** | **5,679** | **0%** |
| Housing and residential services | SD 5 | 125 | 470 | 120 | **42** | **1,391** | **3%** |
| Indigenous groups | SD 6 | 0 | 0 | 0 | **0** | **-.-** | **N/C** |
| ***Subtotal*** | | ***395*** | ***820*** | ***435*** | ***130*** | ***10,439*** | **1%** |
| **Modernization of the State** | | | | | | | |
| Public administration | MS 1 | 150 | 0 | 20 | **11** | **8,754** | **0%** |
| Planning and budget | MS 2 | 20 | 0 | 15 | **2** | **1,171** | **0%** |
| Justice, public safety, and citizen participation | MS 3 | 0 | 0 | 130 | **8** | **6,296** | **0%** |
| Emergency management and disaster prevention | MS 4 | 0 | 0 | 0 | **0** | **-.-** | **N/C** |
| ***Subtotal*** | | ***170*** | ***0*** | ***165*** | ***20*** | ***16,221*** | **0%** |
| **Totals** | | **3127** | **2410** | **840** | **454** | **47,337** | **1%** |

* Macroeconomic equilibrium approvals are compared with the average annual trade balance and primary fiscal balance, respectively. The PDVSA budget (oil and mining sector) and extrabudgetary amounts channeled through the Missions are not included.
** Investment estimates based on national accounts. The figure for poverty, inequality, and social spending is not included because specific information is not available.

2.7 **The Bank's importance as a source of resources for Venezuela has diminished, as has its potential countercyclical impact with respect to GDP.** On average, the Bank programmed annual amounts equivalent to 1% of the national budget and approved financing for less than half that much.[33] The Bank's importance was even less in terms of net flows to the country. In fact, after the extraordinarily large contribution from the IDB in 1998, flows became negative, even with the marked drop in GDP from 2002 to 2003.

**Graph 2.1. Net flows from the IDB to Venezuela vs. variation in GDP (1990-2007)**




Source: Financial Loan Management System (FINLMS)[34]

2.8 **Despite its relatively small financial contribution with respect to the country's own resources, the Bank's programming was ambitious, and comparable in scope to the Plan for the Nation for that same period.** The Bank pursued wide-ranging objectives in 13 different sectors, which were aligned with the country's objectives, though the country pursued four additional objectives.[35] While all the objectives were critical to development, differences in emphasis in terms of planning and allocated resources reveal that some sectors were given similarly high relative emphasis by both the country and the Bank: reform of the public administration (MS1), poverty, inequality, and social spending (SD1), and education (SD4). In contrast, the country and the Bank assigned other sectors different relative emphasis.

2.9 **Bank approvals were dispersed even further to include sectors that had initially been given less emphasis, but despite this effort, the Bank was in practice relegated to a few niche areas.**[36] Most approvals (81%) were for two types of sectors: (i) those given high emphasis by the Bank, but less by the country; and (ii) those given high emphasis by the country, but not assigned priority by the Bank *a priori*. In practice, disbursements were made (77% of the program) only for the first group of sectors (lower right quadrant of Table 2.3), while no substantial disbursements were made for the second group, where the Bank's approvals were more opportunistic (upper left quadrant of Table 2.3).

2.10 As a result, the Bank's relationship with Venezuela has been sustained mainly by a few large operations with long and highly variable maturation cycles (6 to 12 years). In recent years, the five largest operations—for more than US$200 million each—accounted for 70% of the portfolio. Specifically, the two loans for the Caruachi and Tocoma hydroelectric power plants represented 44% of the portfolio and were approved with an interval of 12 years.[37] Nearly midway between these two projects (making for six-year intervals), the Bank had another set of large approvals involving policy-based loans (PBLs). The impact of these operations on the relationship has proven essential—had they not been approved, Venezuela would have repaid its outstanding balance with the Bank in about six years.

**Table 2.3. Matrix of programming emphasis - Venezuela and Bank**[38]

| **Higher country emphasis/ lower Bank emphasis** | | | **Higher country emphasis/ lower Bank emphasis** | | |
|---|---|---|---|---|---|
| **Programmed 17%** | **Approved 25%** | **Disbursed 9%** | **Programmed 40%** | **Approved 14%** | **Disbursed 3%** |
| Fiscal sector *(ME2)*<br>Oil and mining *(SC2)*<br>Employment and social security *(SD2)*<br>Health *(SD3)*<br>Planning and budget *(MS2)*<br>Justice, public safety, and citizen participation *(MS3)*<br>Economic structure - External sector and monetary policy *(ME1)* | | | Poverty, inequality, and social spending *(SD1)*<br>Education *(SD4)*<br>Public administration *(MS1)* | | |
| **Lower country emphasis/ lower Bank emphasis** | | | **Lower country emphasis/ higher Bank emphasis** | | |
| **Programmed 1%** | **Approved 5%** | **Disbursed 11%** | **Programmed 42%** | **Approved 56%** | **Disbursed 77%** |
| Science and technology *(SC7)*<br>Environment *(SC8)*<br>Support for indigenous groups *(SD6)*<br>Emergency management and disaster prevention *(MS4)* | | | Electric power *(SC3)*<br>Competitiveness support policy *(SC1)*<br>Agriculture and livestock and forestry *(SC4)*<br>Road infrastructure and telecommunications *(SC5)*<br>Financial sector *(SC6)*<br>Housing and residential services *(SD5)* | | |

**Note on methodology**: The subsectors were organized according to program emphasis, using indices that combine both qualitative and quantitative factors. The qualitative variable for each is the *frequency* with which each subsector is mentioned in the Plan for the Nation or in the Bank's strategy. The quantitative variables are the *proportion* and the *growth rate* of budgetary resources or Bank programming allocated to each subsector. In order to classify the subsectors according to their programming emphasis, the corresponding quantitative and qualitative variables take values of 1 or 0, depending on whether they are above or below the respective median values, and are then combined in a weighted index.

## C. Quality

### 1. Comparative advantages of the Bank

2.11 **The Bank was unable to roll out a significant nonreimbursable technical-cooperation program to accompany its loan portfolio.** Between 1999 and 2007, 30 nonreimbursable technical-cooperation operations were financed for an original US$8.6 million, resulting in a ratio with respect to loans that was two thirds less than the Bank average. Of this amount, 85% corresponded to nonreimbursable technical-cooperation funding from the Multilateral Investment Fund (MIF), including five miniMIFs approved via the simplified procedure at the Country Office in Venezuela. The other projects used funds administered by the IDB, including the Japanese Technical Cooperation Fund, which resumed activities in Venezuela in 2007 with two operations involving support for people with disabilities and job training.

2.12 **In contrast, evidence shows that the Bank successfully used reimbursable technical-cooperation financing to create working relationships with executing agencies in niche areas.** The portfolio under evaluation included US$130 million (around 6%) in technical-cooperation and institutional-development components. For example, the Program of Support for Civil Society, structured entirely as a reimbursable technical-cooperation facility, strengthened civil society organizations dedicated to improving the living conditions of vulnerable populations.[39] Another example is the electric power area, where the Bank accompanied its projects with technical-cooperation activities related to the environment and regulation. Difficulties were encountered in executing those technical-cooperation activities, which is why, in the most recent loan for the electric power sector, those activities were separate so as not to delay disbursements for works.[40]

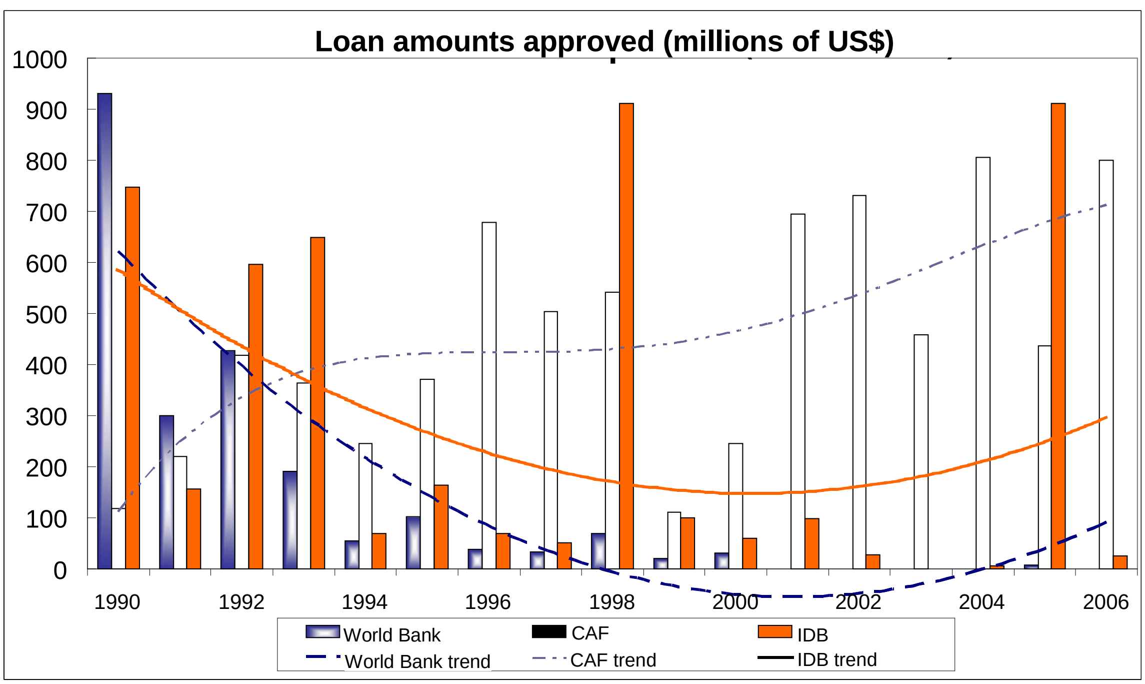
2.13 **The relationship with technical executing agencies in niche areas made it possible to maintain the Bank's technical credibility and to reduce opposition to participation by multilateral agencies, but its effects on the relationship with the country have not been systematically considered.** The executing agencies recognized the following comparative advantages of the Bank: (i) g*reater stability in long-term financing* (unlike local financing, which is dependent upon historically unstable political, institutional, and fiscal factors); (ii) a *relatively nimble disbursement system* (usually more reliable than budget and treasury procedures with local sources); (iii) *international prestige and technical resources* (valued especially by local stakeholders in highly professional areas); (iv) *transparency in project procurement and execution processes* (particularly important in areas subject to fiduciary risks); (v) *quality in program evaluation and monitoring* (in relation to the country's monitoring standards); (vi) *experience in the Bank's traditional areas* (e.g. environmental and social issues). Despite the importance of the relationship with those executing agencies as a mechanism for maintaining a presence in the country, its general impact has not been systematically evaluated, particularly its effect on the programming, evaluation, and supervision of the Bank's work.

