

BTI 2016 | Venezuela Country Report

Status Index	1-10	4.04	# 105 of 129	
Political Transformation	1-10	4.02	# 89 of 129	↘
Economic Transformation	1-10	4.07	# 106 of 129	↘
Management Index	1-10	1.87	# 126 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	30.7	HDI	0.764	GDP p.c., PPP \$	17558.3
Pop. growth ¹	% p.a.	1.4	HDI rank of 187	67	Gini Index	46.9
Life expectancy	years	74.6	UN Education Index	0.682	Poverty ³	% 14.9
Urban population	%	88.9	Gender inequality ²	0.464	Aid per capita	\$ 1.2

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

President Maduro has been unable to master the venomous legacy bestowed on him by his predecessor Hugo Chávez. Loose spending in the absence of structural perspectives, depleted reserves, a fiscal and monetary mess, rampant inflation, basic staples shortages and an asphyxiated internal sector have made the country extremely vulnerable to oil prices, which began to spiral downwards beginning in the second half of 2014. Lacking the charisma and leadership required to rally his party around a desperately needed adjustment package, Maduro let the nation slide to the brink of collapse and rendered it almost ungovernable.

Amid mounting problems, increasing social unrest and fragmentation within its own ranks, his government resorted to harsher repression, rule bending and silencing critical voices through a recipe of cooptation-cum-intimidation of the “independent” media. Observers in and outside the country have taken notice and expressed concern, from the U.N. Secretary-General to the European Parliament and most regional instances. Venezuela is no longer a hybrid regime; it is authoritarian, plain and simple. Nominally, democratic institutions at the national, regional and local levels exist but are in practice unable to perform their constitutional and legal functions effectively because they operate in an authoritarian regime that interferes with their competences and obstructs activities deemed contrary to the “revolution.” The government majority in parliament rubber-stamps executive bills, rarely initiates legislation, systematically blocks opposition initiatives and debates, while the judiciary acts on direct orders of the executive.

Venezuela ranks among the group of countries labeled as high human development in the UNDP Human Development Report. Yet, poverty and inequality, which had declined from 2000 through 2012, are headed upwards again amid an unprecedented oil revenue bonanza, a clear signal that the decline in the recent past was not the result of structural anti-poverty strategies. A plethora of social programs (the so-called missions) based on handouts rather than entitlements or conditional

transfers did not translate into the reduction of poverty nor enhance equality, but rather generated an ever-growing number of citizens depending on the government's goodwill.

The level of socioeconomic development offers a mixed picture; it is high according to some indicators and low according to others. But it is definitely low when the country's endowment of human, material and natural resources is taken into account. It is also low when compared to its less-endowed Latin American neighbors.

Post-Chávez chavism looks doomed. The country approaches collapse whether or not the ruling elite acknowledges it. President Maduro does not. His Annual Report before parliament in January 2015 confirmed what most had expected. He did not signal that he understood the roots and severity of the crisis; he lacks a strategic design for how to effectively cope with it and is unwilling or incapable of making the decisions needed for a turnaround sooner rather than later. Taking into account the state's tenuous monopoly on violence, an anarchic scenario cannot be excluded.

History and Characteristics of Transformation

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 modernizing countries in Latin America. Its resources allowed Venezuela to keep the currency stable and to achieve average high growth rates from the late 1920s through the 1970s. The petroleum business accounts for about one-fourth of GDP, over 90% of export earnings and about one-half of the central government's operating revenues.

However, the leadership missed opportunities to overcome the rent-seeking paradigm. An overvalued currency generated a port economy and produced huge capital outflows. In response to the deepening fiscal crisis, the Herrera administration (1979-1984) devalued the bolivar and introduced exchange controls in February 1983.

When the Perez administration (1989-1993) announced an IMF-assisted adjustment program shortly after the president's inauguration in 1989, spontaneous popular protest degenerated into widespread riots, which the government repressed by calling on the military, whose use of excessive force caused a huge death toll. The rebellion and its repression provided a group of conspiring army officers led by Lieutenant Colonel Chávez with a pretext for staging two coup attempts in 1992. 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 a regime change. A series of electoral victories, beginning with the re-legitimation of all elected officers in 2000, handed Chávez almost total control while strengthening 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, the product of the opposition boycott of the 2005 parliamentary elections, the president packed the judiciary, the electoral council and the citizens' power (attorney general, comptroller and defender of the people) with loyalists.

Reacting to the setbacks in big cities in the 2008 local and regional elections the Electoral Council redesigned the voting system favoring regime strongholds in rural areas. Consequently, the parliamentary elections of September 2010 produced a comfortable government majority of 60% of the seats with just under one-half of the votes, while the opposition's over one-half of the votes translated in only 40% of the seats. With President Chávez reelected in October 2012, the government alliance defeated a demoralized opposition in the regional elections in December 2012 winning back most of the statehouses they had lost in 2008. The United Socialist Party and its allies also dominated the local elections of December 2013.

Chávez's handpicked successor, Maduro, secured a razor-thin victory in the presidential elections of April 2013. The opposition cried foul, but later decided to accept the questionable result. Maduro, who lacks the charisma and leadership of his predecessor, is facing mounting problems in steering the Bolivarian revolution forward. Infighting in his governing coalition, social unrest, a disabling fiscal crisis, recession, scarcity and growing imbalances, and the predictable consequences of an unsustainable development path under Bolivarian socialism created a climate of instability adverse to necessary, but politically costly, adjustment decisions. His inaction in the face of a severe exchange rate, monetary, financial, oil rent and real economy challenges has driven the country to the brink of collapse. With parliamentary elections looming in 2015, a decisive turnaround looks unlikely.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on violence is at best tenuous. State security forces have the capacity to secure that monopoly, but the administration deliberately sponsors irregular armed groups which see themselves as legitimate defenders of the Bolivarian revolution; they were mainly responsible for the killings during the student protests in February-March 2014. Later that year, the then Minister of the Interior, an army general, launched an initiative to subject those to the authorities, but finally lost his case and was sacked. Likewise, the country's prisons are de facto controlled by inmate mafias whose criminal activities are tolerated by the authorities and the supervising prison ministry. Furthermore, vast Colombo-Venezuelan border areas continue to be effectively controlled by drug traffickers and guerrillas who operate in a permissive environment.

Monopoly on the
use of force

6

The situation of indigenous people, such as the Pemon, in the southeast, the Yanomami in the southwest and the Wayuu in the northwest, appears as a separate issue, given the fact that the state proves unable or unwilling to guarantee their special constitutional rights and security vis-à-vis drug trafficking, illegal mining and guerrilla activities.

The legitimacy of the nation-state is not questioned by any group or aboriginal nation, whose members enjoy full citizen rights and special guarantees regarding their cultural and jurisdictional traditions. At the same time, official discourse and the media constantly question the citizen rights of opposition members or dissenters in their own ranks by disqualifying them as unpatriotic or enemies of the fatherland, although there have not been any formal citizenship deprivations.

State identity

9

The regime aggressively seeks to define national identity according to its own ideology. Because nation and government are supposed to be identical, the opposition and anyone critical of the government are denied the status of citizen. At stake in the

struggle between government and opposition is not only the question of power, but also the concept of nation and national identity.

The state is secular. Religious dogmas or organizations have no remarkable influence on the law-making process or political institutions. The significant network of Catholic schools and universities is subject to state-defined curricula and managed in an open spirit.

No interference of religious dogmas
10

Basic public services are provided by the state throughout the country by means of a two-tiered administrative structure: the organs and entities of the public administration and separately, the so-called “missions,” organized in the form of presidential commissions, inter-ministerial commissions, foundations or state enterprises – all with their own bureaucratic apparatuses. The missions’ functions transverse those of the traditional bureaucratic structures, generating frictions and the dispersal of human, material and financial resources, as well as accountability problems.

Basic administration
5

Jurisdiction and tax collection are provided exclusively through the traditional administration, while law enforcement is partially performed by non-state actors (e.g., enforcement of price control and anti-hoarding regulations). Communication and transport services operate amid growing deficiencies owing to poor maintenance as a consequence of barriers to foreign exchange for necessary equipment and spare parts imports. Electricity and sanitation services, as well as related infrastructures, are provided and managed by ineffective state enterprises, as evidenced by the frequent power blackouts and water supply shortages which, in turn, often cause violent protests.

Education and health care are the main victims of the traditional bureaucracy-cum-missions parallelism characterized as “new institutionality” because scarce financial resources – public expenditures of 3.6% and 1.5% of GDP, respectively (according to HDI/World Bank) – are allocated to a two-tiered system generating friction, inefficiency and ineffectiveness. Regarding bureaucratic quality, Venezuela performs badly ranking 15th among 21 countries in America (IDB).

2 | Political Participation

Elections are regularly conducted on the national, regional and municipal levels. Universal suffrage is ensured, but many voters fear the fingerprint scanners used for voter identification and subsequent voting machine activation and consequently distrust the secrecy of the ballot, even though there is no proof of links between the voter and the ballot sequence.

