

# BTI 2012 | Venezuela Country Report

|                          |      |             |              |   |
|--------------------------|------|-------------|--------------|---|
| <b>Status Index</b>      | 1-10 | <b>4.47</b> | # 97 of 128  |   |
| Political Transformation | 1-10 | 4.40        | # 85 of 128  | ➔ |
| Economic Transformation  | 1-10 | 4.54        | # 93 of 128  | ➔ |
| <b>Management Index</b>  | 1-10 | <b>2.15</b> | # 122 of 128 |   |

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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### Key Indicators

|                          |        |      |                                |       |                      |    |       |
|--------------------------|--------|------|--------------------------------|-------|----------------------|----|-------|
| Population               | mn.    | 28.8 | HDI                            | 0.735 | GDP p.c.             | \$ | 12233 |
| Pop. growth <sup>1</sup> | % p.a. | 1.6  | HDI rank of 187                | 73    | Gini Index           |    | 43.5  |
| Life expectancy          | years  | 74   | UN Education Index             | 0.692 | Poverty <sup>3</sup> | %  | 10.1  |
| Urban population         | %      | 94.0 | Gender inequality <sup>2</sup> | 0.447 | Aid per capita       | \$ | 2.4   |

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Between 2009 and 2011, Venezuela's political regime showed signs of increasing authoritarianism yet at the same time democratic developments were not totally stymied. The country's political regression was marked by continuing and serious civil rights violations, a still tighter concentration of power within the executive and an extra-constitutional rearrangement of the vertical separation of powers. Progress, however, was witnessed in parliamentary elections, in which, unlike in 2005, the opposition participated. This resulted in a minority presence of the opposition in the formerly government-monopolized National Assembly capable of blocking qualified majorities; yet this situation was again reversed by the curtailing of the body's legislative power through an enabling law that gives the president an unchecked decree power for one and one-half years.

The market economy was under continued attack as the government accelerated its pace of state control, seizing enterprises, farms, banks and tightening economic controls in general; a newly established costs and price superintendence will oversee cost structures and set profit margins for private businesses. However, hard facts have weakened the government's theory of welfare gains through increased state control. Venezuela's economy shrank for the second consecutive year, breaking the traditional link between an oil boom and economic growth, high inflation belied the effectiveness of price controls and the exacerbated rent-seeking paradigm stimulated the external sector at the expense of local production.

The leadership's dogmatic insistence in obsolete theories, defiance in the face of facts and the ensuing resistance to learning are the main structural constraints on management performance. The opposition's intransigence and its prior attempts to topple the government have contributed to an aggressive and exclusive discourse aimed at mobilizing the faithful by antagonizing dissenters, which in effect polarizes society and blocks a basic consensus on the country's development goals and how to achieve them. The government continues to move toward a

collectivist society and an equivalence economy that is not agreed upon by the majority, and thus repression of dissent is a logical consequence. The absence of a concrete road map to full socialism induces an uncoordinated command and surprise logic which precipitates severe implementation failures, the waste of resources, lost opportunities and compromises sustainable development.

## History and Characteristics of Transformation

For most of the latter half of the 20th century, Venezuela was considered a showcase of democracy in Latin America. In the 1960s, the emerging “revolution in democracy” fought back several coup attempts from the left and the right and managed to transform communist guerrillas into democratic actors. A kaleidoscope of political parties amalgamated into a bipartisan system with a near-proportional representation of minority parties. The system was based on elite conciliation; divided government was the rule. In the 1970s and 1980s, Venezuela was an example for other emerging regional democracies. However, the elite pact on which the democratic stability was based degenerated into an elite cartel, which in the late 1980s through the 1990s resulted in a profound political crisis. The decline and fall of Venezuela’s party democracy in the 1990s, the subsequent rise of a populist caudillo, and the danger of authoritarianism are matters of regional importance.

Oil has been a major determinant of Venezuela’s economic, political and social transformation ever since the second quarter of the 20th century. Over the course of just one generation, oil catapulted Venezuela from the bottom to the top ranks of modernized countries in Latin America. These resources allowed Venezuela to keep its currency stable and to achieve average growth rates of over 7% from the late 1920s through the 1970s. The petroleum business accounts for between one-fourth and one-third of the country’s GDP, 90% of its export earnings and over one-half of the central government’s operating revenues. During the last century, Venezuela’s economic vision alternated between a rent-seeking and a productive paradigm, from the 1930’s dream of “sowing the black gold” to the “Great Turnaround” of the late 1980s. Such economic inconsistency left the country in a morass of populist spending, soaring public debt and corruption.

When President Carlos Andrés Pérez announced the outlines of a tough macroeconomic adjustment package in February 1989, spontaneous popular protest degenerated into widespread riots, which the military cruelly repressed. The rebellion and its repression provided a group of conspiring army officers centered around Lt. Colonel Hugo Chávez, with a pretext for staging two coup attempts in 1992. After President Pérez’s impeachment on corruption charges in 1993, the adjustment package was scrapped by the successive administrations of Presidents Ramon Jose Velasquez (1993–1994) and Rafael Caldera (1994–1999).

Chávez's election to the presidency in 1998 and a new constitution drafted by an overwhelmingly pro-Chávez Constituent Assembly and adopted by referendum in 1999 marked the beginning of regime change. An impressive series of electoral victories handed Chávez control of almost all publicly elected offices in the country and strengthened his image as a democrat. The 1999 constitution emphasizes four principles: plebiscitary democracy, concentration of power, re-centralization of the state and a state-regulated social market economy. The constitution outlines a system of checks and balances, but in practice they are ineffective given the massive accumulation of executive authority in the hands of the president. Defying the rules and backed by an almost entirely pro-government National Assembly, a product of the opposition boycott of the 2005 parliamentary elections, the president packed the judiciary, the electoral council and the citizens' branch (attorney general, comptroller and ombudsman) with loyalists.

Chávez scored one more sweeping victory in the presidential election in December 2006. In his concession speech, opposition candidate Manuel Rosales voiced serious doubts about the free and fair nature of the election. The reports of observer missions sent by the European Union and the Organization of American States echoed such concerns. The sequence of Chávez victories at the polls was interrupted in 2007 when he lost a constitutional referendum that would have abolished term limits and set up a socialist regime. Electoral setbacks continued in the regional and local elections of 2008, in which Chávez's alliance lost some important strongholds, including Greater Caracas. Defeat in the referendum did not stop the president's accelerated push toward what he calls 21st Century or Bolivarian socialism. An enabling law passed by parliament allowed Chávez to advance his agenda with a package of decrees in mid-2008, which legalized most elements of the defeated 2007 referendum.

Reacting to the setbacks at the polls in the most populated areas, the Electoral Council redesigned the voting system favoring regime strongholds in rural areas. Consequently the legislative elections of September 2010 produced a comfortable government majority of 60% of seats backed by only 48% of the votes. The united opposition front won 52% of the vote but was apportioned only 40% of assembly seats, just enough to block the qualified majorities required for the approval of organic laws or appointments to the judiciary, the electoral board or citizens' branch. Faced with the new correlation of forces, the outgoing assembly hastened to approve a string of organic laws aimed at reshaping the polity and economy in defiance of constitutional arrangements. It also granted the president all-encompassing decree powers, which include the power to enact organic laws that require a qualified majority that Chávez's allies did not have, for a period of 18 months, essentially denying the new assembly its legislative autonomy.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the lawful use of force covers practically the entire territory but there are para-state actors such as "security collectives" which control specific urban areas, and irregular groups which fuel the low-intensity conflict on the Colombian border. Group activities which fall outside of the government's general interests are legally prosecuted. Furthermore, the programmatic platform ("Libro Rojo," 2010) of the United Socialist Party of Venezuela (Partido Socialista Unido de Venezuela, PSUV) in government explicitly defines the Bolivarian revolution as "not unarmed." Party grandee Freddy Bernal has been quoted as saying that one of the goals of the revolution was to break up all monopolies, including arms monopolies; this was in reference to Bolivarian militias under the direct command of the president, which are not part of the armed forces. Such militias were deployed to seize private farms earmarked for expropriation in 2010. The facts point at a state and state party duopoly on the use of force.