## 2. Cofinancing

2.14 **Programming lacked a cofinancing approach, mainly because Venezuela has particularly low exposure to multilateral debt.**[41] The ratio of the country's debt with multilateral organizations to total external debt is one of the lowest in Latin America.[42] The *World Bank* has dramatically reduced its presence in the country, averaging annual approvals of US$1.1 million between 2001 and 2006. In contrast, the *Andean Development Corporation (CAF)* has increased its portfolio, averaging annual approvals of US$654 million between 2001 and 2006. The CAF has specialized in flexible financing for road infrastructure, telecommunications, and residential services. Lastly, Venezuela has also proposed the creation of an alternative for regional multilateral financing called *Banco del Sur*.

2.15 **Similarly, programming was unable to advance Venezuela's relationship with the Inter-American Investment Corporation (IIC), or with the Bank's nonsovereign lending windows.**[43] The IIC portfolio included only two projects totaling US$20 million (one for a residential liquefied gas distribution company and the other for a fishing company) and six projects still in the preparation phase. The projects encountered difficulties, particularly due to issues related to price and foreign exchange controls. The Private Sector Department did not have any operations in Venezuela during the evaluation period.

**Figure 2.2 Multilateral financing**



### 3. Evaluability of strategies and lessons learned

2.16 **The evaluability of the country strategies was relatively limited, steepening the Bank's learning curve with respect to Venezuela.** Although 40% of the objectives described in the 2001 country paper had at least one indicator, fewer than 5% were systematically monitored. The Bank's Management argued that *executing units' lack of institutional capacity* was the recurring problem identified most often in project completion reports (PCR) and portfolio review reports.[44] Second and third, according to Management, were *operation design problems* and *deficiencies in monitoring systems* for operations.

2.17 **Despite the Bank's efforts, the difficulties inherent to the relationship remained unresolved, as evidenced by their systematic mention in Management monitoring reports.** Management regularly identified execution problems. For example, from 2000 to 2007, Management argued an average of 4.6 times a year that "*The units lack[ed] knowledge for effective tendering and contracting*". This and other problems were repeatedly mentioned in successive reports, with no evidence of the Bank's drawing lessons that would lead it to new working methods and areas, to mitigate the impact of these recurring issues.

# III. EXECUTION OF THE COUNTRY PROGRAM

3.1 **This chapter evaluates the processes of preparing and executing the operations resulting from the programming exercise.** It analyzes *efficiency* in the use of resources for the operations, as well as the *sustainability* of their achievements. Particular attention is given to the *evaluability* of the operations and the *additionality* introduced by the Bank's actions.

## A. Portfolio under evaluation

3.2 **The portfolio under evaluation encompasses all operations approved from 1999 to 2007, as well as previous operations executed during that period.**[45] The portfolio evaluated includes *21 investment loans* for US$2.215 billion, *2 policy-based loans* for US$447 million, *4 reimbursable technical-cooperation operations* for US$31.6 million, and 30 *nonreimbursable technical-cooperation operations* for just over US$8.6 million. Therefore, the amount subject to evaluation is US$2.702 billion.

3.3 **From 1999 to 2001, operations were approved for US$164 million without the guidance of a formal programmatic agreement with the country, which was not achieved until 2001.** Despite the absence of a formal strategy, the Bank provided support in the areas of science and technology, as well as mitigation of the impacts of natural disasters.[46] The Bank also approved irrigation and childhood and adolescence support programs, which were later canceled before any disbursements were made.

3.4 **The 2001 strategy covered the period from 2001 to 2003 and anticipated annual approvals averaging US$280 million, but 85% of this amount did not materialize. In contrast, the Bank approved its largest operations after 2003, outside the period covered by the strategy.** As a consequence of the political and social situation, only US$128 million of the US$840 million that had been programmed was approved between 2001 and 2003. Since 2004, without a formal strategy, the Bank has achieved approvals for US$1.093 billion, mainly because of a large-scale operation in the power sector for US$750 million.

3.5 **As a result of low approval levels combined with high levels of cancellations, the portfolio pending disbursement was reduced by 45% since 1999.** From 1999 to 2007, the Bank approved operations at a rate equivalent to US$154 million annually, while it made disbursements at a rate of US$143 million annually and canceled operations at a rate of US$112 million annually.[47] Cancellations particularly affected operations inherited from previous programming cycles,[48] which had a cancellation rate of 46%. As a result, the number of active operations dropped from 28 in 1999 to 13 in 2007.[49]

**Table 3.1. Approvals by sector versus programmed amounts (in millions of U.S. dollars)**

| Sector/Years (programming cycles) | Sector | Balance prior to 1999* | Approvals 1999-2000 | Total programmed 2001 strategy | Approvals | | | | | | | Portfolio total | Amounts cancelled ** | Difference in amounts approved vs. programmed (annual average) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | | |
| ***Macroeconomic equilibrium*** | | ***202*** | | | | | | | | | | ***202*** | ***200*** | ***0,0*** |
| Economic structure | ME 1 | | | | | | | | | | | 0 | 0 | 0,0 |
| Fiscal sector | ME 2 | 202 | | | | | | | | | | 202 | 200 | 0,0 |
| ***Support for competitiveness*** | | ***614*** | ***110*** | ***240*** | ***24*** | | ***0,04*** | ***5*** | ***768*** | ***0,27*** | | ***1.521*** | ***11*** | ***33,9*** |
| Competitiveness support policy | SC 1 | | | | 1 | | 0,04 | | 1 | 0,27 | | 3 | 0,08 | 0,4 |
| Oil and mining | SC 2 | | | | | | | | | | | 0 | 0 | 0,0 |
| Electric power | SC 3 | 436 | | | | | | 5 | 753 | | | 1.193 | 1,16 | 108,2 |
| Agriculture and forestry | SC 4 | | 10 | 230 | 23 | | | | 0,10 | | | 33 | 10 | -73,4 |
| Road infrastructure and telecommunications | SC 5 | 178 | | | | | | | | | | 178 | 0 | 0,0 |
| Financial sector | SC 6 | | | | | 0,01 | | | | | | 0 | 0 | 0,0 |
| Science and technology | SC 7 | | 100 | 10 | | | | | | | | 100 | 0 | -3,3 |
| Environment | SC 8 | | | | | | | | 14 | | | 14 | 0 | 2,0 |
| ***Social development*** | | ***473*** | ***33*** | ***435*** | | ***28*** | | | ***125*** | | ***150*** | ***809*** | ***490*** | ***-123,0*** |
| Poverty, inequality, and social spending | SD 1 | 12 | 30 | 130 | | | | | | | | 42 | 32 | -43,3 |
| Employment and social security | SD 2 | 245 | 1 | | | | | | 0,10 | | | 246 | 243.99 | 0,0 |
| Health | SD 3 | 140 | 0,05 | | | | | | | | | 140 | 87 | 0,0 |
| Education | SD 4 | 8 | 2 | 185 | | | | | 125 | | 150 | 285 | 125,67 | -43,7 |
| Housing and residential services | SD 5 | 68 | | 120 | | 28 | | | | 0,02 | 0,10 | 96 | 1,5 | -36,0 |
| Indigenous groups | SD 6 | | | | | | | | 0,09 | | | 0 | 0 | 0,0 |
| ***Modernization of the State*** | | ***29*** | ***21*** | ***165*** | ***75*** | ***1*** | ***0*** | ***0*** | ***19*** | ***25*** | ***0*** | ***170*** | ***18*** | ***-37,9*** |
| Public administration | MS 1 | 23 | 1 | 20 | 0,00 | 1 | | 0,02 | 19 | 25 | | 68 | 17 | -0,3 |
| Planning and budget | MS 2 | 6 | | 15 | | | | | | | 0,45 | 6 | 1 | -4,9 |
| Justice, public safety, and citizen participation | MS 3 | | | 130 | 75 | | | | | | | 75 | 0 | -32,6 |
| Emergency management | MS 4 | | 20 | | | 0,05 | | | 0,20 | | | 20 | 0,005 | 0,0 |
| **Total** | | **1.317** | **164** | **840** | **99** | **29** | **0,04** | **5** | **912** | **25** | **151** | **2,702** | **719** | **-126,9** |

* Balance of active operations included in the evaluation, as of 1 January 1999.
** The country also made early repayment of US$457.9 million in 2007.

3.6 **As a result of low disbursement levels and early repayments, the portion of the portfolio in repayment also decreased by 35%.** Between 1999 and 2007, Venezuela repaid principal, interest, and fees at a rate of US$349 million annually. That included early repayment by Venezuela in 2007 of a total of US$457.9 million, or 28% of the portfolio in the repayment phase. Meanwhile, new disbursements were much smaller—averaging US$143 million annually—such that between 1999 and 2007, Venezuela contributed net resources of US$1.857 billion to the Bank, of which US$620 million were applied to pay down the portfolio pending repayment.