Free and fair elections
6

Elections are formally competitive and political positions are filled according to election outcomes. But the arbiter – the National Electoral Council – is by no means

impartial and there are reasonable doubts as to whether the published results reflect voters' preference. President Maduro's razor-thin victory at the polls was tainted with evidence of fraud: the opposition presented over 200 substantiated allegations of violations of electoral rules by the government, of which not a single one was considered. Not surprisingly, voters have lost their former confidence in the arbiter and voter participation is discouraged: according to surveys conducted in 2014, six out of ten Venezuelans do not trust the election authority. Even worse, 80% of that majority think voting is not worthwhile owing to the authority's lack of credibility.

Elections are formally free, although there is evidence of pressure on public employees to attend campaign rallies and of irregular "voter assistance" by United Socialist Party (PSUV) militants (improper ballot accompaniment). Nor are the elections fair because there is no public funding of campaigns; state media, which include all TV stations, ban opposition candidates from access and silence their activities and platforms. At the same time, government candidates use public resources such as transport facilities and public money to pay for consulting services, surveys, propaganda and rallies.

In competitive authoritarian regimes like Venezuela's, elections are viewed as a means of obtaining power, but definitely not a means for alternate authorities, and power is concentrated at the top. This translates into unfair and lopsided election procedures; legislatures controlled by the executive; and a compliant judiciary and controlled media. This creates an environment in which elected representatives, pro-government or opposition, do not have effective power to govern. Opposition representatives have been especially targeted. Two elected opposition mayors of state capitals were removed from office by the Supreme Court on account of having disobeyed court orders in relation to the student protests in early 2014. A particular case is the gubernatorial election in Miranda State: the government's losing candidate was immediately designated "Protector of Miranda," a new, unconstitutional authority which receives vast financial resources.

Special attention must be paid to Cuban influence in Venezuela, a topic usually underreported in Latin American media. On the one hand, after announcing in December 2012 that he might be unable to assume the presidency, the late President-elect Chávez spent his final days agonizing in a Cuban hospital reserved for the leadership, with access controlled by Cubans, holding cabinet meetings in his hospital room and signing one presidential decree after another without any proof of his capacity. On the other, there are at least 30,000 Cuban personnel in Venezuela: doctors, lawyers, administrators, technicians and army officers – all with military training as the norm for Cubans sent abroad. Furthermore, the state company that handles Venezuela's ports and airports is a joint Cuban-Venezuelan venture; Cubans have computerized Venezuela's public records, giving them control over identity papers, voter registration and property registries. Cuban officers attend strategic planning meetings of the armed forces. Last but not least, major policy and staff

Effective power to govern

2

rotation decisions have been announced more than once by President Maduro immediately after visiting Cuba. Taking into account such facts, it seems reasonable to think that even the president does not have the effective power to govern to his full extent. The picture might change in the future, owing to the announced re-establishment US-Cuban diplomatic relations. But for the time being it reflects Cuba's grip on Venezuela.

Freedom of association and assembly is guaranteed on paper, but severely restricted in practice. In February and March 2014, student protests were brutally repressed by uniformed security forces and armed government-sponsored thugs, with a death toll of over 40, hundreds injured and thousands arrested. Many of them – over 50 – are still in prison, as is the prominent opposition politician Leopoldo Lopez who had backed the protests. An opposition member of parliament, who had also encouraged the students, was stripped of her mandate by the Supreme Court on spurious treason charges. Government-critical NGOs are harassed and barred from receiving international financial support. Human civic rights monitoring associations are denied access to official information sources, their activities encumbered by bureaucratic hurdles.

Association /
assembly rights
4

On the occasion of the 26th (2014) Session of the U.N. Human Rights Council, U.N. Secretary-General Ban Ki-Moon said he was saddened by the violence and called for the protection of human rights in Venezuela, while the U.N. High Commissioner for Human Rights expressly urged the Venezuelan government to respect freedom of expression and freedom of association.

As with other fundamental rights, the freedom of expression is guaranteed on paper but severely restricted in practice, a typical case of misplaced priorities or inverted values. The basic idea is that the state (i.e., the government and the ruling elite) must be protected against the citizens, not the other way round. Free expression is by definition considered a risk to "public security," a potential for destabilization which must be tightly controlled. The right to express nonconformity and protest is consequently repressed, in many cases by the excessive use of force. PROVEA, a human rights organization, reports frequent violations of the right to protest in 2014: PROVEA registered over 600 protests in February and March alone, of which over 200 were repressed by the excessive use of force (34%, up from 2% in 2012); this included nearly 50 cases of repression by governments-sponsored civilian thugs. One by-product is a massive violation of physical integrity: over 800 injured and over 100 cases of torture. For the same two months, PROVEA also reported over 3,000 arbitrary retentions in the context of expressions of protest; over 400 attacks against citizens in their homes, many of those by armed civilians; frequent use of prohibited toxic substances by security forces and armed civilians, as well as hundreds of attacks (aggression, menace, intimidation, censorship and judicial harassment) against journalists.

Freedom of
expression
4

U.N. Human Rights spokespeople have expressed alarm regarding the fundamental rights violations in Venezuela and urged the government to protect these rights. The government's reaction was the – expressly unconstitutional (Article 68) – authorization for the security forces to use of firearms and toxic substances to “protect the legitimate authorities,” that is, against protesters (government decision made on 27th January 2015).

Freedom House classifies Venezuela as not free in its Freedom of the Press report. Reporters Without Borders places Venezuela in 117th position out of 179 countries ranked for freedom of the press. After changes of ownership, several opposition media (Globovision, El Universal) apparently have changed their editorial line. So, the already extremely uneven media landscape has become even more lopsided.

The Internet is subject to government control, too. In late 2013 and early 2014, the Venezuelan government blocked nearly 400 websites that provide information on politics and economic issues, such as political demonstrations and currency exchange rates. Freedom House classifies the Internet in Venezuela still as partly free.

3 | Rule of Law

The autonomy and separation of the five branches of government is established on paper, but de facto inexistent. For the larger part of their administrations, presidents Chávez and Maduro had unrestricted legislative powers, which they used extensively to their advantage. Although the ruling United Socialist Party and its allies command a comfortable majority in the National Assembly, this falls short of the qualified majority threshold established in the constitution for selecting members of several of the country's core institutions, such as the electoral authority, about one-third of the magistrates of the Supreme Court and the three authorities of the citizens' power (the Comptroller General, the Attorney General and the Defender of the People or ombudsman), whose terms ended in 2013-2014. A compliant Supreme Court ruled that simple majorities were sufficient, so the positions were filled with loyalists handpicked by the ruling elite.

A 2009 Inter-American Human Rights Commission Report sets out a long list of recommendations to achieve an effective separation and independence of public powers. If there were highly reasonable doubts on the matter some years ago, the situation has only worsened since then.

Separation of
powers
3

The judiciary is not independent. A rich and long tradition in legal education and jurisprudence contrasts with the current situation, in which appointments offer no security of tenure and disregard professional standards and requisites, proceedings fail to follow the established rules, and channels of appeal are de facto blocked. The 2014 report of an International Commission of Jurists fact-finding mission titled “Strengthening the Rule of Law in Venezuela” documents that the vast majority of judges hold provisional or temporary office and that the autonomy and impartiality of public prosecutors is seriously affected by improper interference by political actors. The report also recommends reforming the existing legal framework, which does not meet international standards, and enforcing the existing laws that meet them, but are not respected in practice. The basic conclusion is that Venezuela’s weak judiciary threatens the rule of law.

Independent
judiciary
2

Impunity has reached unprecedented levels: the prosecution authorities report that over 90% of all crimes, office abuse and corruption included, remain unpunished. This explains why there has not been a single indictment in the context of the \$20 billion embezzled by the foreign exchange administration to bogus companies in 2013 alone, according to public statements of the then Planning Minister and the President of the Central Bank. The U.N. Special Rapporteur attributed the excessive use of force against protesters in early 2014 to widespread impunity. According to data reported by the government to the U.N. Commission against Torture, there were close to 1,300 extrajudicial killings by security forces in 2012 and 2013 alone; the Commission urged the authorities to investigate those crimes and punish the perpetrators. COFAVIC, a human rights organization, reports over 800 killings for 2014 stating that only 0.7% of the cases were brought before the courts. Of the close to 200 official investigations for abuses during the 2014 protests, only five led to indictments.

Prosecution of
office abuse
2

Civil rights are systematically violated; the formally existing mechanisms and institutions to protect citizens fail to comply with their constitutional and legal obligations. The repressive character of the regime became clearly evident in its reaction to peaceful civil protests in early 2014. Observers inside the country and from abroad took notice and expressed their views. The Venezuelan Conflict Monitor, a civil rights NGO, says the government answered peaceful demonstrations with systematic repression violating fundamental rights. Forty-three persons were killed; over 3,400 were victims of arbitrary detention; 68 of them were still in prison at the end of 2014; and 157 cases of torture were reported, of which 110 were presented before the Inter-American Commission on Human Rights.