The legitimacy of the nation-state is not questioned by any social, regional or ethnic group. Nevertheless there are ethnic communities with Venezuelan citizenship who claim their identity as aboriginal nations (e.g., the Wayuu in Zulia or the Pemon in Bolivar State). The constitution grants them autonomy and representation in legislative bodies.

Venezuela has been a secular state since its independence from Spanish colonial rule. While Catholicism is the dominant religion, the Catholic Church as an institution makes occasional political statements but is neither part of nor influential in decision-making.

The administrative apparatus of the state provides public services throughout the country but is plagued by inefficiency and poor management. The administrative chaos has been increasing over recent years and institutional decay is spreading. Frequent cabinet reshuffles and a rotation of senior positions complicate

Question  
Score

Monopoly on the  
use of force

6

State identity

9

No interference of  
religious dogmas

10

Basic  
administration

6

performance. Furthermore, there are redundancies generated by the parallel structures of the so-called social missions which address specific public service problems, operate autonomously and rely heavily on extra-budgetary public funding supplied by direct transfers from the state-owned oil company Petróleos de Venezuela (PDVSA).

## 2 | Political Participation

General, regional and local elections are held, as well as referendums, with only minor irregularities observed during voting and ballot counting, but the rules governing elections in general are unfair. To begin with, it is no secret that four of the five members of the National Electoral Council (Consejo Nacional Electoral, CNE) are government supporters. The recently redesigned system is clearly biased against opposition strongholds in the more populated states, favoring the rural bastions of the governing United Socialist Party of Venezuela (PSUV). Consequently, in the 2010 legislative elections, the PSUV and its allies needed just over 55,000 votes to elect a representative while the opposition needed close to 86,000 votes per representative (the incumbents' 5.42 million votes gave them 98 seats while the oppositions' 5.67 million votes won them only 67 seats). On the other hand, the government abuses the public media in election campaigns. A study of the 2008 referendum campaign commissioned by the electoral authority found that opposition arguments were practically absent in the state-owned media, while the government-unfriendly private media offered significant proportions of time and space to pro-government sources. Though the publication of this study might indicate some level of transparency, it is more of an opportunistic than a principled practice.

Due to deficiencies in the rule of law, Venezuela is classified as electoral autocracy. Apart from this, Hugo Chávez's legitimacy as democratically elected president is unquestioned; his effective power to govern, in an authoritarian political environment, is beyond doubt. On the other hand, the democratically elected representatives in the opposition at the municipal, regional and national levels see their effective power to govern significantly diminished. Mandatory tax transfers to opposition mayors and state governors are blocked or delayed. The functions of the mayor of Greater Caracas were downgraded by the transfer of best part of his competences and 90% of his budget to an unconstitutional, newly created Capital District Authority whose governor is appointed by the president. The elected members of the National Assembly see their legislative power impaired by the unlimited decree powers that were granted to the president for 18 months by the outgoing parliament in 2010.

Free and fair  
elections

6

Effective power to  
govern

2

The rights of association and assembly rights are guaranteed in the constitution (articles 52 and 53) but restricted in practice. Public servants risk their careers or even jobs if they dare to take part in opposition demonstrations or rallies, join government-critical organizations or sign petitions unfriendly to government positions. They face the same threats should they fail to show up at the checkpoints of mandatory pro-government rallies. Peaceful demonstrations on authorized routes are often brutally repressed by the National Guard using tear gas, a toxic substance that the constitution expressly prohibits (article 68).

Association /  
assembly rights  
6

The constitution guarantees the freedom of expression (article 57), but three laws rushed through the outgoing assembly in December 2010 amount to nothing less than a legislative assault on free speech. Reporters Without Borders refers to these laws as “gag laws.” The Law for Social Responsibility in Radio, Television and Electronic Media extends its numerous vaguely defined restrictions and the according sanctions to the Internet and thus contributes to self-censorship in electronic media. The Organic Law of Telecommunications reserves the Internet for the state and the Defense of Political Sovereignty and National Self-Determination bans international funding for human rights and other organizations of civil society, impairing the groups’ ability to defend the freedom of speech.

Freedom of  
expression  
4

In June 2010, President Chávez decreed the creation of the Center for Situational Studies of the Nation (Centro de Estudio Situacional de la Nación, CESNA) that is invested with the power to restrict the dissemination of information it deems confidential and thus in practice functions as a censorship agency. Added to self-censorship fostered by stiff penalties for information offences, the harassment of government-critical media and the withdrawal of licenses of dozens of radio and television stations, such facts evidence that the freedom of expression in Venezuela is severely impaired.

### 3 | Rule of Law

The significant minority presence of an opposition in the National Assembly elected in September 2010 is no antidote against the absence of effective power separation. The enabling law hastily granted by the outgoing assembly on grounds of a flood emergency entrusts the president with virtually all legislative functions for one and one-half years. Thanks to the election boycott of the opposition in 2005, the National Assembly was under almost complete control of the government, which in effect had already eliminated the separation between the legislative and executive powers since 2006 and which made the enabling law possible. The expiring legislature also hastened to fill vacancies in the Supreme Court with loyalists, limit

Separation of  
powers  
2

parliamentary debates and restrict the access of media to sessions. Handcuffed and muzzled, the opposition has had little opportunity to initiate or discuss legislation, let alone check the powers of the executive.

The vertical separation of powers was severely impaired by the over-hasty approval of the Communal Economic System Law during the same lame duck parliamentary sessions in December 2010 and without proper discussion. Under the new law, unelected councils of local “communes,” which are duly “registered,” meaning approved by the central government, get funding at the expense of elected municipal and state authorities. All this amounts to undercutting elected official or opposition mayors and governors to make more people directly dependent on central government concessions.

The constitution guarantees the institutional autonomy of the three branches of the judiciary, the courts, the prosecutor and the ombudsman, as well as the personal independence and impartiality of their appointed officeholders (articles 254 and 256), but in practice they are under presidential orders. More than half of the judges are “provisional” nominees who can be removed from ongoing procedures or sacked at any time. Of all the judges appointed in 2010, not a single individual was selected through the mandatory public competition for the posts. The Supreme Court’s judicial commission sacked over 100 provisional judges in 2009. The Inter-American Commission on Human Rights (IACHR) expressed concern about the independence of the judiciary and the appointment process of judges and prosecutors in Venezuela.

Independent  
judiciary  
2

A case in point is Judge Maria Lourdes Afiuni’s ruling in December 2009 to release a banker accused of corruption whose pretrial detention for more than three years (well above the legal two-year limit) was declared arbitrary by the U.N. Working Group on Arbitrary Detentions. President Chávez reacted publicly, calling her a bandit and asked for her to be sentenced to a 30-year prison term. On the same day, a provisional judge ordered Afiuni’s detention on charges of having been bribed, even though the prosecution stated she had not received or been promised payment. The U.N. Special Rapporteur for the Independence of Judges described the case as a “blow by President Chávez to the independence of judges” and called for the immediate and unconditional release of Judge Afiuni. The IACHR granted precautionary measures for Afiuni. Both requests to comply with international human rights conventions ratified by Venezuela (granted constitutional hierarchy in the fundamental law) were dismissed by the state authorities.

Citizens stand only scant chances of success when they seek redress of grievances caused by official decisions. Only seven of the 70 proceedings introduced in 2010 against the various branches of government power were successful.