## B. Efficiency of operations

### 1. Costs

3.7 **Costs per operation were high and quite erratic due to the presence of large operations, approval of which affected the average profile of the portfolio.**[50] Venezuela's preparation costs exceeded the Bank average (US$3,800 per million approved), except in 2005 when a large loan was approved for the Tocoma hydroelectric power plant. For instance, from 2004 to 2005, preparation costs per million of dollars approved went from US$13,637 to US$2,575. Similarly, execution costs per million disbursed were more than three times the Bank averages.

3.8 **Likewise, additional transaction costs were identified due to lack of coordination between the Country Office and Headquarters, as well as differences with respect to technical and fiduciary issues.** The evaluation addressed the borrower's concerns with regard to the working relationship with the Bank, particularly in relation to intervention of the departments at Headquarters. An illustrative example involved a form letter sent by the Finance Department at Headquarters to the Director of Public Debt of Venezuela, warning of imminent suspension of disbursements owing to an alleged late payment that did not actually occur.[51] Another example mentioned relates to disagreements between Headquarters and the Country Office with respect to formal requirements for increasing the loan for the Tocoma hydroelectric power plant by an additional US$600 million, which according to the Country Office could have led to the potential loss of a major opportunity for the Bank's portfolio in Venezuela.[52]

3.9 **In this context, the Country Office made its best efforts to improve its relationship with the country, promoting reformulations, making certain administrative procedures more flexible, and using its delegated authority to approve small technical-cooperation projects (miniMIFs).** Flexibility was introduced in the priorities of certain programs—from 1999 to 2007 there were six restructurings of existing operations and one reformulation—as well as in the recognition of local counterpart expenses. This made it possible to increase the disbursements for certain programs, such as the program to support institutional strengthening of the justice sector, the science and technology program, the program of support for civil society, and a technical-cooperation operation for modernization of the tax administration.[53]

### 2. Preparation and execution times

3.10 **Investment projects between 1999 and 2007 encountered significant delays in both preparation and execution.** The average preparation time was approximately 38 months, which is over 20% longer than the average for the Bank and for the Region 3 countries other than Venezuela. Specifically, negotiation time was twice the Bank average, and the time to meet the conditions precedent exceeded the average by 20%. Loans for competitiveness support and modernization of the State[54] had the longest preparation times (41 months on average).[55] Average delays in terms of the original execution period were more than 100%, far exceeding the delays for Region 3 minus Venezuela (62%) and for the Bank (51%).[56] Average execution times were the longest for loans for competitiveness support (98 months) and social development (82 months).

**Table 3.2. Project preparation and execution (in months)**[57]

| | Profile I to approval | Approval to contract | Contract to first disbursement | First disbursement to original disbursement | Original disbursement to final disbursement | Preparation time | Execution time |
|---|---|---|---|---|---|---|---|
| **Venezuela** | | | | | | | |
| **Support for competitiveness** | 16.00 | 9.83 | 15.20 | 40.00 | 58.00 | 41.03 | 98.00 |
| **Social development** | 18.25 | 8.43 | 7.83 | 40.17 | 42.17 | 34.51 | 82.33 |
| **Modernization of the State** | 31.00 | 4.00 | 6.00 | 36.00 | 7.00 | 41.00 | 43.00 |
| **Average – Investment** | 19.32 | 8.13 | 10.07 | 39.21 | 41.78 | 37.51 | 80.99 |
| **Average – PBLs** | **12.00** | **1.50** | **5.00** | **27.50** | **6.50** | **18.50** | **34.00** |
| | | | | | | | |
| **IDB*** | | | | | | | |
| **Average – Investment** | 17.59 | 4.47 | 8.62 | 42.73 | 21.68 | 30.68 | 64.41 |
| **Average – PBLs** | **9.27** | **1.50** | **2.12** | **22.24** | **2.12** | **12.89** | **24.36** |
| | | | | | | | |
| **Region 3 (excluding Venezuela)*** | | | | | | | |
| **Average – Investment** | 18.95 | 4.24 | 6.66 | 41.16 | 25.42 | 29.85 | 66.58 |
| **Average – PBLs** | **8.04** | **1.08** | **0.79** | **22.21** | **2.82** | **9.91** | **25.03** |

3.11 **Preparation and execution periods for PBLs were 18.5 and 34 months, respectively, more than 40% longer than the Bank average.** In the preparation phase, the biggest delays were in the subphase of meeting conditions precedent, which exceeded the Bank's average periods by three months. In the execution phase, extensions of PBLs for Venezuela were three times the average extensions of the Bank's PBLs overall.

## C. Problems identified in operations

3.12 **The Bank's Management acknowleged that the operations it implemented in Venezuela suffered from design problems.** As reported by the Bank's Management in its project performance monitoring report (PPMR) self-evaluation system,[58] the operations the Bank designed for Venezuela were ranked by the Bank itself in the lowest quintile in terms of performance in areas such as (i) effectiveness of project/component design, (ii) feasibility of fulfilling contractual conditions, (iii) verification of the institutional capacity of selected executing agencies, (iv) feasibility of interagency coordination, (v) Bank anticipation of changes in national and agency policies, and (vi) confirmation by the Bank of real commitment on the part of the borrower and/or executing agency.

3.13 **Furthermore, 52% of the operations designed by the Bank for the country had evaluability problems, as they lacked adequate indicators to describe their outputs and development objectives.**[59] The ex ante evaluability index for operations was 48%. Although 68% of the indicators identified had a baseline, and more than 80% had at least one target—these being relatively high values—the quality of logical framework design varied considerably among projects. Confusion between development and output objectives was common, as was inclusion of numerous targets that were qualitative and, accordingly, difficult to evaluate.

# IV. SCOPE OF DEVELOPMENT OBJECTIVES

4.1 **From 1999 to 2007, the Bank proposed 81 development objectives for Venezuela. To date, improvements have been reported for 77% of them.** During the period, the Bank took actions in support of 69 of the 81 objectives it had proposed. However, the relatively small volume of Bank financing as compared to the country's resources, as well as weaknesses in the system for evaluating operations, prevent quantification of the Bank's impact. Accordingly, this chapter reports on both the *Bank's actions* in each area and the *country's progress*[60] toward reaching the corresponding development objectives, without suggesting a causal link between them.

**Table 4.1. Summary of operations and progress toward development objectives**[61]

| Area | Bank objectives | | Bank operations | | Country progress | |
|---|---|---|---|---|---|---|
| | Proposed | Supported | Approvals (US$ millions) | Disbursements (US$ millions) | Appreciable improvements | Limited progress |
| Macroeconomic equilibrium | 9 | 3 | 202 | 2 | 67% | 33% |
| Modernization of the State | 15 | 15 | 170 | 71 | 90% | 10% |
| Social development | 28 | 28 | 809 | 148 | 79% | 21% |
| Support for competitiveness | 29 | 23 | 1,521 | 844 | 71% | 29% |
| **Total** | **81** | **69** | **2,702** | **1,065** | **77%** | **23%** |

## A. Support for macroeconomic equilibrium

4.2 **The portfolio under evaluation includes operations approved in the prior period for which resources were pending execution, as well as a recent operation of the Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV).** In 1996, a reimbursable technical-cooperation operation was approved for more than US$5 million to support the budget process and strengthen economic policy analysis (VE-0050). In October 1998, a sector PBL was approved (VE-0118) for US$400 million to support fiscal and public sector reforms. More than 50% of resources for both operations were pending execution at the beginning of 1999. It was not until 2007 that the Bank approved another operation in the area—a technical-cooperation operation under PRODEV aimed at strengthening results-based management capacity (VE-T1004).

4.3 **Operations approved during the prior period helped the country to optimize its budget processes.** The 1996 technical-cooperation operation sought to develop greater institutional capacity within the legislative branch and the Ministry of Finance to optimize fiscal and budget policies. Specialized units were created for this purpose: the Macroeconomic Analysis Unit (UAM) in the legislative branch and the Office of Programming and Macroeconomic Analysis (OPAM) in the Ministry of Finance. In addition, the 1998 PBL sought to lay the legislative groundwork for rationalizing public spending, particularly through enactment of the law for the Macroeconomic Stabilization Investment Fund (FIEM).[62]

4.4 **The change of administration, however, resulted in waning country interest in Bank operations in that area.** In 1999, the year following approval of the PBL, the government amended the savings and spending rules applicable to the FIEM.[63] In 2001, given the lack of progress in preparations for meeting the requirements for the second tranche, the PBL was canceled at the borrower's request. Nonetheless, according to the PCR, the preparatory analyses for the program served as a partial input for articles of the Constitution related to public administration and finance.[64] Furthermore, by December 2003, the effectiveness of both OPAM and UAM had declined considerably.

| Fiscal sector and Planning and budget – Objectives | Proposed in documents: | | | | | Progress 1999-2007 |
|---|---|---|---|---|---|---|
| | 2001 Country Paper | VE-0104 | VE-0118 | VE-0050 | VE-T1004 | |
| Reduce public spending | | | √ | | | **Limited progress** |
| Increase nonoil fiscal revenues | | √ | √ | | | **Significant improvement** |
| Increase customs revenues | | √ | | | | **Significant improvement** |
| Improve budget management | √ | | | | √ | **Some improvement** |
| Improve capacity of the executive branch to guide fiscal and budget policy | | | √ | √ | √ | **Insufficient information** |
| Improve capacity of the legislative branch to evaluate the fiscal and budget situation | | | | √ | | **Insufficient information** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **9.7** | **202.0** | **5.7** | **0.5** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **49.3%** | **0.9%** | **84.0%** | **0.0%** | |