Civil rights
4

The Inter-American Commission on Human Rights regards Venezuela for the sixth consecutive year as a country that deserves special attention with regard to fundamental guarantees. The European Parliament asked the government to comply with its own constitution and its international obligations with respect to the independence of the judiciary, the rights of freedom of expression, association and

peaceful assembly and political pluralism. Human Rights Watch documented 45 cases involving 150 victims of rights violations in February 2014, stating that the scale and the collaboration of security forces and justice officials committing them are part of an alarming pattern of abuse.

4 | Stability of Democratic Institutions

Nominally, democratic institutions at the national, regional and local levels exist, but are in practice unable to perform their constitutional and legal functions effectively because they operate in an authoritarian regime that interferes with their competences and obstructs activities deemed contrary to the “revolution.”

Performance of
democratic
institutions
3

The government majority in parliament rubber-stamps executive bills, rarely initiates legislation, systematically blocks opposition initiatives and debates and compliantly strips opposition representatives of their immunity on executive order, with the help of a compliant judiciary. Maria Corina Machado, a hardline opposition legislator who received the highest number of votes of all representatives, and who had backed the student protests in early 2014, was ousted on spurious charges of plotting to murder President Maduro. Richard Mardo, another opposition legislator, was ousted on tax fraud charges in 2013. In both cases, the constitution was violated because stripping a lawmaker of his immunity requires a two-thirds majority, which the government alliance does not command.

The judiciary acts on direct orders of the executive, as was revealed by an exiled former magistrate who had fallen into disgrace with the executive. Even if the former magistrate was of questionable integrity and credibility, his former positions as a general close to President Chávez and magistrate for seven years should at least have triggered an investigation of his detailed allegations that there were regular meetings of the government in order to set guidelines for the justice system and that there had been direct presidential orders regarding the outcome of cases.

Since the first presidency of Hugo Chávez, federalism has been systematically undermined. The latest move to abolish autonomous institutions on state and county levels stems from March 2010, when the National Assembly passed an organic law that, openly violating the constitution, completely redefined the concept of federalism and its basic units: instead of states and municipalities, competences should be transferred to vaguely defined and centrally controlled “organizations of popular power.” This process was put in the hands of a newly created organ, the Federal Council that would be directed by the Vice-President of the Republic. “Territorial unity,” “sovereignty” and “popular power” were proclaimed as guiding principles, leaving no doubt about the intention to abolish federalism.

On paper, the democratic constitutional and legal order is well established, except for some laws regarding personal freedoms that distort the principles outlined in the constitution. The institutional potential for democratization exists.

The highly diffuse commitment of the public to democracy as the best form of government contrasts with an institutional reality of accelerated democratic erosion. The Bolivarian revolution has succeeded in destroying the democratic institutions without a single amendment to its own representative-cum-direct-democratic constitution, which, in turn, the opposition claims to defend as a valuable guideline for the nation. The principles of popular representation, legality of norms and separation of powers have been systematically violated; government actions and records are anything but transparent and subject to partisan influence, and the public administration is politically castrated. The space for democratic action is shrinking.

Commitment to
democratic
institutions

2

The actors who are able to effectively concentrate power are definitely not committed to democratic institutions. Those who claim to be have so far proven unable to act as counter-powers.

5 | Political and Social Integration

The political parties are rather loosely organized and no longer as deeply rooted in the society as they had been before the bipartisan system imploded toward the end of the last century. The bipartisan system was replaced by a dominant party system with the United Socialist Party, founded in 2008, in a quasi-hegemonic position.

Party system

3

The more than 50 national and over 20 regional parties are grouped together in two loose alliances, which reflect the polarization between government and opposition activists and sympathizers. Their organization, while hierarchical, is open: there is no clear line between members, sympathizers and voters; as a consequence, it is hard to quantify membership. The ruling United Socialist Party alone claims to have about 7.5 million militants on their register whose commitment can be reasonably questioned. Their 2014 internal elections did not help to prove the claim; while numbers were not published, even insiders estimated that only about half a million turned out.

The low number of parliamentary parties is not indicative of a high level of aggregation. Instead, it mirrors the fact that politics is reduced to antagonism between an authoritarian government and a loosely organized opposition. Correspondingly, polarization levels are high.

The government alliance is made up of about a dozen individual parties dominated by the United Socialist Party, which commands about 90% of its total support. The opposition alliance Democratic Unity Table comprises about 30 parties plus other groups, of which a handful represents about three-quarters of total support. Ideology

is not a relevant topic when it comes to characterizing the party system. While many parties have programmatic platforms, their ideological profiles are blurred, even though they claim to stick to socialist, social democratic or progressive labels. The labels “liberal” and “conservative,” once dominant in the country’s party history, have become taboo.

Defections have been observed on both sides, even back and forth, mainly from the opposition to the government. The deepening social and economic crisis and the pressing financial problems produced by shrinking oil revenues since mid-2014 undermine party allegiance, which is clientelistic in essence.

Interests are expressed and represented by a host of organizations – social and community movements, entrepreneurial, workers and professional associations – again divided in two polarized blocks. The government-friendly block is part of the regime and functions as a top-down transmission mechanism. Interests seen or deemed as government-critical have little room to maneuver, owing to the lack of arenas and platforms where they can be articulated and processed by the system. The parliament, the executive, the judiciary and the citizens’ power – prosecutor, comptroller and ombudsperson – are all tightly aligned with, and controlled by, the ruling elite who instinctively refuse to listen, and instead resort to dismissal, defamation and force. Constructive proposals based on recommendations from non-aligned interest groups and tabled by the opposition in parliament, such as the first employment or civil disarmament bills, were dismissed without discussion by the government majority. In the prevailing authoritarian environment, even a broad range of competing yet cooperating organized social interests are incapable of producing any impact on public policy.

Interest groups
3

Diffuse support for democracy as a form of government traditionally has been high and constant, while specific support for democratic institutions and procedures tends to be significantly lower and vary according to situational factors, such as the perception of government performance or the general and economic outlook. A 2014 Catholic University survey found that institutions which had been trusted in the recent past, such as the electoral authority, the parliament and the military, are no longer trustworthy. Institutions such as elections are no longer seen as potential solutions but mechanisms of continuous conflict. That may be attributed to the fact that two-thirds perceive the electoral norms and rules as biased in favor of the ruling elite and against the proportional representation principle enshrined in the constitution.

Approval of democracy
n/a

The society continues to belong to the low trust category; mounting economic problems, severe shortages of supplies and the ensuing endless lines people must suffer to buy food and basic consumer goods have made them more aggressive. Life as a community is being transformed into individual survival strategies where greed replaces solidarity.

Social capital
4

Especially damaging to the social capital is the government's "cooperating patriot" program through which pro-government activists are encouraged to spy on their fellow citizens and are rewarded for informing against them. The corresponding twitter profile @pcbolivariano leaves no doubt: "Venezuelan, Bolivarian, COOPERATING PATRIOT, radical with Chávez. WE ARE WATCHING YOU. We are the heart, the eyes, the soul of the revolution." Foro Penal Venezolano, a human rights NGO that offers free defense to detained protesters, reports several cases where the prosecution used "evidence" provided by such anonymous neighborhood spies. The Cooperating Patriot scheme reflects gradual social disintegration.

A host of voluntary organizations are active and most vocal in the field of human rights defense. Cultural and environmental organizations, as well as charities, also exist, albeit with low profiles.

II. Economic Transformation

6 | Level of Socioeconomic Development

Venezuela ranks among the group of countries labeled as of high human development in the UNDP Human Development Report. Yet poverty and inequality, which had declined from 2000 through 2012, are headed upwards again amid an unprecedented oil revenue bonanza, a clear signal that the decline in the recent past was not resulting from structural anti-poverty strategies. A plethora of social programs (the so-called missions), based on handouts rather than entitlements or conditional transfers, did not translate into the reduction of poverty nor enhance equality, but generated an ever-growing number of citizens depending on the government's goodwill.

The level of socioeconomic development offers a mixed picture; it is high according to some indicators and low according to others. But it is definitely low when the human, material and natural resources the country is endowed with are factored in. It is also low when compared to its less-endowed Latin American neighbors. And it is low when considering that the country, while on track regarding some millennium goals, it is not on others, which were definitely within the reach of an administration that managed abundance. Due to sinking oil prices and mismanagement, shortages of basic goods are on the rise, as is unemployment. Figures about comparatively high levels of human development and low inequality mask the fact that the country faces a growing risk of economic collapse and that the improvement of living conditions since 2003 is little more than an illusion built on high oil prices.

Venezuela's Human Development Index (HDI 2014) stands at 0.764, somewhat higher than the Latin American average of 0.740; its rank is 67th, one lower than the

Question
Score

Socioeconomic
barriers

6

previous year. When adjusted for inequality (0.613), its overall loss is 19.7% or ten positions in the ranking. The Gender Inequality Index is 0.464, better than the regional average of 0.416, but the maternal mortality rate of 92 tops that average (74), as does the adolescent fertility rate (Venezuela: 83.2; Latin America: 68.3). The country excels in the Gender Development Index (0.999), ranking second in the world. That can be attributed to the better schooling of women and a gross income gap that is not extremely high.