Corruption is widespread and deeply rooted in Venezuela but not a major social or political concern. The Comptroller General reports just 11 “declarations of administrative responsibility” in 2009, the lowest yearly number in a declining row of cases reported since 2000. According to estimates of the Caracas-based human rights watchdog Venezuelan Program for Education and Action in Human Rights (PROVEA), only 10% of suspected corruption cases are prosecuted. This may be a consequence of the hopelessly underfunded agency, which earns just 0.0013% of the national budget. Finance and Planning Minister Jorge Giordani, nicknamed “the monk” due to his austere lifestyle, was reported to have criticized newly rich comrades as “boligarchy” (for Bolivarian oligarchy) and condemned that they were not held accountable for wrongdoing: “The tragedy of the Bolivarian process is the impunity in practice of those who have been found responsible beyond doubt for proven facts” (El Nacional, 13 October 2010).

Prosecution of  
office abuse  
2

The constitution includes comprehensive and clearly specified guarantees of civil rights (articles 43-61) and protects these rights through a specific “amparo” proceeding, that is, an appeal on grounds of unconstitutionality which must receive preferential treatment. Ethnic groups and women enjoy special protection through an organic law on aboriginal nations and a gender violence law. Furthermore, the constitution grants the de jure autonomous judicial system, the Supreme Court and Attorney General, a minimum funding of 2% of the general budget, a threshold that since the passage of the constitution has been met. However, de facto severe civil rights violations by national, regional and local police forces are frequent. The Venezuelan Program for Education and Action in Human Rights (PROVEA) specifies 237 deaths at the hands of security forces from October 2009 to September 2010. The Attorney General’s office stopped publishing data about the prosecution, punishment or redress of such violations.

Civil rights  
5

The right to life is violated daily on Venezuela’s streets, as the country has one of the highest murder rates in the world (52 deaths for every 100,000 individuals). Half-hearted and ineffective prosecution is rampant; only 5% of criminal cases lead to convictions.

#### 4 | Stability of Democratic Institutions

Venezuela is classified as a “soft” authoritarian regime. The functional capability of formally democratic institutions is constantly eroded by the peculiar characteristics of the Chávez regime. The first is the president’s style of micromanaging politics as show-business in his frequent TV shows, which all stations must transmit (“cadenas” or chains). His ad-hoc decisions taken spontaneously as reactions to singular cases become guidelines for officeholders in the formulation and

Performance of  
democratic  
institutions  
3

implementation of policies. Coherent, continuous and coordinated policy-making is impossible under such circumstances, all the more since ministers often learn about their substitution or wider reshuffles through television shows.

Second, the para-bureaucratic and extra-budgetary programs or “missions” mostly overlap with the structures of the ministerial bureaucracies in the respective areas, generating frictions and even policy blockades as often incompetent mission loyalists sabotage what may be left of more technical approaches advanced by bureaucrats.

Third, even within the established bureaucracies the already low efficiency is further diminished by frequently redesigning ministries and by changing the organization within ministries. For instance, there is a proliferation of the position of vice-minister, a post with poorly defined responsibilities.

Fourth, the high-rotation frequency of senior officeholders who more often than not retain trusted staff adds to the continuity problems outlined above.

Fifth, the expiring assembly hastily approved a major reform of the Municipal Law in December 2010 which transfers administrative functions from the now-abolished elected parish councils to unelected communal councils, thus eroding the budgets and functions of regional and local governments.

Last but not least, the equally hastily approved enabling law curtails the legislative function of the new assembly for a year and a half. The expiring legislature also limited the number of sessions and the maximum speaking time allotted to members, evidencing their disdain for debate in a chamber with significant opposition representation.

Venezuela is classified as a “soft” authoritarian regime. In their public discourse all relevant actors present themselves as defenders of the constitution and its definition of the relations and separations of power. De facto there has been a change insofar as the erstwhile promoters of the new constitution now think it needs major reform because their drive toward Bolivarian socialism does not really fit to its aims, while erstwhile opponents now hold it high as their banner.

Commitment to  
democratic  
institutions  
3

## 5 | Political and Social Integration

The profound social polarization is reflected in the party system. More than proper political parties, there exist two opposite camps with an uncommitted sector of equal size in the middle. A major change since 2008 is the more clear-cut differentiation between an organizationally more coherent official block, the United Socialist Party of Venezuela (Partido Socialista Unido de Venezuela, PSUV), the Communist Party and a few minor groupings, and an organizationally rather

Party system  
4

incoherent but quite well-coordinated opposition block called the Democratic Unity Roundtable (Mesa de Unidad Democrática, MUD). The latter block's united campaign with common candidates in practically all voting districts was successful as it garnered some 52% of the vote, against 48% for the Bolivarian incumbents. Due to the biased rules, however, this majority translated to only a 40% minority of seats in the National Assembly.

Voter volatility is relatively low; both camps count on more or less stable follower groups. Elections are to some extent decided by their mobilization capacity (in this respect Chávez's followers have an edge due to extensive public funding) and the degree to which the non-committed can be convinced and mobilized.

The official and opposition fractions in the National Assembly are technically regarded as single blocks but are politically composed of a number of legally independent parties whose representatives were all elected on common incumbent or opposition slates. Considering the official and opposition groups as consisting of two "parties" each, as both had presented two slates, the effective number of parties is close to two; considering the member organizations of each group individually, irrespective of the fact that they figured on only two slates for each group, the effective number of parties climbs to 2.7.

Political culture studies do not indicate statistically significant differences between "chavistas," opponents and the non-committed as far as their socioeconomic and demographic makeup are concerned. On the other hand, there are clear differences in attitudes toward democracy, tolerance and autocracy. Chávez followers tend to be more clientelistic and vulnerable to populist discourse.

Interest groups exist in practice but find themselves jeopardized under the new People's Power Law, which in combination with the Law of Communes is aimed at supplanting existing civil society organizations and elected local and regional authorities through unelected, central government-registered (meaning government-approved) Communal Councils and assemblies that are supposed to gradually take over their functions. Citizens and or movements in a given area express their interest in forming a commune by sending a formal letter to the Communes Ministry. Once accepted, they write a founding document and elect their spokesperson. As a next step, all citizens in the area have the right to vote to establish the commune. A minimum turnout of 15% legalizes the commune's establishment. All this adds up to the eroding and undermining of civil society organizations and then the substitution of existing democratically elected local and regional authorities, as happened already to elected parish councils, which were sacrificed on the altar of the still inexistent communes, and might eventually lead to the formation of a national assembly of communes, that would in essence substitute for the elected National Assembly.

Interest groups  
3

The old unions organized in the Confederation of Workers of Venezuela (CTV) lost influence mostly because of their history of corruption and political cronyism in the time before President Chávez. Several government-friendly organizations thus took the group's place in the workers' movement. Nevertheless, tensions are growing as the government is all but worker-friendly. The tripartite (government, employers and unions) International Labor Organization keeps Venezuela on its blacklist of countries that violate workers' rights and trade union freedoms (Convention 87 on the Freedom of Association and Protection of the Right to Organize). Employers are also organized along pro- and anti-government lines, albeit in this case, the antis have managed to maintain their leading role. The once influential Venezuelan Federation of Chambers of Commerce (Fedecamaras) was severely compromised by the fact that the short lived coup of 2002 was headed by its president. Because of the statist approach of the government, the federation has been weakened even more.

Venezuela is classified as an authoritarian regime. Notwithstanding, Venezuelans continue to be the strongest supporters of democracy in the region. According to the 2010 Latinobarometro survey, 84% agree that democracy is preferable to any other form of government. They also lead when asked whether democracy needs a parliament (78%) and political parties (80%), but over 50% think that government decisions favor just a few and that there are groups whose influence overshadows majority interests; only 40% are convinced that the government acts on the behalf of all, without distinction. A huge majority recognizes that the media must have the right to publish without intimidation and only 25% think the president should control the media. Some 49% said they were satisfied with the way democracy works.

Approval of  
democracy  
n/a

Venezuela is a low-trust society, although scores still put results that are higher than the average in Latin America (24% feel that people can be trusted, Latinobarometro 2010). Venezuelans rank first when it comes to interest in politics, and do not think that politics is too complicated for them to be understood. The second ingredient of social capital, namely activity within associations, is unimpressive. There are thousands of non-governmental organizations as well as social, church, sports, music, theater and other cultural groups, but only roughly one-half of the population is active in them. Many organizations fail to consolidate and disappear as fast as they emerge.

