

# BTI 2014 | Venezuela Country Report

<b>Status Index</b>	1-10	<b>4.60</b>	# 92 of 129	
Political Transformation	1-10	4.52	# 85 of 129	➔
Economic Transformation	1-10	4.68	# 90 of 129	➔
<b>Management Index</b>	1-10	<b>2.52</b>	# 121 of 129	

scale    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	30.0	HDI	0.748	GDP p.c.	\$	13485.5
Pop. growth <sup>1</sup>	% p.a.	1.5	HDI rank of 187	71	Gini Index		44.8
Life expectancy	years	74.3	UN Education Index	0.697	Poverty <sup>3</sup>	%	12.9
Urban population	%	93.7	Gender inequality <sup>2</sup>	0.466	Aid per capita	\$	1.2

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Between 2011 and 2013, the Venezuelan government led by Hugo Chávez continued its so-called Bolivarian revolution, combining a largely mixed economy with significant state intervention and an electoral autocracy that concentrated power in the executive virtually eliminating any separation of powers. As previously, a logic of electoral authoritarianism functioned here, as Chávez scored victories in largely free but not fair presidential and regional elections in 2012. In December 2012, he left for Cuba to undergo cancer surgery, ultimately proving unable to take on his fourth consecutive term of office under the procedure established in the constitution. The acting government was successful in securing external support, but its legitimacy was questioned at home at a moment when drastic adjustment measures were inevitable. The president's illness, and the government's decision to treat this as a state secret, highlighted the degree of dependence of Venezuela's current political regime on its charismatic leader. Shortly after the end of the evaluation period, and after 14 years of Bolivarian revolution, President Chávez's death in early March marked the beginning of the transition to post-Chavism in Venezuela. Nicolas Maduro, his designated successor, won the presidential elections in April 2013 by a narrow margin of 1.5% against Henrique Capriles, leading to sharp post-electoral conflicts.

With respect to political transformation, the state's lack of meaningful separation of powers or institutional autonomy has accentuated the opaqueness of the public administration. A survey of business leaders characterized Venezuela as the most corrupt country in the hemisphere. The human rights situation, especially regarding the right to life, deteriorated further during the period under review. The freedoms of opinion and the press are under assault, and associational autonomy has been seriously impaired in a political environment where only one out of five Venezuelans assesses their democracy in its present shape as satisfactory.

In the economic realm, private banks thrive under exchange controls and the high interest rates on state securities imposed under Bolivarian socialism. The presence of poverty and inequality has defied the extraordinary increases in government handouts. Market competition and private

property rights are increasingly restricted and a new Law on Fair Prices and Costs has made administered pricing the norm. Fueled by a massive increase in public spending backed by huge petrodollar inflows, the economy resumed growth in 2011 and is set to continue on an upward path in an environment of persistently high inflation. The government's rent-seeking paradigm faces sustainability problems. Venezuela was recently singled out by the World Health Organization as one of the most contaminated countries in South America. While the numbers of graduates in newly created mass universities is growing, educational achievement is low by international standards, and science and technology indicators have declined sharply. This is hardly an encouraging state of affairs when the country has finally joined Mercosur after five years of waiting and faces the challenge of adapting to its rules.

The regime's declared strategic priority of democratic centralism combined with a command economy is incompatible with the BTI's normative framework of representative-plus-direct democracy and a market economy. Available evidence demonstrates the regime's incapacity to make significant progress toward its own goals. Its ingrained aversion to monitoring and evaluation techniques and entrenched groupthink indicate a deep-rooted resistance to learning which makes change for the better unlikely. 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 providing poor service are evidence of unprecedented waste. The incoherence of overall policy reflects imbalanced trade-offs between conflicting long- and short-term goals, as well as simple incompetence. On the other hand, the government has been successful in mobilizing international support based on the potent and attractive fusion of an anti-capitalist and anti-imperialist discourse with deep pockets that are beyond any public scrutiny.

## 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 it to keep the currency stable and to achieve average growth rates of over 7% from the late 1920s through the 1970s. The petroleum business accounts for between one-fourth and one-third of GDP, 90% of export earnings and about one-half of the central government's operating revenues. However, decision-makers have missed opportunities to depart from the rent-seeking paradigm. An overvalued currency resulted in poor economic performance and produced huge capital outflows. In response to a deepening fiscal crisis, the Luis Herrera administration devalued the bolivar and introduced exchange controls in February 1983.