Education is another positive factor; illiteracy is down to 4.5% (Latin America 8.5%). Gross enrollment at the pre-primary level (72) ranks somewhat below the regional average (79); the same is true for the primary level (Venezuela: 102; Latin America: 106). The figures coincide at the secondary level (85), while Venezuela tops the worldwide list at the tertiary level (78, higher than pre-primary). The extraordinarily high proportion of enrollment at the tertiary level is attributable to the creation of countless smaller and a few mega-universities (two of them with over 200,000 students each) of questionable quality. Expenditure on education is a rather low – 3.6% of GDP compared with a regional average of 5.2%.

In the context of an authoritarian regime, exclusion is based on ideological and political rather than gender, religious or ethnic factors. Surveys demonstrate that citizens who identify as government alliance supporters – activists or sympathizers – have significantly more access to benefits than those who do not. Positions in the public administration and state enterprises are de facto reserved for loyalists: emphasizing a Chávez slogan, the President of the National Assembly and First Vice-President of the United Socialist Party warned in a public address (in October 2014) against employing oppositionists in public administration.

The informal sector represents about 42% of total employment (by November 2014). This means that close to five and a half million workers hold precarious jobs and lack social security benefits.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	145513.5	393801.5	371336.6	509964.1
GDP growth	%	10.3	-1.5	1.3	-4.0
Inflation (CPI)	%	-	28.2	40.6	62.2
Unemployment	%	11.4	8.6	7.5	-

Economic indicators		2005	2010	2013	2014
Foreign direct investment	% of GDP	1.9	0.5	1.9	-
Export growth	%	3.8	-12.9	-6.2	-
Import growth	%	35.2	-2.9	-9.7	-
Current account balance	\$ M	25053.0	8812.0	5327.0	-
Public debt	% of GDP	45.5	34.6	52.1	51.8
External debt	\$ M	45355.0	97081.1	118758.4	-
Total debt service	\$ M	5330.7	15325.1	19783.1	-
Cash surplus or deficit	% of GDP	2.2	-	-	-
Tax revenue	% of GDP	15.5	-	-	-
Government consumption	% of GDP	11.1	11.2	12.4	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.3	1.8	1.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.4	0.9	1.4	1.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition exists at best in some segments of domestic or imported consumer goods which are not subject to strict price controls and not paid for with preferential foreign currency such as luxury goods, cell phones and computers.

The Fair Price Law (January 2013), an update of the 2011 law, carries prison sentences for vaguely defined crimes such as hoarding, destabilizing the economy and food trafficking, i.e., buying subsidized food and selling it overpriced. The respective definitions are ambiguous and confusing, inviting discretionary interpretation. It also sets maximum profit margins and requires firms to obtain “fair price certificates” to access foreign currency through the exchange control agency. A new authority, the National Superintendent for the Defense of Socioeconomic Rights, sets “reasonable” profit margins. Enforcement, i.e., certifying that sales are subject to the prices established by the authority, is in the hands of the security forces, but also the so-called Fighter Circles formed by government party activists. No wonder

Market-based
competition
3

that enforcement is highly selective and bribery-inviting, extortion in exchange for turning a blind eye.

The byzantine exchange controls have asphyxiated the economy; the system establishes three rates: one “official,” a second one determined in what is called auctions, but is de facto a fixed rate at about double the official rate, and a “market rate” that will be negotiated in the public and private stock exchanges under yet-to-be-defined conditions. The fluctuating parallel rate is about 25 times the official rate (as of January 2015). Opaque allocation criteria and a burdensome, lengthy and even more opaque allocation process make importing a headache, generating even tighter supply problems. Foreign exchange allocation openly privileges public companies. The political motivation is evidenced in the media industry: while government-critical private newspapers have a hard time importing paper and had to reduce their editions, government-friendly private and state-owned papers face no problems.

Market entry and exit is subject to thresholds and controls. These include mergers of independent companies, joint ventures and transactions through which a company gains control of companies that were independent. The World Bank’s Ease of Doing Business Index ranks Venezuela 182nd (out of 189), 182nd for starting a business, 188th for paying taxes and 176th for trading across borders. The Heritage Foundation’s Freedom of Investment Index ranking is 5 on a scale of zero to a 100, down from 50 in the first Chávez years.

The main exit barrier is exchange control; there are no exit barriers for people. This may change as the ever-increasing brain drain severely hurts the qualified labor market. The first blow was the sacking of about 20,000 experienced oilmen after the general strike in 2002-2003. Most of them left the country; quite a few helped double neighboring Colombia’s output in less than 10 years. According to a Central University study, there are about 1.5 million Venezuelans abroad, of whom 90% hold at least a bachelor’s degree.

The promotion of competition is not a public policy priority; the 2013-2014 period did not see much activity related to the matter. The competition authority issued a few decisions on pending cases, but discussions on the Anti-Monopoly Bill that will replace the existing Competition Law were suspended. Regarding the effectiveness of anti-monopoly policy, Venezuela is ranked 142nd out of 144 in the WED’s Global Competitiveness Report.

Under the current law, there is a competition authority, which depends on the Ministry of Commerce. The enforcement of competition regulations is subject to the general public policy, i.e., state-owned companies are in practice exempted from investigation. The formerly private telecommunications company CANTV is an example of this: before being taken over by the state, the company was heavily fined for abuse of its dominant market position. After the takeover, all cases brought

Anti-monopoly
policy
3

forward against the company (a number of claims by Internet service providers) were decided in its favor.

Trade facilitation is not on the government's agenda. The country descended to rank 137th out of 138 in the World Economic Forum's (WEF) 2014 Enabling Trade Index. It is now at the bottom of the region in all seven pillars of that index: domestic market access (120); foreign market access (86); efficiency and transparency of border administration (133); availability and quality of transport infrastructure (127); availability and quality of transport services (121); availability and use of ICTs (87); and operating environment (138) (data sources: International Trade Centre, UNCTAD and World Bank).

According to the WEF expert survey, the most problematic factors for exports are access to imported inputs at competitive prices, as well as inappropriate production technology and skills. Imports are problematic mainly owing to burdensome import procedures and corruption at the border.

Import quotas were imposed on vehicles, while agricultural products require licenses and sanitary permits. There are tariff-rate quotas (TRQ) for about 60 Harmonized System headings, as well as requirements such as a "certificate of non-production" or "insufficient production" before imports can take place.

Depending on the nature and destination of the product, the exporter may be required to obtain export licenses, sanitary permits or certificates of origin. Venezuela has made active use of contingency measures regarding anti-dumping orders: the World Bank's Global Anti-Dumping Data Bank records 28 cases for Venezuela in 2013, while the Countervailing Duties Data Bank does not register entries after 2003. There are 61 tariff quotas and 76 special safeguards (SSGs).

Trade is restricted not so much by tariffs as by price- and currency controls. The Report on Foreign Trade Barriers by the U.S. Trade Representative presents a long list of trade barriers in Venezuela. Under "prevalence of trade barriers" Venezuela is ranked 138th out of 144 in the WEF's Global Competitiveness Report.

Venezuela participates in the G-20 (issue: agriculture), G-33 (issue: agriculture) and NAMA-11 (issue: flexibility in limiting market opening for industrial goods). The country is involved in one dispute as complainant, in two as respondent, and in 16 as third party. Together with Cuba and Bolivia, it backed India's declination to sign the WTO Trade Facilitation Agreement in 2014.

Liberalization of
foreign trade
4

The banking system includes 35 institutions, of which 25 are private and ten public; the private sector holds about two-thirds of total assets. Two-thirds of total assets are concentrated in the five biggest players of which two are state-owned. The sector has shown remarkable resilience in an adverse operating environment characterized by severe macroeconomic imbalances and erratic policy-making. Banks are defined as entities of public utility, allowing the government to take the measures it deems necessary to keep their services functioning.

Macro data on viability and performance are sound at first sight, but should be read taking into account a high level of rather discretionary government intervention with its ensuing uncertainties, as well as the high exposure to sovereign securities with negative issuer default ratings owing to reckless spending policies. The capital adequacy ratio is established by law at 12%, to be reached by 2016; the current ratio is 10.9% (Basel Accord compliance). The ratio of non-performing loans to total gross loans is low (0.6% in both 2013 and 2014) while the claims on the central government (loans net of deposits) reach a high 4.9% (2013). The domestic credit provided by the financial sector is 52.5% of GDP. The system is profitable, boasting a return on equity of over 50% driven by the government-spending fueled growth in liquidity (annual M2 growth of close to 60% in 2010-2014) and currency controls that trap liquidity in the country.

The regulatory framework is continuously updated after major reforms in the wake of the 2009 banking crisis, when about a dozen private banks were nationalized. Three fundamental instruments regulate the sector: The Organic Law on the National Financial System with general provisions on banking, capital markets and insurance; the Banking Sector Institutions Law with its corresponding administration, Central Bank or Banking Superintendent provisions; and the Securities Market Law. A CEIS Review report (2014) rates Venezuela as lagging behind in Basel implementation. The Financial Stability Board determined Venezuela to be a non-cooperative country that failed to provide information on its adherence to internationally agreed standards in the areas of banking supervision, insurance supervision and securities regulation.