Social capital  
5

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers

6

Venezuela's socioeconomic development is at best stagnant. Poverty continues to be a big problem and the economy shrank for a second consecutive year, the one negative growth exception in Latin America and in OPEC. Inflation is again out of control, putting Venezuela at the top of the list in Latin America and beyond. Real income and consumption fell. The country's infrastructure is in shambles, and still despite record-breaking oil revenues. Gains made with regard to poverty reduction are now threatened by the country's poor economic performance and persistent high inflation.

Although the government's declared priority is to eradicate poverty, the country is not on track to achieve that goal and the problem appears to be intractable. The National Statistics Institute (Instituto Nacional de Estadística, INE) reports a poverty rate of 23.80% for 2009, down from 28.91% in 1998. But the proportional reduction (due to population growth) conceals the rise of the absolute number of deprived households from 1.287 million households in 1998 to 1.536 million in 2009. The INE ceased to update Human Development Report (HDR) data statistics, since the multidimensional poverty index ranked Venezuela significantly below its former positions (from 58th in HDR 2009 to 75th in HDR 2010).

INE data on income distribution inequality differ substantially from those published in the HDR. INE reports a Gini index of 0.41, compared with 0.43 in the HDR. The 6.2 mean years of education reported are a far cry from the 14.2 years of expected education. When adjusted for inequalities in education, Venezuela's HDI falls to 0.495; adjusted for inequality in income, it falls to 0.449. The absence of exclusion based on gender, religion or ethnicity is a positive reality.

| Economic indicators |        | 2007     | 2008     | 2009     | 2010            |
|---------------------|--------|----------|----------|----------|-----------------|
| GDP                 | \$ mn. | 226537.5 | 311130.6 | 326133.0 | <b>391847.5</b> |
| GDP growth          | %      | 8.8      | 5.3      | -3.2     | <b>-1.5</b>     |
| Inflation (CPI)     | %      | 18.7     | 31.4     | 28.6     | <b>29.1</b>     |
| Unemployment        | %      | 7.5      | 6.9      | 7.6      | -               |

| Economic indicators       |          | 2007    | 2008    | 2009    | 2010           |
|---------------------------|----------|---------|---------|---------|----------------|
| Foreign direct investment | % of GDP | 0.4     | 0.1     | -1.0    | <b>-0.4</b>    |
| Export growth             | %        | -7.6    | -1.0    | -13.7   | <b>-12.9</b>   |
| Import growth             | %        | 33.0    | 1.4     | -19.6   | <b>-2.9</b>    |
| Current account balance   | \$ mn.   | 18063.0 | 37392.0 | 8561.0  | <b>14378.0</b> |
| Public debt               | % of GDP | 30.9    | 24.6    | 32.7    | <b>38.7</b>    |
| External debt             | \$ mn.   | 48316.1 | 52751.1 | 55234.6 | <b>55572.1</b> |
| Total debt service        | \$ mn.   | 5885.3  | 6080.3  | 3982.6  | <b>6085.0</b>  |
| Cash surplus or deficit   | % of GDP | -       | -       | -       | -              |
| Tax revenue               | % of GDP | -       | -       | -       | -              |
| Government consumption    | % of GDP | 12.0    | 11.5    | 13.3    | <b>10.8</b>    |
| Public expnd. on edu.     | % of GDP | 3.7     | -       | -       | -              |
| Public expnd. on health   | % of GDP | 5.8     | 5.4     | 6.0     | -              |
| R&D expenditure           | % of GDP | -       | -       | -       | -              |
| Military expenditure      | % of GDP | 1.3     | 1.4     | 1.3     | -              |

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

The economy is on the road toward socialism. The government continues seizing farms, firms and banks with the declared purpose to boost production through non-capitalist methods, even though the production units expropriated and socialized in the past do not even match former levels. This policy challenges the preferences of Venezuelans, who overwhelmingly think a market economy would be the most adequate model of development. According to Latinobarometro 2010, 62% agree that a market economy is the only system that advances a country's development. The figure increased 21 percentage points since 2007, probably as a consequence of a surge in expropriations ordered by Chávez after his defeat in the constitutional referendum. Some 80% of Venezuelans are convinced that private enterprise is essential for the development of the country, up from 61% in 2007.

Exchange controls have been in place since 2003; a currency devaluation on 1 January 2010 eliminated preferential rates for food and medicine imports. An impact on prices is foreseeable. The prices of basic consumption products are

Market-based  
competition

3

controlled; the government plans to set up a cost and prices oversight committee that will look into cost structures of firms and establish profit margins, thus one more step toward a centrally planned economy that foreshadows supply shortages. Setting up a business in Venezuela is a complicated affair. According to the World Bank Doing Business Report 2011, Venezuela is among 10 countries with the most proceedings (17) and the longest time needed (141 days). The use and transfer of profits poses also a big problem, as exchange control proceedings consume time and cost.

As the state expropriates enterprises and becomes an ever bigger entrepreneur itself, private enterprises are more and more excluded from government procurement; bidding processes are more of an exception than the rule. The state controls the main inputs of construction, cement and steel, and discriminates against private firms in delivery and prices of such inputs. The informal sector contributes about one-fifth to the non-oil GDP and absorbs just under one-half of the labor force.

The anti-monopoly agency Procompetencia is functionally independent and formally responsible for policy implementation, such as the application of the state competition law. The Anti-Monopoly, Anti-Oligopoly and Promotion of Competition Law include the following precepts: the concept of “effective competition” in a former law was replaced by “fair competition”; the law does not apply to public companies; and sets out stiff penalties for unspecified and undefined “prohibited conduct.”

Anti-monopoly  
policy  
4

Exempting public companies from the law has had considerable consequences. Private companies that have come under government criticism have been threatened with shortages over supplies, over which public companies have a monopoly. It seems that public companies use their monopoly position more for political than for economic purposes.

The government’s economic discourse has been against free-trade for years. Within its own integration scheme, the Bolivarian Alliance for the Americas (ALBA), trade is organized more like in a barter system, emphasizing social aims and concepts of solidarity.

Liberalization of  
foreign trade  
4

Venezuela ranks 172 out of 183 countries in the World Bank’s Ease of Doing Business Index; 72 out of 125 countries in trade restrictiveness (the 125th the most restrictive); and 74 out of 148 countries in its commitment to trade liberalization in services (World Bank Trade Indicators 2009–2010). Exchange controls are used to prioritize or restrict imports; some items require domestic supply shortage certificates issued by the industry ministry. The trade weighted average import tariff is 15% and the Most Favored Nation (MFN) Trade Restrictiveness Index is 6.5%. Non-tariff constraints derive basically from a hostile business environment. Customs procedures are inefficient, which causes supply chain problems.

Oil and oil products account for over 90% of exports; imports include food, machinery, chemical products, cars and consumer goods. The United States is Venezuela's main export market, followed by Colombia, China and Mexico. Its main suppliers are the United States, China, Colombia and Brazil. In a row over the Colombian president's accusations of President Chávez's supposed backing of Revolutionary Armed Forces of Columbia (FARC) guerillas, Venezuela blocked trade with Colombia in 2009. As a consequence, Venezuelan imports from Colombia fell about 60% in 2010. Newly elected President Juan Manuel Santos met Chávez in 2010 to repair relations, but former trade levels will probably not be re-established in the near future.

Following the fifth anniversary of Chávez's announcement in April 2006 that Venezuela would leave the Andean Community of Nations (CAN), Venezuela will no longer receive the benefits obtained under the sub-regional bloc. By January 2011, Venezuela had not negotiated agreements with Colombia, Bolivia, Ecuador and Peru. Local businessmen are worried about this state of affairs, as it is not clear what framework will govern Venezuela's trade relations with its former partners. Venezuela's accession to the Southern Cone Common Market (Mercosur) depends on a vote in Paraguay's Senate, which blocked Venezuela's entry, arguing the country failed to meet the common market's democratic standards.