When the Carlos Pérez administration announced an IMF-assisted adjustment program shortly after the president's inauguration in 1989, spontaneous popular protest degenerated into widespread riots that the government repressed by calling on the military, whose use of excessive

force resulted in a huge death toll. The rebellion and its repression provided a group of conspiring army officers centered around Lt. Colonel Hugo Chávez with a pretext for staging two (unsuccessful) coup attempts in 1992. After President Pérez's impeachment on corruption charges in 1993, the adjustment package was first scrapped by the successive administrations of presidents Ramón José Velásquez (1993 – 1994) and Rafael Caldera (1994 – 1999), but then partially reintroduced in 1996. 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. Since then, an impressive series of electoral victories handed Chávez almost total control while strengthening his image as a democrat.

The 1999 constitution emphasizes four principles: plebiscitary democracy, concentration of power, a recentralization of the state and a state-regulated social market economy. The constitution outlines a system of checks and balances, but they are in practice 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's 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.

President Chávez scored further victories in the presidential elections of 2006 and 2012, as well as in the referendum on the abolishment of term limits in 2008. The sequence of Chávez victories at the polls was interrupted in 2007 when he lost a constitutional referendum that would have abolished term limits and established a socialist regime. Defeat in the referendum did not stop the president's march toward Bolivarian socialism, however. An enabling law passed by the National Assembly allowed Chávez to advance his agenda with a package of decrees in mid-2008, which legalized most elements of the defeated 2007 referendum. Electoral setbacks continued in the regional and local elections of 2008, in which Chávez's alliance lost some important strongholds, including greater Caracas.

Reacting to the setbacks at the polls in the country's most populated areas, the Electoral Council redesigned the voting system so as to favor regime strongholds in rural areas. The parliamentary elections of September 2010 consequently produced a comfortable government majority of 60% of the seats on the basis of just under one-half of the votes, while the opposition's 50%-plus of the votes translated into just 40% of the seats. This was nevertheless enough to block the qualified majorities required for the approval of organic laws or the appointment of members of the judiciary, electoral council and the so-called citizens' branches. Without opposition support, the government lacked the power to replace officials whose terms came to an end; because the government refused to negotiate with the opposition over proposed candidates, the National Assembly could not appoint new officeholders. The Supreme Court ultimately ruled that the officeholders with expired terms, all of them Chávez loyalists, should retain their positions until new regular officeholders were nominated. With President Chávez reelected in October 2012, the

government alliance defeated a demoralized opposition in the regional elections of December 2012, winning back most of the statehouses they had lost in 2008.

A problem of legitimacy arose when President Chávez first announced that he might be unable to assume his fourth mandate on January 10 as planned, nominated Foreign Minister Nicolás Maduro as his new vice president and asked the people to support this figure as his successor. The constitution definitely establishes January 10 of a presidential mandate's first year as the date for the formal inauguration of the president-elect. However, the Supreme Court ruled that the inauguration could be postponed indefinitely, and that officeholders could continue in their positions based on the principle of administrative continuity. The opposition questioned the procedure but accepted the ruling, and the broader community of nations in the hemisphere signaled support. After 10 January 2013, the acting government leadership traveled frequently to Cuba to report to President-elect Chávez and receive instructions. President Chávez died in early March 2013; Maduro was elected as his successor in April.

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

The state has the capability to monopolize the use of force throughout the territory but is unwilling to do so. An emerging culture of impunity and a growing number of enclaves where armed violence is not controlled by the state reflect an oligopolistic arrangement in which state, gangs and guerrillas share authority. Cases in point are the country's prisons, where inmate gangs are the wardens. Power struggles here often result in deadly riots; prison violence claimed the lives of over 1,000 inmates in 2011 and 2012. Outside the prisons, there are urban neighborhoods controlled by thugs organized in "colectivos" such as La Piedrita in Caracas. A photo of children posing with assault rifles to support Chávez, accompanied by a National Guard officer in uniform, a government-party parliamentarian and the group's leader, against whom several arrest warrants for homicide had been issued, sparked public outrage. Under national and international pressure, the government ordered an investigation, which went nowhere. In addition, vast areas along the Colombo-Venezuelan border are de facto controlled by various guerrilla groups that operate drug trafficking corridors in a permissive environment. Although the government claims to have destroyed dozens of airstrips and to have hit the traffickers hard, their activity continues largely unchecked. Finally, crime – particularly murder – spiraled to new heights during the Chávez administrations, giving Venezuela one of the world's top five homicide rates, along with Honduras, El Salvador, Côte d'Ivoire and Jamaica.