Regulations include the obligation to earmark 5% of pretax profits for communal council projects, to hold 10% of capital in a restricted fund to pay for labor liabilities and a legal lending limit of 10% of equity to individual private entities. Banks are required to disclose their positions and capital adequacy monthly, following a detailed methodology for calculating their risk-weighted assets. Furthermore, there are limits on banks' foreign currency positions and foreign securities, as well as mandatory sector allocations of over 60% of the total (agriculture 25%; housing 20%; manufacture 10%; tourism 4.25%; microfinance 3%).

The regulations of the securities and capital markets are strictly enforced. A public and a private stock exchange compete, albeit both have little weight. International

players such as Spanish banking giant BBVA and Scotiabank are present in the system.

The outlook is bleak because of discretionary government intervention, a deteriorating operating environment and high volatility. Fitch Ratings downgraded private sector banks in December 2014, following the downgrade of Venezuela's Issuer Default Ratings from "B" to "CCC".

8 | Currency and Price Stability

Venezuela registered an inflation rate of 64% in 2014, the highest in the world, fueled by a loose fiscal policy. The public deficit reported by the Venezuelan Ministry of Finance to the U.S. Securities and Exchange Commission (SEC) for the year 2013 was 16.9% of GDP; the consulting firm Ecoanalitica estimate of the 2014 budget hole is 20% of GDP.

Anti-inflation /
forex policy

2

The economy and public finances are highly dependent on oil and consequently vulnerable to the fluctuations of its price. Oil represents 96% of export earnings, 45% of budget revenues and 12% of GDP. Loose spending and the expansion of domestic credit through the Central Bank's printing of inorganic money fueled consumption which, combined with poor supply, fueled inflation; money supply almost quadrupled in two years. In an authoritarian context, it is no surprise that negative data are withheld from the public: the Central Bank reported the monthly consumer price and scarcity indexes, as well as GDP growth, with long delays, generating even greater uncertainty, elevating inflation expectations and deteriorating country risk assessments.

The Central Bank is formally independent, but acts in practice as a funding agency for the state-owned oil company Petroleos de Venezuela S.A. (PDVSA). PDVSA sells its export dollars to the Central Bank, in part for as much as eight times the official exchange rate. Up to September 2014, about \$50 billion (over 10% of GDP/WB or 20% of GDP/IMF) had been injected into the economy through that mechanism. It then issues bonds to absorb extra liquidity (2% of GDP in August and September alone).

The real broad effective exchange rate at the end of 2014 was 260 (in 2010, it was 100; Bank of International Settlements/BIS). There are three official exchange rates; the allocation of foreign exchange through the exchange rate control system is subject to political, rather than rational or economic criteria, and invites corruption. According to a statement of the then Central Bank President (May 2013), about \$20 billion were diverted to fictitious firms in 2012 alone (she was sacked after her declaration). The Big Mac Index is helpful for illustrating the bizarre control system:

a Big Mac costs about VEB 300 which translate into \$47.60 at the official rate; \$27.20 at the “auxiliary” rate I; \$6.00 at the “auxiliary” rate II and \$1.70 at the “parallel” black market rate (as of January 2015).

The government’s fiscal and debt policies – loose spending, printing paper money and an explosive debt-issuing dynamic – generate macroeconomic instability. As much as 60% of Venezuela’s extractive revenues bypass the treasury through PDVSA’s special spending programs, the development fund FONDEN, as well as other special funds and the missions. A stability policy has not been designed; goals for debt reduction or fiscal consolidation have not been set, existing stabilization funds were depleted and the reserves, mainly in gold, fell to a low \$20 billion. Government spending in 2014 exceeded the budget by 70%; the 2015 budget of \$118 billion, only 36% higher than the original 2014 budget, it set to be overdrawn. Data on the budget deficit vary widely. Analysts estimate it at over 16% in 2014 and about 20% in 2015, while the Planning Ministry reports 11.5% for 2014 (inconsistent with the data reported by the Finance Ministry to the SEC). According to announcements by the president, the official exchange rate will be maintained for food and health product imports, while the two auxiliary rates will be unified, and a yet-unspecified rate will be negotiated in the public and private stock exchanges. All of this amounts to an implicit devaluation, a clear signal that internal conflicts between pragmatists and hardliners in the governing elite make tough, but necessary, decisions impossible because the highest common denominator is doing nothing.

It is hard to collect credible and timely information and data in an institutional context characterized by opaqueness and lack of accountability. Even professionals who work in public institutions recognize the problem. A group of central bank analysts wrote an open letter in October 2014 protesting against the delays in the publication of inflation and scarcity indexes, as well as denouncing pressures they had been subjected to and deploring the entity’s seriously compromised institutional quality. For this reason, some reference data for the assessment of the government’s stability policies were extracted from a document, the “D60,” published in January 2015 by a group of 60 university professors of economics, as well as economists and analysts who monitor the situation for national and international research firms. Their figures are contrasted with IMF data where available.

Current account balance: \$5 billion; external debt, consolidated (foreign exchange denominated financial obligations, China Fund, compensation payments for nationalizations): 70% of GDP (D60 estimate); general government gross debt (D60 estimate includes external debt; internal debt in U.S. dollars at the official exchange rate, \$79 billion; monetary financing by the Central Bank of PDVSA and other public entities, \$107 billion); commercial debt (undisbursed forex authorizations; withheld dividends due, PDVSA associates; PDVSA debt with contractors, \$40 billion. Summing up, general government gross debt amounts to 46% of GDP (IMF) or 148% of GDP (D60); total debt service (Central Bank, 2014): \$6.7 billion; government

consumption (World Bank, 2012): 12% of GDP; Cash surplus/deficit: \$ -27.6 billion in 2015 (Ecoanalitica estimate based on oil price of \$45 per barrel); Total reserves: \$22 billion (BCV, November 2014).

9 | Private Property

Property rights are defined and established by law, but not adequately safeguarded. Expropriations without due process, illegal “recovery” of agricultural lands and seizures have been common. Rule of Law, a civic association that defends property rights presented a petition in a October 2013 hearing before the Inter-American Commission on Human Rights alleging that from 2003 and 2012 there had been over 1,600 expropriations by the government without judicial guarantee or reparation. The petitioners claimed that Articles 8 and 21 of the Venezuelan constitution and Article 25 of the American Convention on Human Rights had been violated.

Property rights

3

The Global Property Guide (residential property) ranks Venezuela at the bottom of all Latin American countries. In the 2013 International Property Rights Index, Venezuela ranks 127th out of 131 (scores: legal environment 2.1/10; physical property rights 4.7/10; intellectual property rights 3.4/10). The 2013-2014 World Economic Forum’s Report ranks Venezuela 148th of 148 in Intellectual Property Protection.

Venezuela is a member of the World Intellectual Property Organization and has signed the Berne Convention for the Protection of Literary and Artistic Works, as well as the Geneva Phonograms Convention, but has not ratified the WIPO Copyright Treaty nor the WIPO Performances and Phonograms Treaty. It is not party to the Madrid Protocol on Trademarks or the Patent Law Treaty.

Certain sectors of private enterprise have been resilient in an adverse business environment: in the governing elite’s discourse, private firms fight an “economic war” against the revolutionary government and have been preparing an “economic coup d’état.” Although about 4,300 enterprises had to close down in the years from 2003 to 2014 in the manufacturing sector alone, according to the employers association, the ever more harassed private sector is still dominant in manufacturing, retail, real estate, construction, communications, banking and transport. Private enterprises are at a disadvantage with state-owned enterprises, regarding access to foreign exchange through the exchange control mechanisms. Furthermore, state-owned companies are exempted from providing a host of certificates and documents thus favoring public over private imports.

Private enterprise

4

Privatizations are not on the government agenda other than the option of selling PDVSA’s U.S.-based network of oil refineries and petrol stations CITGO in order to get much needed cash.

The 2014 World Bank Doing Business Report ranks Venezuela 185th out of 189, in the Heritage Economic Freedom Index Venezuela ranks 175th out of 178.

10 | Welfare Regime

The social safety net managed by the Venezuelan Institute for Social Safety, which was created in 1944, covers all citizens in health care (hospitals and outpatient care are free). About 30% of the employed population is covered by the institute's unemployment insurance (pay-as-you-go, benefits are 60% of salary, maximum five months), and just over half of 60+ old citizens receive pensions (pay-as-you-go, plus state funding). Private and public sector workers are also entitled to receive substantial severance payments (up to two months' salaries per work year). The institute's 44 branch offices cover the whole territory; applications are handled with professionalism.

A parallel social safety net managed by the "missions" offers primary healthcare, subsidized food, housing, household equipment, stipends and scholarships for everybody in theory, but is in practice a patronage network. Benefits are not entitlements; they are not guaranteed based on established rights of specific groups of citizens. The missions are financed through taxes, direct PDVSA contributions and extra-budgetary funds. Compensation takes the form of cash or in-kind transfers; conditional cash transfers exist only in some regional and local governments controlled by the opposition.