The banking system comprises some 50 institutions, of which a dozen are state-owned. Six institutions, among them two state-owned entities, manage a majority of assets. Banks have serious public sector exposure due to high investment in sovereign bonds (61.4% of their investment portfolio according to the 2010 Central Bank Report) and minimum lending requirements for loans at government-fixed preferential rates, that bind over 50% of their credit portfolios. Nevertheless, the index of bank intermediation is significantly higher for private banks than for state-owned banks.

In 2009 and 2010 the state nationalized a string of smaller private banks, some of them because they were in trouble and others for political reasons; the state also bought Banco de Venezuela from the Spanish-owned Santander group. There is insufficient information regarding most of the principles of effective banking supervision. This refers to the independence of the regulator of banking sector institutions (Superintendencia de las Instituciones del Sector Bancario, SUDEBAN), disclosure rules, budget constraints and reforms in the wake of the world financial crisis. The capital adequacy ratio of the banking sector was 9.8%, with private banks faring better than state-owned banks. Venezuela has not implemented Basel I and has not conveyed plans to adopt Basel II. Non-performing loans rose from 3.1% in November 2009 to 4.2% in November 2010.

The Global Competitiveness Report 2010–2011 ranks Venezuela at 126 out of 139 countries concerning the soundness of banks and at rank 139 concerning the

Banking system  
4



restriction on capital flows. The Financial Standards Foundation ranks Venezuela at 91 out of 93 countries in its Financial Standards Index and at 89 out of 93 countries in the Business Indicator Index.

## 8 | Currency and Price Stability

Venezuela's inflation rate is persistently high (29.9 % in 2009 and 27.4% in 2010: Banco Central de Venezuela, BCV), the highest in Latin America. Considering the weight of essential goods (food and medicine) in the central bank's basket, the steep rise of food prices is a major reason for that dynamic. Even as price controls on essential food items proved to be ineffective to keep inflation in check, more products were included in the list.

Anti-inflation /  
forex policy  
3

Exchange controls with multiple rates keep the local currency overvalued, which hurts local production and boosts imports. In its discourse the government is committed to stimulating agriculture and manufacturing, but in practice production numbers have fallen. In 2010, the country was more dependent than ever on food imports. Expropriations of businesses from farms to food processing, agribusiness, capital and consumer goods producers or residential buildings and housing projects have not been helpful.

A de facto devaluation on 1 January 2011 (the government spoke of an "exchange rate simplification" by eliminating the preferential exchange rate of VEF 2.60 per \$1) does not address the macroeconomic imbalances such as persistent inflation, an overvalued currency and rising debt, resulting from an expansionary fiscal policy. The new exchange rates are VEF 4.30 to \$1 for essential imports, VEF 5.30 to \$1 administered by the Central Bank's Transaction System with Foreign Exchange-Denominated Bonds (Sistema de Transacciones con Títulos en Moneda Extranjera, SITME) and a much higher and volatile (essentially illegal) parallel market exchange rate.

New rules for the central bank approved in 2009 allow the government to use "excess reserves" and force the bank to finance public spending. This policy has fueled inflation and belies the declared aim to curb it, and gives proof of the dependence of the central bank on the government.

In the period under review, the government failed to outline or implement a consistent macroeconomic stability policy. As high oil prices are often seen as a catalyst for an economic boom and often help to boost foreign reserves, none of these effects were observed in 2010, as the Venezuelan economy shrank for a second consecutive year and reserves fell.

Macrostability  
3

Budget estimates of oil revenues are based on very conservative price averages. The resulting windfalls allow the executive to present extra expenditure projects, which

the National Assembly hastens to approve without looking at the details. In 2010, the original budget approved by the legislature totaled \$37 billion, while additional approved funds totaled \$18.5 billion, that is one-half over the original budget and two-thirds more than the previous year. Such an unrestricted spending policy thus fuels inflation.

The Ministry of Finance reports external debt of \$36.8 billion and domestic debt of \$27.3 billion for a total of \$64.1 billion; the central bank reports external debt of \$68.88 billion (which includes public enterprise). The cash deficit in 2010 was 5.7% of GDP (Economic and Financial Indicators, The Economist 2011) and government consumption amounted to 11.26% of GDP (latest figure for 2008, IMF). The central bank reported a reserve of \$28.36 billion as of November 2010.

Official national account data and statistics can be contradictory and vary from one source to another. The central bank and finance ministry data on the public debt are just one example of the discrepancy in figures.

It is noteworthy, indeed, that there are no more reliable national account statistics available. Not even the financial backbone of the government, the national oil company (Petróleos de Venezuela, PDVSA) publishes accounts which conform to international standards.

## 9 | Private Property

The government shows little respect for constitutional safeguards or legal rules concerning the protection of and intervention in private property. National, regional and local authorities seize businesses, farms, residential and commercial buildings, rural and urban real estate based on ad-hoc declarations of public interest, and without due process. Even in agreed procedures, compensations are often delayed or not honored at all. The case of Franklin Brito drew international attention in 2010. A farmer and biologist, he protested against what he claimed was land expropriation without compensation, and eventually died after a five-month hunger strike. The provincial president of the Spanish Canary Islands denounced in January 2011 that the properties of 117 Canary Islands-born Venezuelan citizens had been expropriated or occupied, and that only 10 individuals had been compensated.

The government tacitly promotes illegal occupations. As one example, President Chávez has asked party patrols to scout for unused buildings and other real estate to find shelter for the thousands of people who lost their homes in the catastrophic December 2010 storms. The International Property Rights Index 2010 ranked Venezuela at 121 out of 125 reviewed countries. The Global Competitiveness Report 2010–2011 ranks Venezuela at 139 out of 139 countries, concerning the protection of property rights.

Property rights

3

Despite his revolutionary anti-capitalist discourse, President Chávez is aware of the fact that immediate and full state control of all businesses would ruin the country and his government. Hence he implements a strategy of selective nationalization, aimed at convincing people of the benefits of state-owned units of production. But the true record of such seizures is sobering, as the bulk of the companies taken over by the state have proven their incapacity to even maintain former production levels and standards. The workers themselves complain about incompetent management. The SIDOR steelworks, re-nationalized in 2008 (it had been privatized during the 1990s) is a case in point, as production levels after nationalization fell dramatically, industrial accidents rose and employees protested against working conditions and frequent pay delays.

Private enterprise  
3

The private sector accounts for about 70% of GDP and the public sector for 30%, a ratio practically unchanged since 1998 despite nationalization projects. Nevertheless, employment in the public sector soared from 1.4 million individuals in 1999 to 2.4 million in 2010. The constraints on the private sector are set to tighten, following the creation of a costs and price superintendence to regulate profit levels in private businesses.

## 10 | Welfare Regime

The Venezuelan Social Security Institute (Instituto Venezolano de los Seguros Sociales, IVSS) offers free health care in its network of hospitals and associated clinics, unemployment benefits, elderly and disability pensions. Pensions are flat (about \$300 per month at the official VEF 4.30 to \$1 exchange rate) and are paid in cash (into individual bank accounts). Funding is provided by a pay-as-you-go system (requiring a minimum of 750 working week contributions) and additional state transfers. About 1.4 million retired persons receive pensions and 4.5 million, or 36% of the labor force, contribute to the system. Private sector workers are entitled to receive substantial severance payments of up to two months' salary for every year of work with an employer.

Social safety nets  
6

Most public institutions such as universities, the armed forces, public enterprises and the Ministry of Education (covering teachers) run their own pension systems, jointly funded by government subsidies and investment funds.