## B. Support for modernization of the State and social development

4.5 **In the pursuit of ambitious sector and institutional reforms, the Bank approved projects in the health, social security, child welfare, and education sectors, but an average of 70% of those projects was canceled.** In 1995, US$150 million was approved for a program to strengthen and modernize the health sector (VE-0091) with ambitious objectives, including trimmed spending, institution-strengthening, and decentralization of services. Disbursements were insignificant until 1999, but the project did support preparation of a new sector framework, implementation of state health plans, improvement of primary care centers, oncology centers, and employee training. After the new administration took office, the legal framework and the project were reviewed, with the result that the restructuring recommended by the studies was not implemented. The loan's original objectives were reformulated, targets were reduced, and approximately 60% of the loan was canceled.[65]

| Health – Objectives | Proposed in documents: | | | Progress 1999-2007 |
|---|---|---|---|---|
| | 2001 Country Paper | VE-0091 | VE-0100 | |
| Improve sustainability of the health system | √ | √ | | **Insufficient information** |
| Target public spending to health | | √ | | **Some improvement** |
| Improve the health insurance system | | | √ | **Limited progress** |
| Increase the share of public spending on preventive healthcare | | √ | | **Significant improvement** |
| Decentralize health services | | √ | | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **139.6** | **245.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **37.4%** | **0.5%** | |

4.6 **The Bank also supported a comprehensive reform of the social security system that was not implemented because it was not aligned with the government's new policy**. In 1998, the IDB supported the social security reform program with US$350 million (VE-0100).[66] The aim was a reform of the pension, unemployment, and health systems that envisaged the formation of a tripartite commission (government, workers, and business owners) and greater participation by the private sector through a public-private system. After the first tranche release of US$151 million, the loan was canceled, in the context of the change of government.

| Employment and social security – Objectives | Proposed in document: VE-0100 | Progress 1999-2007 |
|---|---|---|
| Improve sustainability of the social security system | √ | **Limited progress** |
| Improve unemployment insurance | √ | **Limited progress** |
| Improve the pension system | √ | **Limited progress** |
| **Approvals and portfolio balance (US$ millions)** | **245.0** | |
| **% Disbursed as of 31 December 2007** | **0.5%** | |

4.7 **In 2000, the Bank and the new administration agreed on US$30 million in support to implement a new institutional framework for the protection of children and adolescents (VE-0120). Subsequently, 99.7% of that operation was canceled.** There loan encountered difficulties from the outset. Changes were negotiated regarding the scope and executing agency in February 2005, before any significant disbursements were made. In 2006, the Bank reported problems with the capacity of the new executing unit and substantial changes in national policies for the sector. In September 2006, having used less than 0.3% of the resources, the borrower requested that the loan be canceled.

| Poverty, inequality, and social spending – Objectives | Proposed in documents: 2001 Country Paper | VE-0120 | VE-0059 | VE-L1017 | Progress 1999-2007 |
|---|---|---|---|---|---|
| Increase support from civil society organizations for poor groups | | | √ | | **Some improvement** |
| Improve targeting of social programs | √ | | | | **Some improvement** |
| Improve efficiency in the delivery of social services | √ | | | | **Insufficient information** |
| Improve sustainability of social services for children and adolescents | | √ | | | **Insufficient information** |
| Improve quality of life for children and adolescents | | | | √ | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **30.0** | **12.0** | **1.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **0.3%** | **87.2%** | **73.7%** | |

4.8 **In 2005, the Bank approved a program to expand and improve early childhood and elementary education (VE-0138) for US$125 million, the entire balance of which was canceled.** The purpose of the loan was to increase the coverage of early childhood and preschool education, improve efficiency and quality, and support expansion of the full-day comprehensive model for schools. As early as the design phase, there were successive disagreements between the government and the Bank on issues that included the academic curriculum and the hiring of consultants. The Bank changed the project team leader four times. The government promoted a set of education missions with objectives that far surpassed those proposed in the operation with the Bank.[67] In 2007, the Ministry of Education was restructured and the program's executing unit (Department of Educational Levels and Modalities) was eliminated. The loan was canceled a few months later, before any disbursements had been made.

| Education - Objectives | Proposed in documents: | | | | Progress 1999-2007 |
|---|---|---|---|---|---|
| | 2001 Country Paper | VE-0138 | VE-0105 | VE-L1017 | |
| Improve access to early childhood and primary education | √ | | | | **Significant improvement** |
| Improve access to technical higher education (nonuniversity) | √ | | | | **Significant improvement** |
| Reduce inequity in access to education | | √ | | | **Significant improvement** |
| Increase coverage of chorus and orchestra program | | | √ | √ | **Significant improvement** |
| Increase sustainability of chorus and orchestra program | | | √ | √ | **Significant improvement** |
| Build human capital | | | | √ | **Significant improvement** |
| Build civic values and good conduct | | | | √ | **Significant improvement** |
| Create future employment opportunities | | | | √ | **Significant improvement** |
| Create alternatives for noncriminal uses of beneficiaries' free time | | | | √ | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **125.0** | **8.0** | **150.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **0.0%** | **100.0%** | **0.0%** | |

4.9 **In other more targeted areas, however, the Bank was able to support the creation of institutional capacities through innovative structures.** The program of support for civil society, the program to support the Centro de Acción Social por la Música, the justice reform program, and the support programs for the tax administration (SENIAT), the National Institute of Statistics (INE), the Ministry of Science and Technology, and the National Agricultural Research Institute (INIA) were highly rated with respect to achievement of their objectives, and virtually no cancellations were reported. Those executing agencies generally presented a higher degree of professionalization.

4.10 **The Bank financed a program of support for civil society (VE-0059) known as the PAIS program with US$12 million.** The goal was to develop a public-private pilot mechanism for financing civil society organization projects and activities for the benefit of excluded social groups. Although 87% of resources were disbursed and implementation was considered to be successful, its PCR indicated that since 2000, the program was executed in a context full of political and social contradictions that hindered its development. Although the program called for a commission formed by representatives from the public and private sectors and civil society organizations to make decisions on the use and allocation of resources, in practice, the commission was only used as a forum for administrative approval.

4.11 **The Bank financed a program to support the Centro de Acción Social por la Música (VE-0105) for US$8 million with the purpose of consolidating the country's system of youth and child orchestras.** According to a 2004 evaluation, the program had benefited more than 100,000 children, who then performed better in their other school activities as a result (63% of the beneficiaries completed a high level of schooling, compared to 50% among their nonparticipating classmates).

Additionally, substantial improvements were reported in punctuality, responsibility, and discipline among the participants. The social benefits of the program were estimated at 1.68 bolivars for every bolivar invested as a result of a lower dropout rate and reduced violence. Disbursements for the loan were completed in 2005. In 2007, after another evaluation, a second phase was approved for US$150 million (VE-L1017). By then the program had benefited 245,000 children, 67% of them poor.[68]

4.12 **In 1999, the Science and Technology Program II (VE-0112) was approved for US$100 million.[69]** Owing to a lesson learned from a previous program, this loan was executed based on the pre-existing institutional framework, through creation of an executing unit within the National Science, Technology, and Research Fund. An innovative, decentralized, and interinstitutional operating framework was also designed that used a system of ex post expenditure recognition. In 2003, in a context of budget restrictions in the country, the Bank showed flexibility by recognizing US$50 million in expenses already incurred as a local counterpart contribution, thereby enabling the program to continue. According to an ex post evaluation by OVE, enterprises that received financing have developed more innovation capacity than the average for the business sector[70] (50% of beneficiaries acquired capacities for innovation versus 12% in the total sample). The mechanism created by the Bank was subsequently replicated in implenting the Science Mission, which was funded with US$500 million.

4.13 **In 2001, a US$22.5 million specific loan was approved to transform the National Agricultural Research Institute (INIA) (VE-0125).** The program was aimed at strengthening the financial sustainability and modernization of the agricultural technology system. Achievement of the development objectives has been rated probable, but the execution period was extended by 24 months due to the consistent failure to allocate local counterpart resources. According to the most recent project supervision report, 50% of resources have been disbursed and obstacles to accessing the counterpart resources appear to have been removed.

| Science and Technology – Objectives | Proposed in documents: | | | Progress 1999-2007 |
|---|---|---|---|---|
| | 2001 Country Paper | VE-0112 | VE-0125 | |
| Increase share of technology-based products | | √ | | **Some improvement** |
| Increase sustainability of the agricultural technology system | | | √ | **Some improvement** |
| Increase investment in technology by enterprises | √ | √ | | **Significant improvement** |
| Increase supply of applied technology for enterprises | √ | √ | | **Significant improvement** |
| Train human resources in science and technology | | √ | | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **100.0** | **22.5** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **97.2%** | **54.9%** | |

4.14 **In 2001, a loan was approved for US$75 million for institutional strengthening of the justice system (VE-0057).** The objectives proposed were ambitiuos—to improve criminal investigation and prosecution; increase society's participation and confidence in the criminal justice system; and reduce violence and improve living conditions in prisons and increase inmate rehabilitation rates—but by 2005, only 7% of the loan proceeds had been disbursed. The midterm evaluation indicated that the program was designed under circumstances that have not been maintained over time, and integration of the work of the various actors in the criminal justice system is a task that will take longer than the life of the program. It also noted that work was needed in other areas outside the scope of the program.[71] In July 2006, the loan objectives were modified and recognition of counterpart expenditures related to the procurement of IT equipment, training, and specific studies was made more flexible, such that disbursements were resumed.[72]

| Justice, public safety, and citizen participation – Objectives | Proposed in documents: | | Progress 1999-2007 |
|---|---|---|---|
| | 2001 Country Paper | VE-0057 | |
| Reduce violence and crime | √ | | **Limited progress** |
| Increase effectiveness of the justice system | √ | √ | **Some improvement** |
| Increase effectiveness of criminal prosecution | | √ | **Some improvement** |
| Increase inmate rehabilitation rates | | √ | **Insufficient information** |
| Improve the quality of life of prison inmates | | √ | **Some improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **75.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **50.0%** | |

4.15 **The Bank assisted with modernization of the tax administration (SENIAT)[73] with operations for US$10.5 million (VE-0104) in 1996 and US$18.5 million in 2005 (VE-L1001).** Despite successive delays due to changes in SENIAT and in the scope of the project,[74] the PCR rated it as effective. SENIAT's improved efficiency and the economic growth of recent years have increased nonoil fiscal revenues. Nonetheless, problems persist of "*weak institutional management capacity and lack of an integrated strategic vision to coordinate and harmonize the different changes being made to its institutional plans and programs.*"[75] Currently, achievement of the development objectives has been classified as probable, while progress in implementation has been rated as unsatisfactory due to limitations of the executing unit and delays in fulfilling the contractual conditions.[76]