Public expenditure on social safety amounted to 5.9% of GDP in 2013, down from 6.1% in 2012. According to Comisión Económica para América Latina y el Caribe (CEPAL), total social spending in Venezuela amounted to 21% of GDP in 2013. This is slightly more than the regional average and about the same share as in Uruguay. The country, however, gets little value for this money. The poverty rate of 32% is higher than the regional average and much higher than in Uruguay. Health spending (public and private) amounted to 4.6% in 2012, slightly less than in 2010.

Equal opportunity has been achieved in Venezuela, at least as far as gender is concerned; the country ranks second in the UNCTAD gender-related development index. The positive picture turns negative when the gender gap is considered, i.e., weighing economic participation, educational attainment, health and survival and political empowerment. Venezuela ranks 50th out of 68 in the 2013 gender gap index.

Literacy rates are nearly equal – 95.4 female/95.7 male – gross enrollment rates in secondary education favors women (90.4) over men (82.6). The proportion of women in the labor force of 50.8% is not very high compared with 79.2% for men. The same is true for female parliamentary representation. Despite a 30% female quota established in the electoral law, only 17% of the National Assembly members are women.

Social safety nets

6

Equal opportunity

7

An organic law protects women against domestic violence and sexual harassment but women's organizations criticize poor enforcement. The United Nations Committee on the Elimination of Discrimination against Women reported in 2014 that violence against women and girls was on the rise in Venezuela and urged the government to establish specialized courts for violence against women in each state of the country.

A vast array of cultural, social and economic rights protects indigenous peoples: the Law on Demarcation and Guarantee of Indigenous Peoples' Lands and Habitat; the Organic Law on the Preservation of Conditions Conducive to a Viable Working Environment; the Social Security Law; and the Procurement of Housing and Habitat Law. Yet implementation and enforcement remain a challenge.

11 | Economic Performance

By the end of 2014, Venezuela was in recession. The 4.8% contraction in the first quarter was followed by further downturns of 4.9% in the second and 2.3% in the third. Official figures were published with long delay. With monetary policy subjected to a loose fiscal policy, a business environment characterized by discretionary controls and hurdles and a byzantine foreign exchange allocation mechanism, plus the learning resistance of the principal decision-makers, there is little to be expected in terms of adjustment and structural reform. A big petroleum exporter begging for cash in the wake of an unprecedented oil price boom – as did President Maduro in his recent tour of OPEC allies, China and Russia – can only be understood as the result of disastrous economic and fiscal policies.

Though GDP per capita for 2014 was estimated at \$17,917.69 (PPP current international dollars, according to IMF), GDP growth in 2014 was at -3% (IMF); inflation in 2014 was 64.3% (IMF); unemployment at 8.0% (IMF); the cash deficit at \$-27.6 billion (Ecoanalitica) and tax revenue at 12.5% of GDP (ECLAC).

12 | Sustainability

Although sustainability ranks high in the political discourse, there is no coherent environmental policy. The downgrading of the Ministry for the Environment, once a pioneer in Latin America, to a department in the new Ministry of the Popular Power for Housing, Habitat and Eco-Socialism evidences the lack of official interest in the matter. The interested public seems to be aware of that: a Vitalis expert survey conducted in 2013 found that between two-thirds and three-quarters think that the national, regional and local governments' environmental management is poor. By contrast, community councils and neighborhood associations get positive evaluations, as well as big companies and the media. While 98% of the population

Output strength
2

Environmental
policy
3

perceives global warming as a threat and only 27% are satisfied with government action to reduce emissions, only less than 6% are active in environmental groups.

The country is a poor environmental performer; according to climatepositions.com, an advocacy website, it is the largest CO₂ per capita emitter in Latin America and its ecological footprint is nearly twice the world average. CO₂ Scorecard, a climate policy monitor, found the CO₂ intensity of the economy deteriorated sharply and represents the worst-case scenario of a country profile. This is not surprising in a country where gas prices are absurdly low: even at the official exchange rate, filling a 50-liter tank (95-octane gas) costs only about \$.70 (as of January 2015). The potential for renewable energies is vast – solar and wind – but is not being developed, except for a rather small coastal wind farm.

Venezuela is party to the fundamental international conventions regarding the environment. An array of laws protects and regulates the matter: the Organic Law on the Environment, the Organic Law of Territorial Order, the Organic Law of Aquatic and Insular Spaces, the Laws on Biodiversity, Fauna Protection, Forestry, Coastal Areas, Special Areas for Sustainable Development, and the Environmental Penal Code. As in other areas, the problem is poor implementation and enforcement, rather the lack of regulation.

Deforestation advanced at a rhythm of 6% per annum in the first decade of the century. The protected areas cover one-half of the territory, doubling the Latin American average.

Education is one of the government's showcases. Indeed, some indicators can be presented as proof: the adult literacy rate (95.5%); the preschool (70%), primary (92.3%), secondary (74.3%) and tertiary (78.1%, the highest in the world) net enrollment rates (UNESCO 2012); over a dozen new universities were created since 2003; 125,000 persons graduated in 2010 (Ibero-American Science and Technology Network/RICYT), more than in Argentina, Colombia or Spain, countries with far bigger populations.

Yet, a closer look reveals a different picture. For public spending on education, the HDR reports an amount of 3.6% of GDP in 2012, significantly below the 4.6% average of the high human development group or the Latin American and Caribbean average of 4.7%, and even below the 3.7% of the medium human development group. In the 2014 budget, spending on education dropped to 3.05% of GDP (the official statistics site SISOV reports 5.3% for 2012 and 4.9% for 2013).

Moreover, the newly created universities have little or nothing to offer in the science and technology disciplines, are mostly located in facilities that had been used by the oil company or other buildings not specifically designed for housing a university, and are poorly equipped. Only a handful of their faculty hold doctoral degrees, are involved in research or have published. Not one of those universities appears in the

Education policy /
R&D
6

QS Latin American University rankings, while the traditional public and private universities do. Such higher education institutions are little more than diploma mills.

The quality of education offers a mixed picture. As measured by the U.N. index, a 94% survival rate to fifth grade is above average (no data for the pupil/teacher ratio). The national government does not assess student performance. The proportion of pupils who attend private schools is on the rise (24% initial, 18% primary and 28% secondary); probably parents think they offer higher quality. About 30% of university students attend private institutions.

Science and technology continue on a declining path. The 2013 budget earmarked the equivalent of 0.1% of GDP for science and technology. A bare 5 per 1000 labor force are active in research (RICYT 2011); there have been no patent applications since 2003. The 2011 SCI registers 1,180 publications by Venezuelan researchers, down from 1,385 in 2010, just over a third of the Latin American average of 3,186. Venezuela is the only South American nation whose scientific output is declining.

Transformation Management

I. Level of Difficulty

The country's human and natural resources, its level of social and economic development, civic culture and the international economic environment are all favorable factors that should help it overcome existing obstacles and thrive. One such obstacle is the entrenched rent-seeking behavior that was exacerbated by the Bolivarian version of socialism.

Structural
constraints

4

Poverty is in part structurally entrenched as indicated by the increasing number of people who live in extreme poverty: from the second half of 2012 to the second half of 2013, over 700,000 Venezuelans descended into this condition, contrary to the regional trend.

The labor force exhibits adequate formal education levels and the country's geographical location is ideal. But there are severe infrastructure deficiencies such as obsolete ports and airports, badly maintained roads, an obsolete electricity grid and poor standards in sanitation. WHO singles out Venezuela as the only major country in South America that fails to contain malaria.

Venezuela has a long tradition of organized civic action in the public sphere that is reflected in a broad range of associations in the cultural, philanthropic, cooperative, sports, education, environmental, social services, economic and professional arenas. Yet the meaning of "civil society" is politically charged. In the government's perspective, it is inextricably linked to the bourgeoisie and therefore counterrevolutionary by definition. The government promotes peoples' participation as long as it is aligned with the revolution and mediated by the state.

Civil society
traditions

4

Based on a very broad definition, CISOR, a social research center, estimates there are about 32,000 associations, while the civic organization network REDSOC registers about 1,000.

The Washington-based International Center for Not-for-Profit Law reported in December 2014 that bureaucratic hurdles for the registration of human rights groups are barriers to entry; public threats by the government are barriers to activity; and restrictions relating to exchange controls are barriers to international contact and funding of non-governmental organizations. The London-based Legatum Institute

ranked Venezuela 94th out of 142 countries in the sphere of social capital in 2014, 26 positions lower than its rating for 2013.

The intensity of social conflicts reached a peak in 2014. The Venezuelan Observatory of Social Conflict registered over 9,200 protest actions or about 26 per day, nearly doubling the figure for 2013. Half of them were politically motivated protests against the government and repression, headed by the students' movement; the other half were protests against scarcity and demands for better salaries and housing. The types of protest reflect the polarization of society: while government supporters make their voices and claims heard, sometimes even in violent protest actions but maintaining their support, opponents take to the streets with the intention of throwing the government out. Protest and low presidential approval rates cannot be automatically translated into votes. Ethnic and religious cleavages are nonexistent.