Equality of opportunity has largely been achieved as demonstrated by literacy, education enrollment and gender equality indicators. But two problems persist. One is the systematic exclusion regarding access to public office on political grounds. Human resources departments in government agencies still use a political preference database that contains information on over 14 million voters and indicates who signed a recall referendum petition against President Chávez in 2004 ("Lista Tascón"). The other is the huge quality difference between public and

Equal opportunity  
7

private schools, on the one hand, and public autonomous and non-autonomous universities on the other. While private high school pupils mostly pass the entry exams of the country's well-renowned autonomous universities, public high school students face difficulties, due to their schools' significantly lower teaching standards. The professional prospects of these students fall behind those of the former. Consequently, their option for tertiary education is the lower-standard institutions, managed directly by the central government. Venezuela's inequality in education-adjusted HDI (0.549) is significantly lower than its overall HDI. The government's strategy for combating exclusion through so-called social missions has produced at best mixed results. The missions' main problems are that they do not create social entitlements and lack oversight. The programs depend directly on the presidency for direction and budget.

There have been several measures to foster gender equality, such as the constitutional recognition of housework as formal employment (article 88), the creation of a national institute for women (Instituto Nacional de la Mujer), and the law against violence against women, established in 2006.

## 11 | Economic Performance

Apart from earthquake-destroyed Haiti, Venezuela was the only Latin American economy that failed to achieve economic growth in 2010. Despite considerably higher world oil prices, the country's GDP shrank 3.3% in 2009 and 1.9% in 2010. The government's announced efforts to curb inflation were unsuccessful, as the core rate hit 29.9% in 2009 (doubling the original target of 15%) and 27.4% in 2010 (missing the target of 20%). The oil sector presently generates about 55% of government income (and fluctuates with the oil price). The top income and corporate tax rates are 34%, but the tax rate (taxes as a percentage of GDP) is 13.6% and thus much lower than the already low Latin American average. Unemployment remained stable at under 9%, but close to half the labor force is active in the informal sector where salaries are low and social security benefits do not exist.

The investment climate is unattractive for both domestic and foreign capital. Gross capital formation was down to 20.8% of GDP, after 21.9% in 2009 (figures from the Venezuelan central bank, BCV). The government's expansionary fiscal policy (a cash deficit of 5.7% of GDP), which was quite manageable with public debt at about 30% of GDP, did not boost domestic demand, which continued to fall by 1.7% in 2010 after a fall of 7.9% in 2009. The favorable current account balance, at \$13.9 billion or 5.9% of GDP in 2010 from \$8.6 billion or 2.6% of GDP in 2009, did not boost reserves, which fell to \$28.4 billion in November 2010 from \$35.7 billion in December 2009 (BCV).

Output strength  
5

## 12 | Sustainability

Environmental protections are guaranteed in Venezuela's constitution, deemed a human right which the state must protect (Chapter IX, Environmental Rights, articles 127-129) and a main element of the economic system and agricultural development. Environmental protections are also declared an element of national security (article 326). The constitutional principles were developed in the Organic Law of the Environment and the Penal Law of the Environment, both considered progressive.

Environmental  
policy  
3

The problem however is not environmental regulation, but enforcement. With all its enormous and state-owned hydrocarbon, mineral, metal, cement and petrochemical industries, Venezuela was issued a minimum of 36 Environmental Standards Management certifications (ISO 14001), just as many as the tiny island nation of Macau, representing barely a fraction of the 123,000 certificates issued worldwide. The state-owned oil giant PDVSA and the bulk of state-owned companies are not listed in the national normalization agency's ISO 14001 report. While the country has reserved over 34% of its territory as protected national park land, at the same time Venezuela claims the third-highest deforestation rate in South America according to the non-profit environmental organization Forest Watch.

For a government focused on human development with education and health taking center stage, its financial commitment to education, with an average of 3.7% of GDP from 2000 to 2007 (HDR 2010), is unimpressive, even as its commitment to science, technology and innovation soared to a record 2.54% of GDP. These data may understate the real expenditures, as information on fund distribution for the five extra-budgetary, largely informal education programs, the so-called education missions, is not sufficiently available.

Education policy /  
R&D  
6

The country's literacy, gross enrollment and female/male enrollment ratios reflect a positive situation, as do HDI quality indicators; the country claims a pupil/teacher ratio of 16.2 and 83.5% of primary school teachers who are trained to teach. In-depth data on reading and math competences are unavailable, but the fact that public high school graduates face problems in admission exams of renowned public universities evidences learning achievement problems. The government's policy of bullying autonomous universities to scrap admission exams altogether points in the same direction. This foreshadows a downward-spiraling quality dynamic in tertiary level education.

Investment in R&D was boosted by the Organic Law for Science, Technology and Innovation which establishes an R&D contribution of private and public companies, ranging from 0.5% to 2% of revenue. Output indicators, however, are sobering; a meager 0.33 scholars per 1,000 (2008) produced 25 indexed publications per 100

colleagues, down from 69 publications out of 100 colleagues in 1998, when the R&D budget was 0.3% to 0.4% of GDP.

## Transformation Management

### I. Level of Difficulty

Venezuela's challenge stems from the disregard of structural opportunities by a leadership fixed on dogma as a substitute for facts. The country's human and natural resources, its level of social and economic development, the political culture of its people and the global economic environment configure a framework in which the country should be able to overcome existing constraints and thrive. A certain constraint is the long history of rent-fueled development which cannot be "overcome swiftly."

Structural  
constraints  
4

To be sure, persistent poverty, poor education and health care in the country's slums and poorer towns are certainly rooted in structural conditions, such as rural-urban migration, poor training of teachers and inadequate sanitation. But their persistence is also partly due to the fact that the government administration has failed to come up with and implement structural solutions since achieving power in 1999. Ad-hoc actions like social "missions" and temporary direct handouts are applauded by beneficiaries and may cure symptoms in the short-term, but fail to address systemic problems.

Major investments in sanitation, open spaces and sports grounds combined with day schools and transfer payments tied to school assistance, not to mention preventive health care, would probably pay off in welfare gains from savings from the treatment of preventable diseases and undernourishment, a reduction in school dropout or repetition rates or even crime rates. Timely investment in the country's crumbling infrastructure would have paid off in welfare gains in terms of shorter commuting times, fewer road accidents or more efficient transport chains for perishable food (in 2010 thousands of tons of imported food rotted in inadequate container deposits).

There is no excuse to be found within structural constraints for the leadership. The necessary financial, technical and human resources were and are available but were either sunk in welfare-diminishing expenditures on manifestly unproductive nationalizations, ad-hoc patchwork policies and social handouts, or simply wasted in subsidies that generate dependence rather than sustainable welfare.

Faced with an ever more autocratic and personalized regime, civil society has reacted by demonstrating stronger commitment to common causes. Popular backing of widespread faculty and student protests against a controversial university bill in December 2010 forced the government to retreat. The restless monitoring and reporting of human rights abuses by respected NGOs are beginning to erode the regime's domestic and international image as a crusader for humanity. Virtual social networks thrive and democratic actors are increasingly capable of uncovering official propaganda tricks. Stronger civic commitment, be it in virtual communities or eventual demonstrations and marches, helps to construct social capital and trust albeit along the dividing lines of a polarized society. There are practically no groupings that straddle the deepening gap between the followers and opponents of Chávez and his regime.

Civil society traditions

4

Some government reforms concerning political participation have created new public spaces which, in some instances, were utilized by the poor and formerly unorganized parts of the population. These new grassroots organizations offer chances for effective participation, even though there is a high risk that they could become subject to government control and manipulation.

There are no ethnic or religious cleavages. It is the highly confrontational nature of politics mainly attributable to aggressive official discourse and to opposition attempts to overthrow the Chávez regime by unconstitutional means that has split society and its organizations into two hitherto irreconcilable camps. Government-sponsored parallel organizations split existing union, professional, employer and student movements. They were successful in securing a majority of regime-applauding unions, which began to crumble by defections in 2010, but failed to muster significant support in the rest of the groups. The populist discourse of President Chávez is based on a dualistic understanding of society and thus implies mobilization and confrontation. However, one should not completely overlook that fact that the opposition agreed to follow constitutional rules only after a failed coup and a general strike which left the country in ruins. Thus the opposition has contributed considerably to the high-conflict level in politics and has at several occasions created the impression that government attempts at dialogue should be interpreted as weakness.