4.16 **In December 2006, the Bank approved over US$25 million for a program to strengthen the National Institute of Statistics (INE) and the National Statistics System (SEN) (VE-L1015).** The goal of the operation is to improve the production of statistics as well as access to them in order to facilitate decision-making. Three groups of activities were proposed: improve INE's infrastructure, improve statistics production, and strengthen the SEN. In late 2007 the loan contract had still not been signed.

| Public administration – Objectives | Proposed in documents | | | | Progress 1999-2007 |
|---|---|---|---|---|---|
| | 2001 Country Paper | VE-0104 | VE-L1001 | VE-L1015 | |
| Improve public sector efficiency | √ | | | | **Insufficient information** |
| Increase efficiency of the Tax Administration | | √ | √ | | **Significant improvement** |
| Improve capacity of state governments to direct budget management | | √ | | | **Insufficient information** |
| Reduce smuggling and customs fraud | | | √ | | **Significant improvement** |
| Reduce tax evasion | | | √ | | **Significant improvement** |
| Improve production of statistical information | | | | √ | **Some improvement** |
| Improve the quality, integrity, and access to statistical information generated by INE | | | | √ | **Some improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **9.7** | **18.5** | **25.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **49.3%** | **7.2%** | **0.0%** | |

## C. Support for competitiveness

4.17 **The Bank approved a group of infrastructure loans characterized by advanced of their works components and little progress in institutional aspects.** In 1992, a US$200 million loan was approved for rehabilitation of roads and bridges (VE-0040). In 1999, 90% of the amount approved had yet to be disbursed. The program sought to contribute to institutional strengthening, maintenance of the road network, and new investments. It took more than 13 years to execute the program, with five extensions of the original period.[77] According to Management, the existing budget system was not consistent or aligned with the project cycle, which affected the local contribution, producing delays.[78] The Bank determined that the project was not very effective in terms of its development objective and ineffective in terms of implementation, with a low probability of sustainability.

| Road infrastructure and telecommunications – Objectives | Proposed in documents | | Progress 1999-2007 |
|---|---|---|---|
| | 2001 Country Paper | VE-0040 | |
| Maintain operability of the road network | √ | √ | **Some improvement** |
| Lower transportation costs | | √ | **Some improvement** |
| Reduce problems with highway traffic congestion | | √ | **Limited progress** |
| Enhance road safety | | √ | **Limited progress** |
| Improve sustainability of the road sector | | √ | **Insufficient information** |
| Increase private sector participation in the transportation sector | | √ | **Limited progress** |
| Facilitate access to efficient urban transportation services | √ | | **Significant improvement** |
| Extend the road network | | √ | **Some improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **178.2** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **100.0%** | |

4.18 **The Bank had approved a low-income housing program (VE-0055) for US$52 million in 1996 that was still in execution.** The operation served as a pilot project for introducing into law a direct graduated subsidy[79] and a beneficiary eligibility and selection system. The project was completed in 2004 and its effectiveness in attaining its development objectives was rated as satisfactory.[80] In practice, however, despite passage of the Housing Policy Act in November 1998, the direct subsidy and eligibility system have not been applied universally, which has prevented a comparative evaluation of the system under the new law and the pilot program.[81] Since that time, there have only been small nonreimbursable technical-cooperation operations worth US$118,000 in the areas of urban development and access for people with disabilities.

4.19 **In the area of water and sanitation, the Bank approved US$30 million in financing in 1997 and US$28 million in 2002.** The loan for the program of support for modernization and rehabilitation of the water supply and sanitation sector (VE-0056) in 1997 included a sector component, an institutional support component, and an infrastructure component. Execution took nearly eight years.[82] The Bank rated the project as effective in terms of achievement of its development objectives and as very relevant in terms of institutional strengthening of the executing agency Hidrológica de Venezuela C.A. (HIDROVEN). However, its operating costs remain high and business management weaknesses persist. The 2002 loan to support rural and small-town water supply systems (VE-0140) is still outstanding, with considerable arrears. In the most recent evaluation, achievement of the development objectives was rated as probable, and implementation progress was considered satisfactory. However, political changes and delays in legislative approvals have made implementation difficult.

| Housing and residential services – Objectives | Proposed in documents: | | | | Progress 1999-2007 |
|---|---|---|---|---|---|
| | 2001 Country Paper | VE-0056 | VE-0140 | VE-0055 | |
| Increase percentage of the population with access to water and sanitation services | | | √ | | **Significant improvement** |
| Improve sustainability of the water and sanitation sector | √ | √ | | | **Insufficient information** |
| Increase private sector participation in the water and sanitation sector | | √ | | | **Limited progress** |
| Improve access to low-income housing | √ | | | | **Some improvement** |
| Optimize production of low-cost housing | √ | | √ | √ | **Some improvement** |
| Reduce waterborne diseases | | | √ | | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **27.9** | **28.0** | **40.1** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **94.7%** | **23.2%** | **100.0%** | |

4.20 **Lastly, in 2000, the Bank approved a loan for strengthening rural communities through the rehabilitation and privatization of small irrigation systems (VE-0126).** According to the Bank, changes in political positions on issues of landholding and access to irrigation, as well as different perceptions of the role of private participation in managing the systems, led to cancellation of 100% of the loan by the borrower in 2002. Nonetheless, the irrigation infrastructure continues to be underutilized as a result of ineffective management, poor maintenance, and the limited technical capacity and lack of organization among producers.[83]

| Agriculture and livestock and forestry – Objectives | Proposed in documents: | | Progress 1999-2007 |
|---|---|---|---|
| | 2001 Country Paper | VE-0126 | |
| Increase rural development | √ | | **Some improvement** |
| Increase private sector participation in irrigation systems | | √ | **Insufficient information** |
| Increase sustainability of the agricultural technology system | | | **Some improvement** |
| Increase area of irrigated land | √ | | **Limited progress** |
| Increase % of rural land with proper legal title | √ | | **Some improvement** |
| Increase participation of small producers in the food and agriculture sector | √ | | **Significant improvement** |
| Increase % of producers with access to agricultural research and health information | √ | | **Some improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **10.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **0.0%** | |

4.21 **Development of the power sector was consistently supported through three investment loans and one nonreimbursable technical-cooperation operation.** The US$500 million loan for the Caruachi hydroelectric power plant (VE-0084) was approved in 1993 and took 10 years to disburse.[84] The project was ambitious, including construction of the power plant, an environmental protection program, and support for reform of the power sector.[85] During execution, the country's difficulty in adhering to the initial timetables and the attempt to increase the flexibility of mechanisms for recovering CVG EDELCA's outstanding receivables resulted in four contractual changes. The main amendments to the original contract were related to support for power sector reform, eliminating components and setting aside aspects associated with planning for electricity services delivery and the rate adjustment. At the end of the project, performance indicators were favorable with respect to construction of the hydroelectric power plant, and unfavorable with respect to the institutional component.[86]

4.22 **In 2005, the Bank approved the largest loan for the period, allocating US$750 million for construction of the Tocoma hydroelectric power plant (VE-L1003).** The project design took into consideration lessons learned from the Caruachi project, concentrating on the infrastructure component. Objectives relating to support for power sector reform were addressed separately:[87] a US$5 million loan was approved for institutional development of CADAFE (VE-L1005), and US$2.7 million in reimbursable technical-cooperation funding was later approved for sector reform (VE-L1016). In 2007, disbursements had not been made for either of these operations. This represents a change in how the Bank operates, as it has traditionally made its investments subject to cross-conditionality with institutional measures.

| Electric power – Objectives | Proposed in documents: | | | | | Progress 1999-2007 |
|---|---|---|---|---|---|---|
| | 2001 Country Paper | VE-L1016 | VE-0084 | VE-L1005 | VE-L1003 | |
| Increase generating capacity of the power sector | √ | | √ | | √ | **Significant improvement** |
| Improve sustainability of the power sector | | √ | √ | √ | | **Insufficient information** |
| Increase energy efficiency | | | √ | | √ | **Limited progress** |
| Mitigate social impacts of hydropower development | | | | | √ | **Significant improvement** |
| **Approvals and portfolio balance (US$ millions)** | **N/A** | **2.7** | **435.8** | **5.0** | **750.0** | |
| **% Disbursed as of 31 December 2007** | **N/A** | **0.0%** | **99.7%** | **100.0%** | **15.3%** | |

4.23 **Also approved in 2005 was a US$14 million investment loan for integrated management of the Caroní River watershed (VE-L1006).** This turned out to be the only loan in the portfolio related to environmental stewardship, in addition to being the most significant Bank contribution toward supporting indigenous communities (US$4.55 million).[88] Although the Tocoma project had an environmental and social management component for US$38.4 million, the PCR for the previous loan (Caruachi) recommended that for large-scale operations, environmental management projects be designed independently from infrastructure projects, in order to cover those aspects that go beyond the project's direct impact.[89]

# V. Conclusions and Recommendations

## A. Conclusions

5.1 The Bank's program in Venezuela for 1999 to 2007 set an ambitious set of 81 development objectives, which in practice, despite their *relevance* to the country's development priorities, largely exceeded the actual capacity of the Bank to act in Venezuela. With far fewer resources than contributed by the country in each subsector, and in the face of disagreements on policies and programs, the Bank saw its range of action in the country severely diminished. This situation was compounded by the wealth of alternative resources from the oil sector, as well as by the country's serious questioning of the role of multilateral agencies.

5.2 The level of *anticipation* of the Bank's program was very poor. Only 30% of programmed operations were ultimately approved, experiencing subsequent delays, modifications, and cancellations at a rate nearly five times the Bank averages. Having programmed US$280 million annually, the Bank was only able to approve US$154 million annually, of which more than 50% corresponded to a single large operation for US$750 million. Approvals did not offset the rate of disbursements (US$143 million annually) and cancellations (US$112 million annually), resulting in a net reduction of 45% in the portion of the portfolio pending disbursement, as well as a 35% reduction in the portfolio in repayment.