The legitimacy of the nation-state is not questioned by any social, regional or ethnic group. That includes the Wayuu, the largest indigenous community with a population of about 450,000, members of which live on both sides of the Colombo-Venezuelan border in the Guajira region and who move relatively freely in both directions. Many of them hold both Venezuelan and Colombian identity documents. However, national symbols have been appropriated by the government to serve its own interests, which

Question  
Score

Monopoly on the  
use of force

6

State identity

9

means they are denied to members of groups who do not share its views, to some extent calling into question their status as citizens.

The state is secular. The Catholic and evangelical Protestant churches have a vocal presence in the public sphere, but do not interfere with the legal order or political decision-making.

No interference of  
religious dogmas  
10

The state operates as a prolific regulator, poor manager and inefficient underachiever. Complying with the host of regulations ostensibly in force would require professional monitoring as well as transparent intervention. But the reality is quite different. The overcentralization of basic services, frequent changes to plans and projects, frequent staff rotations in management positions, parallel bureaucracies such as the “missions,” and transversal actors such as PDVSA, the national oil company, generate a chaotic state of affairs. Apart from the tax and civil registry administrations, service quality is poor. The transport infrastructure – roads, bridges, ports and airports – is falling apart. Internet access provided by Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), the state-owned telecommunications company, is among the slowest in the world (rank 169 out of 180). Hospitals, schools, universities and prisons are hopelessly overcrowded and underfunded. According to the statistical institute, 84% of the population has access to sanitation and 95% to improved drinking water. The provision of juridical services is meager, and law enforcement is not sufficient to protect ordinary citizens, as is evidenced by the high crime and homicide rates.

Basic  
administration  
6

## 2 | Political Participation

Elections are regularly conducted on the national, regional and municipal levels. Universal suffrage and the secrecy of the ballot are ensured. A host of parties with different platforms are able to run and the outcomes reflect the will of the electors.

Free and fair  
elections  
6

However, a closer look raises serious doubts about the free and fair character of election processes in Venezuela. While voter identification through fingerprint scanners installed at the entrance of the ballot stations cannot be related directly to the voter sequence at the voting machines, there is fear among voters, especially among public servants, that the government has the capability of discovering how they voted. Such objectively groundless fears are not eased by the fact that four of the five directors of the election authority are known Chávez supporters. Even so, a majority of Venezuelans trust the body.

Election processes are well organized, from the voter, candidate and party registration procedures to the districting, polling, vote count, result verification and complaint resolution processes. The provision of about 13,000 polling stations ensures relatively easy access, and ballots are cast using voting machines whose printouts are folded

and stuffed into ballot boxes, of which 50% are later manually recounted in the presence of party witnesses. The construction of districts favors rural populations.

The unfairness of election processes is evidenced by the huge bias in media access and the government's open and unlimited use of state financial, material and human resources for campaign purposes. The government runs a media empire that refuses altogether to present opposition voices. Furthermore, all public and private radio and TV channels are obliged by law to broadcast official speeches, especially those given by President Chávez, the so-called chains (*cadena*s). During the 90-day presidential election campaign in 2012 (July 1 to October 4), President Chávez used these *cadena*s for over 45 hours – that is, half an hour per day on average – on top of the 30-second spots to which candidates are entitled free of charge. During the last week of September, shortly before election day, the official TV channel VTV dedicated 18 hours of coverage to Chávez and just 30 minutes to rival Capriles. Paid publicity is limited to three minutes per day.

There is no public funding of election campaigns in Venezuela. The presidential election of 2012 saw an opposition candidate facing the combined publicity power of state institutions and state-owned companies, with access to funds controlled directly by the presidency beyond parliamentary control.

Venezuela is classified as an electoral autocracy due to the virtual elimination of any checks and balances. Elected officeholders exercise power over their respective areas in an authoritarian environment. There are no national veto powers or independent political enclaves. The Cuban leadership's influence has certainly increased since President Chávez underwent his fourth cancer surgery in Havana – indeed, he was on life support nearly constantly between 11 December 2012 and his death on 5 March 2013 – but its extent remains unclear. While opposition officeholders at the regional and local levels face considerable interference from the national level, government supporters have seen themselves as accountable to President Chávez rather than to their constituents. The governors elected in 2012 publicly dedicated their victories to him and promised solemnly to carry out his orders.