Conflict intensity

5

## II. Management Performance

### 14 | Steering Capability

Question  
Score

President Chávez's administration has pursued a long-term strategy aimed at constructing a collectivist society based on peoples' communes and a centrally planned equivalence economy. In some parts of the agenda, such as "endogenous development," social policy reforms and small enterprise support, the ideas are on par with recent international discussions, conveying an impression of a high degree of consistency. In reality, there is a wide gap between concepts and implementation. The tactical steps toward these goals and toward the aim of a socialist society are not guided by an observable road map, specifying their relative importance or sequence. Day-to-day decisions follow a command and surprise logic that conveys the impression of resolve and motion, of shaking and moving. But only too often the resolve stirs doubt and the motion turns circular. The journey thus is the destination.

Prioritization  
2

The administration has presented innumerable plans and specified policy targets in key areas. The reported performance data, let alone the sheer inflation of plans, indicate that most goals were missed. An improvised agenda, the prevalence of pork-barrel policies, a manifest collective learning resistance or "groupthink" and a managing team drawn from a limited and poorly qualified pool of political faithful, loyal to the leader of the "process" rather than committed to its principles, who are rotated from one top position to another, complete the picture of the regime's scanty steering capability.

Cuban presence and control in sensitive areas is a further proof of compromised steering capability. Beginning with Chávez's security detail, such sensitive areas include the upper echelons of the military and intelligence community, notary offices, the registration and identification agency, the food imports agency and the ports. A former general and Chávez ally who denounced the Cuban presence in 2010 faces investigation for alleged treason.

Regarding its publicly stated strategic priority of imposing a socialist model on a (partly reluctant) society, the government can claim to have advanced in that direction. But the progress is mixed, as disillusion over poor governance mounts and triggers social protest that has been growing during the period under review. The failure of the government to convert immense oil windfalls into effective solutions of known and officially identified real problems, evidenced by reported performance data, reveals serious implementation weaknesses. Administrative

Implementation  
2



decay in almost all areas, the creation of parallel administrations, the poor quality of personnel and often top administrators has resulted in an immense waste of resources and in general stands in the way of effective implementation. Given its dogmatic stance and manifest learning resistance, the government blames practice for not following theory, challenging Thomas Huxley's verdict that many a theory was killed by ugly facts. Consequently the government has had to rely on coercion and repression to implement its policies. That the president claims practically unlimited legislative authority for an extended period of time, a position granted by a lame-duck parliament that in essence handcuffed its successor legislature, amounts to an abandonment of democratic norms and principles. "Striving for democracy and market economy" is certainly not on the government agenda.

The regime is not only unwilling to learn from past experiences but also insists on ignoring facts. On the contrary, there seems to be a high commitment to repeat mistakes from the past, such as the creation of parallel administrations; and as a consequence of this administrative chaos, the government instead has turned to fast solutions to complex problems, as was the case in the 1970s. There is no systematic monitoring of policies. Decision-making and administrative processes are opaque. Changes in methodology of statistical data collection and processing remain unexplained. Unpleasant data are polished or simply suppressed. Insider critique is seen as treason, while critics from outside are denounced as lackeys of the "empire" (the United States).

Policy learning  
2

## 15 | Resource Efficiency

In 1999 when Chávez was proclaimed president, Venezuela ranked 48 out of 174 countries in the 1999 Human Development Report. In his accession speech, Chávez accused the democratically elected administrations since 1958 of having wasted the equivalent of 15 Marshall Plans, but failed to address pressing social problems. Some 12 years and about 70 Marshall Plans "spent" later, the same social problems persist and Venezuela now ranks at 75 out of 169 countries in the 2010 Human Development Report. The public shares the perception of inefficacy in the use of resources: while nine out of 10 Venezuelans agree that the state has the resources to solve all problems, only 46% think that the state has the ability to do so (Latinobarometro 2010).

Efficient use of  
assets  
3

The public sector payroll swelled from roughly 1 million in 1998 to 2.3 million in 2010, with no perceptible impact on service quality (water, electricity, waste collection, public transport, infrastructure maintenance, health care and education). Competent individuals have been systematically dismissed for political reasons. Vacancies were filled bypassing competitive recruiting processes even in areas

where they are mandatory, such as for judges. An ensuing, and increasing, brain drain narrows the available talent pool for human resources planning in the public sector.

The use of budget resources defies auditing, due to in general opaque operations and fact that a significant portion of public funds are managed beyond parliamentary control, through development funds fed directly by central bank “excess reserve” transfers and programs directly funded by the state-owned oil company.

Rationality is anathema for Venezuela’s public administration. Planners condemn the rational analysis of facts as a Mertonian ethos that should be replaced instead by the collective construction of facts, as could be seen for example in the National Science Plan from 2005.

President Chávez’s style of micromanaging politics in his “Alo Presidente” television shows aired on Sundays and staged in locations throughout the country (and which must be aired by all national stations) definitely rules out even the mere possibility of policy coherence. His ad-hoc decisions, addressing claims and petitions of carefully preselected local faithful cadres, are orders for officeholders, irrespective of previous agreed cabinet policies. As a result, mandatory ad-hoc actions most likely disrupt those policies, deviate human and financial resources, compromise declared policy targets and end up diluting responsibility for failures.

Policy  
coordination  
3

The creation of parallel administrations, the constant reshuffling of top personnel and redefinition of administrative responsibilities makes any sensible coordination almost impossible.

Adequate legal and institutional transparency and corruption control arrangements exist, but are ineffective due to the absence of clear-cut separation of powers. Despite massive public evidence on major corruption cases (e.g., the construction of a sugar-mill in Chávez’s native state of Barinas) the comptroller was unable to prove any wrongdoing. Despite very clear rules on party financing, not one single investigation has been ordered following a number of complaints over the use of public media to promote government party events and the use of official vehicles to transport party faithful to rallies. At the same time, transparency watchdogs such as the NGO Public Space (Espacio Público) were investigated for publishing information on the salaries of public officers. In addition, NGOs (as well as political parties) were barred from receiving foreign funding by a bill which the outgoing National Assembly rushed through in December 2010. Despite the constitutional guarantee of access to government information and of adequate response to petitions, the Supreme Court ruled in 2010 that freedom of information and expression is not an absolute right. The party requesting information must declare the motives and purposes of the request, and the information granted must

Anti-corruption  
policy  
2

be proportionate to its usefulness in that sense. The magistrates seized the opportunity to state that salaries and asset declarations of public employees are private, not excluding the salaries of the magistrates themselves. Public procurement in theory warrants bidding processes for projects which exceed well-defined limits. In practice such processes are bypassed (e.g., the Orinoco bridge, the Barinas sugar mill and some Orinoco Belt oil concessions).

## 16 | Consensus-Building

A consensus on the goals of a representative democracy and a market economy is not even a remote possibility. A political camp focused on a socialist model of a people's democracy and a centrally planned equivalence economy is irreconcilably at odds with an opposition camp of equal size. Within the opposition, there are those who are seriously committed to democracy and also seriously worried about the increasingly authoritarian tendencies of the government. But there are also those who were willing to prevent change brought about by democratic means using instead force and extra-constitutional powers. After their spectacular failure in 2002, the opposition has lost ground. The "chavista" camp, on the other hand, is not a monolithic group and certainly not solidly anti-democratic. Those who were in favor of more direct democracy with more participatory features as a reaction to the profound crisis of representative democracy are losing ground to dogmatic and basically authoritarian members. Finally, there is an uncommitted lot stuck in the political middle. Depending on where the middle camp throws its weight, one or the other of the two camps will prevail, but cross-border agreement seems impossible.

The ruling elite are anti-democratic actors; although having won back seats in the legislature, the opposition wields no veto power. The absolute legislative power granted the president by the expiring assembly in December 2010 has essentially handcuffed the opposition.