The regime's confrontational style and unwillingness to enter into dialogue has turned violence into a state policy. State-sponsored violence is reflected in close to absolute impunity: according to the prosecutor, 95% of violent crimes, including those committed by security forces, go unpunished. Apart from the disproportional responses to protests by the security forces – use of toxic substances, military weaponry and wheel tanks – paramilitary groups and armed civilian “collectives” – act with brutality while formal security forces turn a blind eye.

Conflict intensity
6

II. Management Performance

14 | Steering Capability

The regime's declared strategic priority of “democratic centralism” and a command economy, or Bolivarian socialism, is incompatible with the normative framework of representative-plus-direct democracy and a market economy. The de facto priority has been staying in power as the necessary, albeit not sufficient, condition of achieving strategic goals. The staying-in-power syndrome privileges the staging of ad-hoc actions and reactions over longer-term, evidence-based policy-making. Foreseeable problems are routinely dismissed as the inventions of troublemakers; when they manifest, they are attributed to enemy action and consequently addressed with a tightening of controls which in turn tend to aggravate the problem.

President Maduro lacks the leadership that would allow him to change course as was recommended by pragmatists in his alliance. The resulting inertia made the country slide into recession, galloping inflation, scarcity and the risk of default. Frequent cabinet reshuffles – five major ones in 2014 alone – signal the precarious power balance within the government. The president's State of the Nation speech before parliament in January 2015 was long on putting the blame for the government's shortcomings on all sorts of villains, but intriguingly short on policy announcements.

Question
Score

Prioritization
2

The regime's strategic priority of Bolivarian socialism is outlined in the First Socialist Plan (2007-2012) and was reconfirmed in the second edition (2013-2019). Seven broad goals can be contrasted with available evidence at this point, two years into the second phase.

The first goal involves creating a new socialist ethic in governance. Providing evidence of measurable progress in this regard is obviously difficult, though available indicators, above all the World Bank's Worldwide Governance Indicators (accountability and control of corruption in particular), suggest the opposite is taking place. With regards to the second goal of eradicating poverty, external as well as domestic government statistics point to a growing poverty trend. The third goal, developing a new political culture of revolutionary democracy remains even further out of reach as available studies suggest that the credo of political self-determination has not taken root or is even declining among Venezuelans, meaning that a "subject culture" (in terms of Almond and Verba) still prevails instead of a self-confident "participant culture". Hard data on the fourth goal, creating an endogenous productivity model, shows that the country has grown even more dependent on oil income. The fifth goal of establishing a national geopolitical framework with socioterritorial equity remains out of reach as territorial inequality has even increased. Transforming Venezuela into a global energy powerhouse while reducing its dependence on oil, the sixth goal, is also far from being achieved, as the country has grown even more dependent on oil and actually imports energy (gas from Colombia, petrol and diesel from the United States). Finally, there have been mixed results with regard to the seventh goal in which Venezuela targets a pluri-polar world without imperial domination by strengthening its national sovereignty while diversifying its relations with other states, as the growing influence of Cuba in Venezuelan affairs has eroded the country's sovereignty.

To sum up, assuming that the government's overarching goal is staying in power, it has been successful. On all other stated "priorities," the record is dismal.

Policy learning is anathema to the government as demonstrated by the persistently sliding governance indicators, the absence of reliable policy monitoring and evaluation, and the resulting opaqueness in reporting. While it is difficult to find objective indicators for policy learning, policy adaptability may be used as a proxy: Venezuela is ranked 20th out of 21 Latin American countries in a recent IDB study on policy adaptability. Furthermore, the fact that the Venezuela's leadership continues to pursue a failed interventionist approach proves its learning incapacity.

Changes introduced once facts can no longer be ignored tend to reduce the capacity to gain knowledge, indicating pathological learning processes. Groupthink is a further impediment to policy learning. The symptoms are obvious: fervent belief in the rightness of the cause of Bolivarian socialism, immunity from critique, stereotyped views of out-groups as enemies who must be repressed, direct pressure on dissenters within the group.

Implementation
2

Policy learning
1

15 | Resource Efficiency

Venezuela boasts seven vice presidencies and 33 ministries, the highest number of cabinet members in the world, who are supported by no fewer than nearly 120 vice ministries. They make up the peak of a bloated state bureaucracy that absorbs 20% of the labor force. The unprecedented expansion of the government payroll, the fiscal mess in times of unprecedented petrodollar inflows, and the unprecedented explosion in the number of government agencies that provide poor service all prove unprecedented waste.

Efficient use of assets

2

With a government payroll more than double its size by comparison to the beginning of the century, services provided by the state have not improved beyond their historic trends, or even deteriorated, as demonstrated by the performance indicators reported earlier. Rather than fostering efficiency, the policy of overstaffing enhances inefficiencies by diluting responsibility. In a U.N. comparative study of eight Latin American countries, Venezuela ranks lowest in the government e-readiness index (web services available, telecommunications infrastructure and human capital in the national, regional and local governments). The World Economic Forum's Global Competitiveness Index ranks Venezuela 144th of 144 for the "wastefulness of government spending" indicator. Politically motivated dismissals and appointments are the rule. Senior positions are often filled by bypassing legally established competitive procedures and selection criteria as evidenced by the designation of judges, directors of the electoral authority and other leading positions in the different branches of government.

Although the level of public debt is manageable, its dynamic bodes ill for the declared goal of fiscal consolidation. The 2013 and 2014 budgets were deep in the red. The parallel budget handled by the president that bypasses parliamentary control is not auditable. Opaqueness characterizes the budget planning and implementation process. The deviation of expenditures from the originally established level was 41% in 2013 and 75% in 2014. The contrast between the reality of falling oil prices and the government's spending plans is particularly stark: according to analysts, the administration needs a price well over \$100 per barrel to finance them. Legislators are not provided audit reports for the security sector or extra-budgetary funds. Citizens are not provided pre-budget statements or mid-year reports.

The efficiency of the public administration is hampered by recruitment, promotion and compensation practices that reflect non-performance criteria such as loyalty and seniority. Responsible decentralization is problematic as the state and municipal budgets depend heavily or exclusively on the national government. Hence, governors and mayors do not feel they are accountable to their constituents. In a 2014 CEPAL study, the quality of Venezuelan public services is ranked 12th out of 16 Latin American countries. In a recent study of government capabilities and efficiency by

the IDB, Venezuela appears almost at the end of the scale, as the second to last Latin American country, just ahead of Haiti. Given the fact that, in the past 14 years, the official payroll has more than doubled and about \$800 billion in oil revenues have been spent, this performance is abysmal.

Institutions or procedures to modernize the public administration exist, but are ineffective, mainly owing to the above-mentioned recruitment, promotion and compensation practices. Public management lacks a long-term vision of planning, recruiting, budgeting and auditing. Audits focus on the regional and local administrations, especially those controlled by the opposition: in 2013, the Comptroller completed about 70 audits for a total of 168 administrative organisms at the central level, compared with 3,212 for the 335 local and 23 state governments.

The country's dire situation is the predicted product of erratic policies left behind by the late President Chávez, which Mr. Maduro's administration has proven to be unwilling or incapable to fundamentally change, mainly because of political infighting in the government. Greater flexibility in controls and dialogue with the private sector proposed by pragmatists in the administration were blocked by the radical faction whose recipe is the tightening of regulations. The economic measures vaguely announced in January 2015 – revised exchange controls, minimum wage and pension increases, and talks about gas price adjustments – are little more than doing nothing; they fail to address the severe distortions induced by misguided policies and pave the way toward instability. Consequently, the IMF Director for the Western Hemisphere dramatically downgraded the institution's October 2014 forecast for Venezuelan GDP growth in 2015 from -1% to -7%.

Policy
coordination
2

The incoherence of overall policy reflects imbalanced trade-offs between conflicting longer- and shorter-term goals, as well as incompetence, rather than competing interests. Quantitative easing needed to fuel present consumption conflicts with the goal of inflation control. Pre-election handouts linked to loyalty conflict with the goal of sustainability. Bureaucratic tutelage conflicts with the goal of grassroots autonomy. In the field of economic policy, the government has not managed to reconcile the goals of balancing the budget, controlling inflation and maintaining growth. Parallelism prevails over horizontal forms of coordination as multiple state and para-state agencies target the same areas and compete on the basis of salience instead of performance, diluting responsibility.

As in other areas, the legal and institutional arrangements to prevent, investigate and prosecute corruption exist, but are not enforced, encouraging impunity. Venezuela ratified the United Nations Convention against Corruption in 2009.

Anti-corruption
policy
2

The World Economic Forum's Global Competitiveness Index ranks Venezuela 137th out of 144 countries for "irregular payments and bribes", 144th out of 144 for "favoritism in decisions of government officials" and 144th out of 144 for

“transparency of government policy-making.” The Tokyo-based 2013 Jones Day Anti-Corruption Regulation survey ranks Venezuela 160th out of 177 and stresses the following enforcement issues as the main obstacles for the fight against corruption: 1. Enforcement bodies are not insulated from political influence. 2. There is a lack of commitment to fight against corruption. 3. Mistrust exists in the justice system. 4. Systematic corruption prevails at all levels of society. 5. Increasing impunity rate stands at over 90%. 6. The comptroller and the prosecutor lack institutional, human and financial resources. 7. Whistle-blowing policies and witness protection are absent; complaints filed with the comptroller are not anonymous. Add to this the hopeless underfunding of the supreme anti-corruption agency, the Comptroller General, whose budget accounts for a meager 0.09% of the national budget for 2015.