5.3 The *relevance* of the Bank's program was very weak. This was because the Bank tended to program activities in its areas of greatest expertise, but was only able to approve and execute operations in a few niche areas where there were fewer political differences. The Bank's ambitious objectives were thwarted and its actual areas of action were insufficiently supported by technical assistance activities.

5.4 Consequently, the overall *efficiency* of the Bank's relationship with the country was very low. Preparation and execution costs exceeded the Bank averages by 300%. Negotiation times for operations were more than double the Bank averages. Execution times exceeded the averages by more than two years, culminating in cancellations due to disagreements or a lack of interest by the country. Additionally, differences of opinion between Headquarters and the Bank's Country Office in Venezuela over technical and fiduciary matters in the country weakened operating efficiency and resulted in the imposition of conditions considered by the Country Office to be unnecessary.

5.5 Numerous failed attempts, approved operations that ultimately languished until cancellation, and the government's stated determination to reduce its debt with the Bank through prepayments are symptoms of a *transformation of the Bank's role in Venezuela and of a relationship that in practice has been losing importance for both parties*. Bank flows to the country did not even gain greater importance during the crisis of 2002-2003, during which they could have provided short-term support.

5.6 *The Bank's interaction with the country has become increasingly limited*. The Bank has experienced a substantial loss of technical expertise on the country. Since 1999, Venezuela has been the subject of just 0.85% of the Bank's technical studies and has received fewer annual missions than the average for borrowing member countries.[90] Against this backdrop, Venezuela's share of the Bank's total portfolio went from 4.4% in 1999 to 2.3% in 2007.

5.7 If not for the infrequent approval of large niche operations—such as the recent US$750 million operation for the Tocoma hydroelectric power plant—the Bank's Venezuela portfolio would have been fully repaid in approximately six years. The maturation cycles of those large operations have averaged 6 to 12 years,[91] *exposing the Bank's presence in Venezuela* to the uncertainty of their eventual approval. The Bank's competitive position has deteriorated vis-à-vis the CAF, which is more nimble in terms of response times, and there has been discussion of the possibility of a new financing entity with a different service mechanism (Banco del Sur).

5.8 As a result, the program had a very low level of *effectiveness*, revealing various *constraints on the Bank's relationship with Venezuela* in all areas of work. For example, in the area of support for macroeconomic equilibrium, the Bank acknowledged that its financing flows were relatively modest compared to the national budget and decided to promote savings and fiscal spending rules, as well as to increase analytical capacity for the budget process. Even though many of those rules were translated into new legal frameworks and initiatives, they were promptly abandoned as the price of oil increased.

5.9 On the social front, the Bank attempted *comprehensive programs* for health and education reform, but they were not implemented to any significant extent. In contrast, *outcomes were better with targeted, innovative programs,* such as the music education program. Another way the Bank was able to maintain its presence was by making initially ambitious programs *more flexible* so they could be adapted to the country's needs, as it did in the justice sector. In recent years, however, the Bank has found it increasingly difficult to adjust to working within the new system of social services delivered via missions, despite the fact that the Bank could potentially help enhance knowledge on their impact, efficiency, financial sustainability, and institutional capacity.

5.10 In the area of modernization of the State, the Bank *worked effectively with technical executing agencies*. For instance, on issues of fiscal management, science and technology, statistical systems, and agricultural technology, it found executing agencies that valued its technical and administrative contributions. For their part, the executing agencies helped improve perceptions of the Bank's in the country. Despite their importance, the *determining factors and impact of the relationship with these technical executing agencies* have not been systematically evaluated, nor has the use of technical cooperation to cultivate similar relationships in new areas been optimized.

5.11 In the area of support for competitiveness, the Bank *has been unable to carry out significant operations with the private sector*—mainly because the Venezuelan government has maintained an active policy of providing financing to the private sector under very favorable conditions. In the public sector, the Bank has had similarly unfruitful experiences in areas where it tried broad sector reforms, such as the road sector. In contrast, *the experience has been more positive when the Bank has separated technical and works elements from sector regulation and policy elements*. This separation involved a major change in the Bank's traditional modus operandi, and became a key factor enabling the Bank to contribute to works in sectors such as water and sanitation and power.

5.12 The evaluation concludes that *operations in Venezuela were approved and successfully implemented only under certain conditions*. First, the operations for which funds were disbursed were focused on very specific activities, rather than tying disbursements to broad sector reforms. Second, they supported executing agencies that were more professional and specialized than average in the national public administration. Third, they encouraged those executing agencies to view the Bank's administrative procedures and work culture as comparative advantages over other financing options.

5.13 However, to date there *is no evidence that the Bank has actively applied these lessons learned*. Although the main problems that undermined execution of operations were identified—problems with institutional capacity, the design of operations, and a weak monitoring system—they reoccurred year after year. As a consequence of the lack of evaluability of the program (52% of operations lacked basic development indicators and only 5% of them received subsequent monitoring), the Bank has been unable to institute results-based management.

## B. Recommendations

5.14 The Bank should increase its technical work with the country to lay the foundations for a stronger relationship. Specifically, the following areas of work should be explored, among others: (i) a substantial increase in technical-cooperation activities, (ii) the development of joint impact studies on programs of interest for the country, (iii) full application of available instruments under the Bank's lending framework, ensuring satisfactory resolution of technical issues to make it possible to use more attractive mechanisms for the country, such as programmatic arrangements and multisector programs.

5.15 As a result of joint efforts in niche areas where the Bank can add technical value, at the country's request, the Bank should help establish rules and mechanisms that promote effective spending. Specifically, the Bank should collaborate with the country on the analysis of economic, political, and social factors that impact fiscal sustainability, under different oil price scenarios. These rules and mechanisms should be compatible with the country's long-term objectives, including maximizing the impact of social initiatives, ensuring efficient spending, and enhancing the country's competitiveness.

5.16 **Recommendation 1: Increase technical-cooperation activities and studies, with particular emphasis on the evaluation of alternative ways of addressing social problems and on the promotion of mechanisms to ensure the effectiveness of public spending in a context of global economic crisis:** Given Venezuela's uniqueness and the Bank's deficit of knowledge on the country, consider the possibility of creating forums for dialogue that allow for technical analyses and pilot tests of alternative methodologies, particularly methodologies for social missions, with a view to identifying best practices. Similarly, develop avenues for technical dialogue to help the country optimize the effectiveness of public spending in a context of global economic crisis.

5.17 **Recommendation 2: Develop an active niche strategy in the Bank's areas of technical expertise:** Actively cultivate a relationship with technical executing agencies within the country's public administration, civil society, and private sector. In this way, position the Bank as a multilateral partner valued by the country that is suited to carrying out innovative and highly complex and technical initiatives requiring ongoing support and independence from short-term budget decisions.

5.18 **Recommendation 3: Increase the evaluability of the program and operations, seeking to strengthen and utilize national management systems:** Given the difficulties of establishing programmatic relationships with the country, the Bank should create avenues for dialogue that are geared toward gaining a better understanding of national monitoring and evaluation systems, so that they can serve as a basis for results-based management and integrated programming of the Bank's future financial and nonfinancial operations in the country.

5.19 **Recommendation 4: Unleash the potential of the Bank's new organizational structure and instruments in order to adapt them to the needs of the country:** Maximize the applicability of tools available under the new organizational structure and lending framework, seeking to increase the flexibility of the products offered by the Bank. For example, the challenges presented by the need for legislative approval of each loan could be mitigated by the Bank's offering more flexible arrangements, including global investment operations with funds allocated to multiyear execution of works to be selected based on pre-established criteria. Additionally, to implement tools such as programmatic schemes or conditional credit lines for investment projects (CCLIPs), the Bank will need to interact and become more familiar with national procurement, monitoring, and evaluation systems and strengthen its Country Office in Venezuela.

5.20 **Recommendation 5: Generate activities in the infrastructure and productive sectors, emphasizing optimization of social impacts:** The Bank has highly relevant experience in balancing the dual objectives of financial returns and social impact. The Bank should explore mechanisms for transferring this know-how to the Venezuelan productive sector, which is facing growing requirements for investment and measurement of social impacts. The Bank could also emphasize the search for alternative mechanisms for generating social welfare investments, such as through cooperative forms of business management, particularly in areas related to local infrastructure development.

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[1] Venezuela's share of the Bank's portfolio fell from 4.4% in the 1990-1998 period to 2.3% in the 1999-2007 period.

[2] According to the PDVSA website, the Social Missions represent a mass strategy to guarantee fundamental rights to the population, with emphasis on the most excluded groups. These specially funded initiatives are coordinated by several institutions and ministries, and organized communities play an active, central role in their planning, execution, and development.

[3] See IDB (2003a).

[4] See Annex II - Interviews.

[5] The 2001 Country Paper identified the following development challenges: "*(a) In the short term...to win back the confidence of the country's private sector so it will invest in Venezuela, taking advantage of the oil bonanza and thus reactivating the economy and reducing high unemployment to maintain macroeconomic balance and social stability...*" (page 7); "*(b) In the medium and long term...diversify its productive base in order to diminish its dependence on oil in a context of macroeconomic balance, institutional strengthening, regional integration..., and development of science and technology, in such a way as to achieve growth with equity and reduce poverty.*" (page 7). The loan program focused on four areas of intervention: "*Social: poverty reduction and human capital development*" (page 10); "*Economic: boosting productivity and diversifying output*" (page 12); "*Institutional: public sector institution-strengthening*" (page 14); and "*Science and technology: knowledge creation and use*" (page 16). Source: IDB (2001) Country Paper (document GN-2081-3).

[6] Data from the Central Bank of Venezuela (BCV) (www.bcv.org.ve).

[7] See IDB (1999) Country Paper (document GN-2081-3), page 14, on institutional strengthening of the public sector.