The regime's viability depends on the exacerbation of cleavage-based conflict. Since 1998 the government has increasingly relied on a Manichean discourse that pits the "good" poor against the "bad" rich and draws its energy and dynamic from conflict which does not allow for tolerance of dissent or moderation. The regime has developed communication codes that spark conflict without openly inviting or endorsing violence. Messages expressing sympathy with people who "are forced to steal in order to feed their kids," calling on official party faithful to scout their areas in order to spot underused property which could be seized for "the people," condemning illegal occupations in principle but expressing empathy with specific "compatriots who were compelled to invade private property because they are

Consensus on goals  
3

Anti-democratic  
actors  
3

Cleavage /  
conflict  
management  
1

homeless” or threatening local and regional police in opposition-governed entities with prosecution when they are deployed to protect public or private property against suspected or even previously announced illegal occupations.

In addition, the ruling elite recreates the near past as a conflict-laden period, in essence manipulating historical facts and memories. In its discourse the government establishes a direct link between the distant glorious past of independence from the Spanish Crown under the leadership of the mythical liberator Simon Bolivar and a glorious future under Bolivar’s reincarnation, the equally mythical commander-president Chávez. The long, forgettable time in between was nothing but injustice, oppression and exploitation. The present is but a waiting room for entry to a fabled promised land. Such a system should not be assessed from a rational perspective but should be patiently endured until redemption comes. Such discourse is well-reflected in official documents, such as the National Science Plan 2005–2030, with the coming to power of President Chávez in 1998 being described as “the expression of hope, redemption, and advent of real social and economic democracy.”

In principle, as an authoritarian regime the political leadership tends to refrain from involving civil society in political agenda-setting, policy formulation, decision-making, policy implementation or performance monitoring because it cannot admit dissent or accept debate on policy options or alternatives. However, in spite of its rhetoric, the fact that the regime has not yet turned openly authoritarian can also be attributed to the heterogeneous character of the chavismo, or the social movement based on the ideology of President Chávez. As has been seen, the regime does back down when it is confronted with strong opposition. Sometimes it even admits to having committed mistakes and to having inspired failures, as in the case of the medical clinic program Mission Barrio Adentro. Within the chavismo, there still exists some pluralism and debate, even though the democratic elements of the chavismo are losing ground and the sparse involvement of civil society occurs rather in a top-down than in a bottom-up fashion.

Since the establishment of democracy in 1958, Venezuela has not experienced major historical injustices such as those perpetrated by the previous Argentine or Chilean military dictatorships. However, the ruling elite have worked to recreate the recent past as a time of conflict, manipulating historical facts and memories.

Civil society  
participation  
3

Reconciliation  
n/a

## 17 | International Cooperation

The leadership believes in endogenous development and consequently thinks in terms of policies that Venezuela should act independently. From this perspective, international cooperation is welcome as long as partners prove to be loyal allies, no matter what knowledge or expertise they possess. While Cuban security advisors have proven expertise in maintaining power structures and Chinese technicians have shown equally successful in launching and operating Venezuela's communication satellite, there is little evidence that Iranian expertise in automobile technology is the best the world has to offer, or whether Uruguayan expertise in producing and refining extra heavy petroleum is on par with other nations' know-how, yet all of these Venezuela-friendly countries are active in the areas mentioned. Cooperation means regime stabilization at home and regime promotion abroad.

Effective use of support  
2

The international community, except for Venezuela's allies in the Bolivarian Alliance for the Americas and a handful of authoritarian regimes (e.g., Belarus, China, Iran, Russia, Syria), does not consider Venezuela as a reliable partner. The Venezuelan government does not even pretend to promote market reforms. With regard to its professed democratic reforms in terms of substituting a representative democracy with a participatory democracy, its credibility is diminishing rapidly. The administration has forced partners in joint ventures to accept unfair conditions not provided for in original contracts, has failed to honor compensation agreements following the nationalization of assets and has seized foreign property, violating constitutional procedures. Several arbitration cases involving billions of dollars are being processed by the International Center for Settlement of Investment Disputes (ICSID).

Credibility  
2

Venezuela's cooperation with neighbors offers a mixed picture. While Brazil is a coveted partner, relations with Colombia have oscillated between rough and close to breakup during President Alvaro Uribe's tenure and quite cozy with President Juan Manuel Santos (yet a swing in the opposite direction cannot be ruled out). Having abandoned the Andean Community in 2006, Venezuela still waits for approval of its accession to the Southern Cone Common Market (Mercosur) by the Paraguayan parliament. President Chávez professes his firm belief in Bolívar's ideal of Spanish American integration, but has done little to pave the way toward its concerted implementation. Long-standing institutions like the Organization of American States (OAS) or the Group of Three (Mexico, Colombia, Venezuela) were or are applauded as long as they endorse the regime's actions but condemned and threatened with departure when they do not; an example is the regime's reaction to the OAS secretary general's timid critique of the form in which the National Assembly delegated broad legislative powers to President Chávez.

Regional cooperation  
4

The Venezuelan government emphasizes the political character of regional integration. Its idea of a common South American security policy is influenced by its fear of an armed conflict with the United States. The Bolivarian Alliance of the People of Our America (ALBA), which grew out of an alliance between Venezuela and Cuba, is basically a political group of ideologically likeminded governments fomented by Venezuelan oil transfers; economically it is based on barter trade. In terms of economic integration, the Venezuelan concepts are opposed to free trade and are in general protectionist. This does not square with the interests and concepts of its neighbors Colombia and Brazil. In Latin America, the Venezuelan concept of integration is more liable to block than to further regional integration.

## Strategic Outlook

Twelve years of Bolivarian revolution has produced a mixed picture of welfare gains. The palpable policy outcomes reveal poor performance. An economy fueled by oil windfalls and the distribution of oil income strengthened the faith of the poor in the state's capacity to solve all problems and transported the message that the shaping of individual and collective destiny was effortless.

Consequently there is no reason why President Chávez should not campaign for the 2012 presidential elections, continuing to address the symptoms rather than the roots of manifest deficiencies such as poor public services, stagnant real incomes and a lackluster economy. Pork-barrel politics will help to avoid closer scrutiny, focusing instead on the mobilization of the faithful. Hence the great opportunity to turn the country's human and material capital into sustainable welfare gains, let alone its movement toward the creation of a vibrant democratic polity and a thriving socially responsible market economy, will be missed once more.

However, for the last 80 years, the country did not possess a functioning market economy, thus it has little chance to create one as long as Venezuela lives almost exclusively from oil proceeds.

Notwithstanding, two opportunities have surfaced which can be seized by government-friendly or opposition followers, without fear of the ruling elite's manifest learning resistance. The first is well-designed, low-level public policy strategies in regions where the vertical separation of powers is still partly effective. The other is sub-political action at the grassroots level, enhanced by legislative commitment.

Concerted public policies designed with civic participation and aimed at small-scale structural solutions in local and regional settings (government or opposition-controlled) have already begun to work and can be optimized and extended. Budgets that are directly managed by communities and small public service projects targeted in poor areas, focusing on top needs of sewage, water and energy, school lunches and mobile health care, are easy to monitor and can be effective due to local instead of central coordination.

Sub-political strategies would combine institutional with sub-political action, again without regard to official or opposition positions. Assemblymen and women, who were unwillingly freed from legislative work by the enabling law that vests the president with unlimited legislative power, can focus more on constant personal contact with their constituents, assimilate their ideas, listen to their grievances and effectively make them heard. The transformation of sub-politics to policy would enhance civic consciousness and hence commitment, which can be translated into action. Social capital would be strengthened, systemic de-legitimization would be diminished and social peace would be fostered by channeling disenchantment and protest. Bottom-up and institutional parliamentary politics can use their potential to help de-radicalize the political discourse and depolarize the society. A society committed to dialog instead of a

friend-foe paradigm would benefit both the opposition and the government. The opposition because it would gain more legroom, the government because the absence of reliable feedback, produced by the prevalence of loyalty over talent and window-dressing over facts, ultimately generates a loss of welfare due to belated corrective measures.