The observation that corruption is socially entrenched is consistent with public opinion survey findings that place Venezuela at the bottom of the Latin American table in terms of identifying corruption as a problem (2%, Latinobarometro 2013), despite its high perception values.

16 | Consensus-Building

The dominant Socialist Party leadership bets on making Bolivarian socialism irreversible, while the broad opposition alliance defends the representative-cum-direct democracy and the social market economy enshrined in the constitution. There is no overlap to be explored and expanded as common ground for agreement. The government was successful in relocating an initiative to establish an OAS-mediated dialogue with the opposition to Union of South American Nations (UNASUR), the regional body where it wields more influence. The spring 2014 meetings accompanied by a group of UNASUR foreign ministers and the Papal Nuncio to Venezuela led nowhere.

The very concept of “market” arouses suspicion in government circles because it seen as the heart of capitalism which must be eradicated. The more pragmatic members of the cabinet who had proposed a more flexible, unified exchange rate mechanism and begun to break the gas price taboo were first blocked and then sacked. For their part, the main opposition leaders and spokespeople can be characterized as ranging from pro-market to state centrist, so there is probably a tiny bit of common ground between those pragmatists with insufficient clout and some rather state-centered opposition sectors.

Consensus on goals
3

The actors who dominate the state and its institutions expressly reject the concept of democracy based on the separation of powers, pluralism and the clear distinction between the state and party organizations that is enshrined in the constitution.

Anti-democratic
actors
2

There are democratic reformers in the opposition, civil society and within the ruling elite but their chances to prevail are at best very scant. An eventual change of course will result from cracks within the ruling block rather than the influence of outside reformers.

The cleavage that separates Venezuelans is political in nature. Polarization has been the strategy to keep the Bolivarian “faithful” united in a front against the “unpatriotic” enemy. Consequently, the ruling elite’s political discourse has been extremely aggressive and exclusionary.

Cleavage /
conflict
management
1

There are no strong ethnic or regional minorities. The dominant cleavage has always been the one between Ins and Outs – those with access to the state and the oil rent and those without. It was the great achievement of the traditional parties to alleviate this cleavage and to build a broad, albeit not universal, coalition of Ins. When the number of Outs increased in the course of the economic crisis during the 1990s, Chávez aggressively exploited this situation and politicized the latent divide within Venezuelan society. His government was built from the start on polarization and it continued to be. Although a new class of Ins – the Boliburguesia – has developed, the mobilization of the former Outs still constitutes the government’s main legitimizing tool and its *raison d’être*.

Civil society participation in the social, political and economic dynamic is a constitutional guarantee, though distorted or even stifled in practice. Societal groups are free to participate in decision-making processes – as long as they do so in accordance with the government’s interests and ideology. Dissenting groups are repressed; pluralism as a guiding principle is explicitly rejected.

Civil society
participation
3

The over 40,000 Communal Councils, which in theory are the channels of civil society participation in local and regional affairs, are in practice top-down bodies dependent on central government approval and registration, neither autonomous nor plural in composition. At the national level, civil society participation is a constitutional requirement for the designation of the heads and members of the branches of power such as the Supreme Court magistrates, the Attorney General, the Comptroller, the Ombudsperson and the Electoral Authority. The 2014 designations were made by simple majorities of the National Assembly, violating the constitutional requirement designed to ensure that nominees are impartial. All positions except one of the three Electoral Council vacancies were filled with loyalists.

Regional attempts at facilitating talks between the government and the opposition failed. Reconciliation is not on the government’s agenda.

Reconciliation
n/a

17 | International Cooperation

The government's development agenda, the "Fatherland" or Second Socialist Plan 2013-2019 resumed earlier, relies to some extent on external cooperation. Regarding the goal of eradicating poverty, Cuban assistance in primary health care is essential for service provision in the missions, but ineffective in improving basic health indicators and counterproductive in elevating the professional standards in health care. The Chinese cooperation invited in order to achieve the goals of fostering endogenous production and transforming the country into a global energy powerhouse generated greater de facto dependence and ended up with Venezuela importing crudes. To sum up, the international know-how that was invited has proven to be counterproductive in achieving the declared development goals.

Effective use of
support
2

The international community does not rely on Venezuela as a trustworthy and credible partner – not even Cuba, its closest ally. President Maduro obviously was taken by surprise when he learned about the Cuba-U.S. rapprochement during the Mercosur Summit in Argentina in December 2014. Maduro's poorly prepared January 2015 whirlwind tour that took him to his OPEC allies, plus China and Russia, ended in a predictable fiasco for his amateurish oil diplomacy deployment, as none of the governments visited agreed to curb production in order to stabilize prices. Though FDI are badly needed, and indeed the government has not closed its doors, FDI subsequently diminished over the past years due to the overall insecure investment climate.

Credibility
2

Venezuela's regional cooperation continues to follow a *realpolitik* approach: unrestrained support for allies (ALBA, Argentina, Brazil, and outside the region, for Iran, Belarus and Russia), necessary links to ideologically unfriendly but important partners (USA, Colombia), practical relations with neutral third parties and confrontational attitudes against open adversaries (Panama). The withdrawal from the Inter-American human rights bodies and the ICSID, owing to unfavorable reports and rulings, demonstrates that the leadership is reluctant to abide by the rules established with Venezuelan consent.

Regional
cooperation
4

At the same time, the Venezuela-led regional block ALBA stands on shaky grounds. It is held together by nothing more than oil and ideology – two factors that are quickly fading away. Governments in member states may change and oil prices may fall. Thus, this type of regional cooperation can hardly be regarded as sustainable.

Furthermore, the inclusion of Venezuela into Mercosur for mere political reasons did not serve to strengthen Mercosur as an instrument of regional cooperation, but only revealed the weakness – and maybe the end – of Mercosur, due to the incoherent framework under which Mercosur operates (or at least tries to do so).

Strategic Outlook

The country's outlook is bleak, as things have deteriorated in several respects. First, the military has been drawn into politics again. It will take time for civilian politicians to regain uncontested preeminence. Second, dependence on oil is greater than ever; economic conditions are grim. Third, the spending splash of Hugo Chávez created unrealistic expectations in the populace that cannot be satisfied by whatever government will come. Fourth, public administration is in disarray. Corruption and incompetence will for the foreseeable future prevent any policy from being successfully implemented. Whatever happens in the next two years, it will take Venezuela decades to recover from the legacies of chavism.

Post-Chávez chavism looks doomed. The country approaches collapse whether or not the ruling elite acknowledges it. President Maduro does not. His Annual Report before parliament in January 2015 confirmed what most had expected. He did not signal that he had understood the roots and severity of the crisis. He lacks a strategic design for how to effectively cope with it and is unwilling or incapable of making the decisions needed for a turnaround sooner rather than later. Certainly, an unpopular adjustment package would be a hard sell within the ruling elite, even more so with parliamentary elections due later in the year. Consequently, a wait-and-see strategy was adopted, but as the crisis unfolds and its destabilization potential grows, so does the leadership's anxiety and determination to hold its grip on power whatever it takes. The January 27th Defense Ministry resolution expressly authorizing the – unconstitutional – use of lethal weapons against protests is an answer obviously intended to discourage free assembly, intimidate potential protesters and signal a determination to step up repression.

An optimistic, but not very likely, scenario would see the government lingering on amid growing unpopularity and deepening fragmentation in the government ranks, with the opposition standing up in the face of repression, overcoming the procedural obstacles and winning a parliamentary majority in the December 2015 elections. The opposition would seek an arrangement with sectors of the still-strong United Socialist Party to force Mr. Maduro's resignation or recall his mandate. A new president would be elected who would build a broad-based government which would coopt or protect some chavista elite interests, and thus be capable to effectively change course toward stabilization. A less unfriendly business environment would trigger the repatriation of human and financial resources, investments and help generate sustainable growth.

Yet, it is unlikely that we will see Bolivarian socialists campaigning for an election they are uncertain to win, despite the procedures biased in their favor. Two different scenarios with a common denominator seem possible: Mr. Maduro's ousting either through a negotiated rearrangement of the power relations within the ruling elite, or the pressure from military circles around the regime's second strongman, National Assembly President Cabello. Both procedures could be presented as constitutional and would be rubber-stamped by parliament and a compliant

judiciary. Elections would be deferred, a caretaker government would gradually pave the way toward stabilization and might even win popular support.

Taking into account the state's tenuous monopoly on violence, an anarchic scenario cannot be excluded. Too many weapons have been handed to so-called collectives and all kinds of revolution defense committees, as well as militias whose actions defy government control. These have intimidated journalists, media and neighborhoods in the past, attacked peaceful demonstrations and also defied security forces. And they can be expected to mobilize in reaction to, or to provoke, either of the two former scenarios.