[8] Constitution of the Bolivarian Republic of Venezuela, according to Official Gazette 5453, 24 March 2000.

[9] Oil prices hit a low in 1998, rising 42% in 1999 and 58% in 2000. Coincidentally, in late 1998, Venezuela and the other members of the Organization of the Petroleum Exporting Countries (OPEC) agreed to better enforce compliance with their respective production quotas.

[10] Both production and exports were halted for all of January 2003. Petróleos de Venezuela, S.A. (PDVSA) estimated that the strike caused US$14.7 billion in losses. That year, on average, PDVSA produced a minimum of 1.8 million barrels a day (11% less than in 2002). When the strike ended, the company's workforce was reduced from 40,000 employees to approximately 22,000.

[11] According to a speech by President Chávez in 2006, "this socialism is not predefined". Nevertheless, it does have roots in Liberator Simon Bolivar's ideas of equality, freedom, and his geopolitical vision of an integrated Latin America; roots in General Ezequiel Zamora's idea of civic-military union, and roots in the ideas of Simón Rodríguez, Bolivar's tutor, regarding popular education, freedom, and equality. President Chávez asserts that the key elements that could define 21st Century Socialism are: (i) a morality of ethics and generosity, (ii) a participatory and populist democracy, (iii) equality with freedom, and (iv) cooperativism, partnerships, common ownership, cooperative banking, and centers of endogenous development, with self- and co-managed systems. Source: www.aporrea.org.

[12] World Development Indicators (WDI) data. Productivity is calculated as the difference between growth in GDP and growth in the factors of production.

[13] BCV data.

[14] In 1993, the business assets tax was introduced, an adjustment for inflation was incorporated, and a tax with the characteristics of a value-added tax (VAT) was approved. In 1994, the Organic Tax Code was amended, the Servicio Nacional Integrado de Administración Aduanera y Tributaria [Integrated National Customs and Tax Administration Service] (SENIAT) was created, and the VAT was replaced by the luxury and wholesale goods and services tax (ICSVM), extending its application. The income tax was also reformed to incorporate a standard tax deduction for individuals. In the late 1990s, a new wave of reforms was started to increase the share of nonoil revenues. The Organic Tax Code was reformed, the ICSVM reverted back to the VAT, and global income was included for purposes of the income tax, the dividends tax, transfer pricing, and tax havens.

[15] SISOV data.

[16] BCV and SISOV data.

[17] For example, Fondo de Desarrollo Nacional, S.A. (FONDEN), which was created in December 2005, received around US$100 million a week from PDVSA.

[18] See PDVSA (2006).

[19] Funds contributed to missions represent an estimated 7% of GDP, bringing government social spending to approximately 20% of GDP. Source: Weisbrot and Sandoval (2007), page 4.

[20] See Annex I - Venezuela Missions.

[21] Data from Instituto Nacional de Estadística [National Institute of Statistics] (INE).

[22] INE data.

[23] Weisbrot, M. and Sandoval, L. (2007), page 14.

[24] Simon Bolivar National Project in its First Socialist Plan of Economic and Social Development for the Nation for the 2007-2013 Period.

[25] Since that time, the Bank has been unable to formalize a new strategy with the country.

[26] Although the period evaluated spans from 1999 to 2007, several sections of this chapter refer to earlier periods, for the purposes of comparison and to identify changes in long-term trends.

[27] The planned operations emerge from country strategy papers, loan documents for the period analyzed, and documents from programming and portfolio review missions. Calculated taking into account the amounts programmed and approved since 1990 (see Table 3.1).

[28] Of the amounts lent through this modality, 72% targeted macroeconomic equilibrium, while the remaining 28% went to a social development loan, specifically the social security subsector.

[29] OVEDA data for approved loans.

[30] Relevant to this issue has been the position taken by the United States, which characterized Venezuela as a country making insufficient efforts to combat human trafficking. As a consequence of that decision, the United States voted against operations for Venezuela in international financial institutions, posing a particular hindrance to operations that required approval by special majorities of their shareholders. This position was reversed in 2008.

[31] OVEDA data for nonreimbursable technical-cooperation operations. With respect to the rest of the Bank, Venezuela exceeded average annual approvals between 1990 and 1998 (12.5), but was below the average between 1999 and 2007 (16.5).

[32] The Venezuela Trust Fund was created in 1975 with an initial contribution of US$500 million (of which US$100 million was contributed in bolivars). Through that fund, Venezuela has contributed to regional integration, industrial development, and exports. The fund was discontinued in 2001.

[33] That analysis is derived from a comparison of amounts programmed in the strategies with amounts appropriated in the national budget for the respective ministries in the 2000-2007 period. The amount appropriated by the government outside the budget, mainly through FONDEN and PDVSA, must be

added to that total. The Economist (2007a) and Oxford Analytica (2006) estimate that the government administers off-budget amounts of close to US$20 billion.

[34] Estimates based on the FINCOL022 report from the Bank's financial management system.

[35] From a standpoint of long-term strategic intent, only 7 of those 13 sectors had been assigned priority in the previous strategies for 1990-1992 and 1993-1995: Electric power - SC3; Agriculture and forestry - SC4; Financial - SC6; Environment - SC8; Poverty, inequality, and social spending - SD1; Housing and residential services - SD5; and Public administration - MS1.

[36] A niche is a targetable portion of customer needs that—because of their specific nature—are generally not being addressed by mainstream providers.

[37] Those projects represent around 20% of the country's total energy production capacity. The Caruachi project (1993) had a generating capacity of 2,196 MW, compared to 2,169 MW for Tocoma (2005). In 2004, total power generating capacity in Venezuela was close to 21,000 MW, while maximum demand hovered around 14,000 MW. Source: loan document VE-L1003 (1686/OC-VE).

[38] The country's strategic intent in the period under analysis was examined based on the national budget and on Venezuela's three national plans prepared by the Ministry of Planning's Central Office for Coordination and Planning (CORDIPLAN): the Eighth Plan for the Nation prepared in 1990, the Ninth Plan for the Nation (1994), and the Tenth Plan for the Nation (2001). Order of priority was assigned based on an indicator constructed as a simple average of three binary variables. The first variable, relevance based on the number of objectives, takes the value of 1 when the number of objectives per subsector exceeds the corresponding median number. The second variable, priority based on proposed amounts, takes the value of 1 when the proposed amounts per subsector exceed the median. The third, relevance based on growth rate, takes the value of 1 when the proposed annual amounts grow faster than the median rate.

[39] People who, because of their characteristics or circumstances, are more vulnerable to exclusion, poverty, and the effects of inequity and violence.

[40] In fact, the technical-cooperation funds accompanying the loan for the Tocoma hydroelectric power plant (VE-L1003; 1686/OC-VE) have not been disbursed since being approved in 2005. Source: loan documents VE-L1006 (1687/OC-VE) and VE-L1016 (1685/OC-VE).

[41] The IMF's participation has been limited. It generated loans to supplement World Bank and IDB investments in 1990 (for US$1.357 billion), as well as in 1996 (for US$350 million).

[42] Just 10% of total external debt in 2004. Source: Borenztein, E. et al. (2007), Living with Debt, page 108.

[43] The only significant participation by the Bank's Private Sector Department (PRI) was in the road project between Caracas and La Guaira (1996), which was subsequently canceled due to changes in the government's policies.

[44] OVE grouped the problems identified into nine categories: institutional capacity of executing agencies; design of the operation; monitoring systems; level of priority for the country; legal frameworks and local counterpart funding; administrative processes; compliance with conditions precedent; technical capacity of consultants; and interagency coordination.

[45] Because more than 50% of the proceeds were executed during the evaluation period, the portfolio analyzed includes seven investment loans that were approved between 1992 and 1998. Also included are two untied loans for social security reform (US$395 million) and public sector fiscal reform (US$400 million) approved in 1998. Finally, the evaluation includes three reimbursable technical-cooperation operations approved between 1995 and 1996. Those operations had a total available balance of US$1.064 billion in 1999.

[46] In response to the Vargas tragedy of 1999, the Bank also provided a US$20 million loan so that basic services could be resumed and urgent measures taken to prevent additional damage in the affected areas (VE-0122). Nearly all of the loan proceeds were disbursed that same year. Nevertheless, despite

the country's susceptibility to natural disasters, the Bank has not helped systematize a program in the area, or promoted the adoption of a preventive strategy.

47 During 2008 (after the evaluation period), the pace of disbursements picked up considerably, to some US$300 million.

48 During the period under evaluation, cancellations occurred at an annual rate of 4% of the active portfolio, exceeding the Bank's average annual rate of 0.9%. Operations inherited from previous programming cycles were canceled at an annual rate of US$93 million, of which US$61 million corresponded to operations included in the portfolio under evaluation and US$32 million corresponded to other operations that by 1999 had remaining balances of less than 50% of their original amounts.

49 Of those 28 operations, 13 are included in the portfolio under evaluation because they were substantially executed after 1999.

50 Data from OVEDA. Data are only available as of 2004 for preparation costs and as of 2003 for execution costs.

51 According to the Country Office, the payment had already been made to the IDB account at the BCV, but notification was not sent because it was a national bank holiday. Without consulting the Country Office, Headquarters automatically sent a suspension letter containing strong legal language, upsetting the local authorities.

52 On 17 November 2006, the government expressed interest in obtaining an additional US$600 million to US$750 million for the Tocoma power plant. According to the Bank's Country Office in Venezuela, a technical study was conducted on that increase in financing, and it was determined that the expenditures to which it would be applied could be recognized, since they used procurement procedures compatible with those of the Bank. Nonetheless, according to the Country Office, the Legal Department at Headquarters recognized in writing in an electronic communication dated 21 November 2006 the simplicity of the procedure that would have been required to move forward with the approval of that financing, but later decided to require additional information from the borrower. In the opinion of the Country Office, that information was repetitive, since it was seeking to increase an existing loan, causing the borrower some unease and prompting it to withdraw from the loan with the IDB and continue negotiations with the Andean Development Corporation. The Legal Department disagrees with the Country Office's appraisal and noted that "the proposal for a supplementary loan was neither presented to nor approved by the Bank's Board of Executive Directors" and that "there was no evidence" that the Legal Department's requirements were "the reason the borrower withdrew its request for supplemental financing from the Bank." The Legal Department also notes that, according to a communication from the borrower dated 12 February 2007 "having evaluated the proposed loans offered by the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF), the President of the Republic has decided to accept the terms offered by the CAF". At present, the government has renewed its interest in a package of US$800 million in additional financing from the IDB, however Management had expressed initial reservations about its feasibility given recent internal financing limits per country.

53 In 2007, the Bank approved a US$450,000 technical-cooperation operation for strengthening the capacity for results-based public management (VE-T1004; ATN/OC-10370-VE), which has not begun to make disbursements.

54 The preparation period for social development loans was 35 months. At the sector level, health (SD3) was the sector with the longest preparation period (63 months), along with justice, public safety, and citizen participation (MS3-56 months), environment (SC8-53 months), electric power (SC3-53 months), and road infrastructure and telecommunications (SC5-49 months).

55 The sector composition of the Venezuela portfolio does not differ enough from the Bank average to account for the delays observed. On average, the Bank's investment loans for the support for competitiveness sector account for 47% of loans, followed in order of relative significance by loans for social development (31%), modernization of the State (18%), and macroeconomic equilibrium (3%).

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[56] The evaluation only reports on those finalized in 2007. Venezuela's evaluation is based on a sample of 20 investment loans.

[57] The analysis does not include nonreimbursable technical-cooperation operations.

[58] The PPMR system/PPMRs specify 19 types of problems. Those problems are grouped into three categories: (i) commitment problems: legislative approvals, borrower/executing agency commitment; counterpart funding shortfall; political/community opposition; and national policy changes; (ii) institutional capacity: executing agency institutional capacity; consultant performance; interagency coordination; supplier/contractor performance; procurement difficulties; cost overruns; qualified external audit; executing agency policy changes; and lack of a monitoring and evaluation system; and (iii) design problems: project/component design; contract condition compliance delays; Bank efficiency (response delays); environmental issues; and Bank policy changes.

[59] Evaluability was analyzed for a subsample of projects approved between 1998 and 2006 (10 investment loans and 2 PBLs).

[60] The indicators used for Venezuela are found in Annex IV.

[61] The country's progress was determined based on changes over time in indicators corresponding to the development objectives proposed by the Bank in its programming for each area. Socioeconomic indicators from 2007 were generally used, unless they were not available, in which case data was used from 2006.

[62] Other preconditions achieved prior to the first disbursement were enactment of the customs law, enactment of a new organic law for lifting controls on the domestic market for liquefied hydrocarbon derivatives, and enactment of the law to develop the petrochemical sector. Progress was also made in the Organic Law on Financial Management for the second disbursement tranche.

[63] The FIEM was created in November 1998. It consisted of a mechanism in which—by applying saving and spending rules to PDVSA, the central government, and local governments—windfall oil revenues were saved for periods of low oil revenues. Its purpose was to absorb shocks derived from fluctuations in oil revenues. Source: Puente et al. (2006).

[64] The loss of interest reflected the absence of a contract for the second tranche, the lack of political support, and the presence of components that were considered to be difficult to execute. Source: PCR for VE-0018 (1135/OC-VE).

[65] There were five cancellations. The first cancellation was for US$25.66 million in 1999; the second was for US$45.66 million in 2001.

[66] The Bank also provided assistance in the area of labor and social security with US$830,425 in nonreimbursable technical-cooperation funding. The areas supported were job creation, union representation, and vocational training.

[67] Several missions (Robinson, Sucre, Ribas, and Culture) were instituted to improve access to education and professional training. See Annex I - Missions in Venezuela.

[68] See IDB (2007). The IDB approves US$150 million to support youth orchestras in Venezuela.

[69] In 1990, the Bank financed the first science and technology program (VE-0054 604/OC-VE) with US$40.6 million. The objective was considered to have been satisfactorily met, highlighting as a lesson learned the use of an ex post evaluation mechanism, which was subsequently implemented in phase II of the program (VE-0112; 1220/OC-VE).

[70] See Testa, P. (2003). The survey was conducted by INE in 2004. The sample consisted of 2,256 enterprises, of which only 1.5% received financing. None of the enterprises that received financing asserts that it has no capacity for innovation, while this is the majority response in the total sample. Even after excluding enterprises that assert they have no capacity for innovation, better performance is still observed (with respect to the introduction and dissemination of technological innovations) in businesses that received financing from the Bank.

[71] PPMR (Dec. 2006) for VE-0057 (1362/OC-VE).

[72] In 2005, in response to poor prison conditions, the government appropriated more than US$5 million for the construction and refurbishment of penitentiaries. The government has also extended the services of missions to prisons, and has instituted the Justice Mission to improve access by the population to the judicial system. In 1999, the new Organic Code of Criminal Procedure (COPP) entered into force, which is geared toward increasing the levels of efficiency, transparency, and equity in administering criminal justice. The objective of the Justice Mission is inclusion a group of people who have historically been excluded from having their case heard, under different legal circumstances, and specifically those convicted of misdemeanors.

[73] The Bank had previously helped support the Venezuelan tax administration with two projects approved in 1993 and 1997. Both had satisfactory outcomes in several areas, yet their execution was hampered by weak institutional capacity and isolation of the units involved, numerous superintendent changeovers and absences, and problems related to the budget and the availability of counterpart resources.

[74] In 2000, the customs component was eliminated.

[75] Loan document VE-L1001 (1650/OC-VE).

[76] PPMR (Dec. 2007) for VE-L1001 (1650/OC-VE).

[77] Those five extensions of the program's execution period added up to a total of 78 months. Two requests for partial cancellation were made (in 1998 for US$50 million and in 2002 for US$62 million) and then withdrawn and revoked by the borrower. In addition, between January 2000 and August 2002, US$80 million was appropriated for management of the Vargas disaster, but was never used for that purpose.

[78] There was no consistency between the execution schedule and budget appropriations. In practice, some projects could not be started on time, while others that had already begun were facing a shortage of appropriated resources, either stalling or prolonging execution of the projects (with cost overruns in both cases). Source: PCR for VE-0040 (732/OC-VE).

[79] Of up to 80% of the cost of housing.

[80] Since it secured the legislative amendment and approval permitting implementation by law (Housing Policy Act) of the direct subsidy and the eligibility system earlier than expected, delivering the programmed outputs. Source: PCR for VE-0055 (928/OC-VE).

[81] PCR for VE-0055 (928/OC-VE).

[82] The pace of execution was limited by budget appropriations and effectiveness; programming and timetables were deferred for 2004 because there was no budget appropriation in 2003; in terms of legislation and regulation, no headway was made, with the exception of passage of the Organic Law for Water and Sanitation Services (LOPSAPS), thus influencing all changes in the regulatory, tariff, and operating framework, as well as in the decentralization and transfer of areas of responsibility (component 1). Source: PCR for VE-0056 (994/OC-VE).

[83] The agricultural sector accounts for 4.5% of GDP, with a utilization rate of the existing irrigation infrastructure of less than 40%. Source: Ministry of the Environment and Environmental Education Foundation (2006) and the BCV.

[84] In 1999, more than 85% of the loan still had not been disbursed. The original timetable established an execution period of 10 years, ending in 2003. The original disbursement period was seven years.

[85] Power consumption by unit of GDP continues to be the highest in the region, stabilizing between 1999 and 2006 at 2,630 kWh per capita. The purpose of the Energy Revolution Mission was to promote the efficient use of energy. For its part, demand grew at a higher rate than power generation. From 2002 to 2006, demand grew by an average of 5.6% annually to 19,945 MW, whereas generation grew by 3.2% to 22,216 MW. With respect to changes in demand and generating capacity, it is estimated that through

2011, demand will grow by an average of 3%-4.5% annually, while the National Electric System plans to add capacity at a rate of 4% annually. Hydroelectric power generation represents 70% of energy produced, exposing the country to rain cycles. Source: Compañía Anónima de Administración y Fomento Eléctrico [Electric Power Administration and Development Corporation] (CADAFE), Corporación Venezolana de Guayana Electrificación del Caroní (CVG EDELCA).

86 Achievement of the power sector reform objective was rated as "improbable," and progress in execution was considered to be "unsatisfactory". Nevertheless, a byproduct of the Bank's competitiveness support efforts was that some 2,000 individuals were trained in investment project formulation and management.

87 It was clear that execution of infrastructure projects and reform under the same contract—with failure to meet conditions applicable to one of them affecting performance of the other—is not advisable. Projects should be designed to have a single purpose. Source: PCR for VE-L1005 (1605/OC-VE).

88 The Bank's contribution was made through two components, one in support of the indigenous population, and the other related to management of productive projects in communities. The only additional operation in this area was approved in 2005, with a total of US$90,000 in technical-cooperation funding in support of indigenous communities and land demarcation (VE-T1001).

89 The Caroní River watershed is one of the greatest potential sources of hydroelectric power in the world and currently generates close to 72% of the electricity consumed in the country. The environmental protection project contributes to conservation of soil, flora and fauna, erosion and flood control, reforestation, training of neighboring communities in environmental education, and, in general, sustainable watershed development. However, that operation has encountered implementation problems due to the interdependence between progress towards infrastructure and environmental management objectives. Source: PCR for Caruachi project VE-0084 (788/OC-VE).

90 The decline in the number of official Bank missions to Venezuela over the period—from 54 missions in 1999 to 8 missions in 2007—is also considerable.

91 This takes into consideration all Bank operations for more than US$200 million since 1990, which are clustered around peaks with 6- to 12-year intervals. There have also been unusually long delays in signing the contracts for these operations, as was the case of Tocoma, where the process took 18 months from approval.