The constitution guarantees association and assembly rights; there is also some degree of freedom to exercise them. But restrictions are severe, especially for organizations deemed government-unfriendly. PROVEA, a respected human rights watchdog, recorded about 4,500 demonstrations and protest actions in 2011, of which 130 were repressed by security agencies using excessive force, as well as firearms and toxic substances banned by the constitution, with about 350 persons injured and at least 10 persons subjected to unconstitutional trials in front of military courts (2012). The National Guard stands out for its use of excessive force, perhaps because in one of his television appearances President Chávez asked them to “welcome” student protests with salvoes of “gas, the good gas.”

Effective power to govern

2

Association / assembly rights

5



A CIVICUS study by the World Alliance for Citizen Participation found that 60 of about 100 Venezuelan associations interviewed reported that their rights had been illegitimately restricted. Their ability to apply to international forums in their own defense has been impaired by Venezuela's withdrawal from the jurisdiction of the Inter-American Court of Human Rights and the American Convention on Human Rights. The Law on Political Sovereignty and National Self-Determination imposes restrictions on foreign funding of "political organizations," and attacks against civil society activists are common. Other forms of harassment include bureaucratic hurdles to the registration of associations.

The constitution guarantees freedom of expression, but the regime has established a legal framework (specifically the Law on Social Responsibility of Radio and Television) that allows it to censor and punish its critics under the pretense of safeguarding the public order. PROVEA, a human rights NGO, has identified 76 cases of violations of the freedom of expression attributed to the government, the National Guard or the tribunals in 2011, and 99 cases in 2012, extending to physical and verbal aggression against regime-critical journalists and media, as well as episodes of intimidation, censorship, administrative restrictions, judicial persecution, threats and harassment. The Inter-American Commission on Human Rights provides in-depth information on these cases. Indeed, most freedom of expression cases taken by the commission to the Inter-American Court of Human Rights have involved Venezuela. Reporters Without Borders ranks Venezuela 117th of 179 countries in its 2013 freedom of expression index.

An outstanding case in point is the \$2.2 million fine – justified by alleging disturbance of the public order – imposed on Globovisión, the only regime-critical TV channel, for its coverage of the bloody El Rodeo prison riot in 2011. Globovisión also faces sanctions for broadcasting spots questioning the legitimacy of postponing President-elect Chávez's inauguration beyond the day expressly set for this purpose in the constitution. In 2012, after reports on drinking-water contamination as a consequence of an oil spill had been published and broadcast, the government issued an injunction which obliged journalists to support reports on drinking water quality with detailed technical studies. Fearing reprisals, the media has been reluctant to conduct in-depth investigations on a number of topics, including Chávez's health, prison violence and accidents in oil industry facilities. Government-critical media are systematically denied access to official events, agencies, ministries and the National Assembly.

While the media system still produces a plurality of opinions, it is under continuous assault. The radio spectrum is dominated by state-owned stations. The print media market remains more pluralistic.

Freedom of  
expression

4

### 3 | Rule of Law

The independence of the five branches of government is established de jure, but checks and balances do not exist in practice. The executive – during the period under review exclusively under Chávez’s control – has systematically undermined institutional checks and balances, replacing every independent mind within the institutional framework and the ruling party. Even the de jure condition was questioned by the president of the Supreme Court when she characterized the separation of powers as a “principle that weakens the state.” The executive branch (the presidency) is in full control, the legislative branch rubber-stamps government initiatives and blocks those tabled by the opposition (e.g., budget debates, arms legislation, the first jobs bill), the judicial branch follows executive orders (e.g., the Judge Afiuni case, or the verdict allowing the indefinite postponement of the president’s inauguration), the electoral branch sets election timetables at the convenience of the government party (e.g., the advancement of the 2012 presidential elections to suit the ailing Chávez, who would have been unable to run had the event taken place as originally scheduled in December), and the citizens’ branch is an essentially decorative organization rather than a body that genuinely defends the rights of the citizens (e.g., the ineffective audit office, the defender of the people and the prosecutor’s role regarding the prison riots).

Separation of  
powers  
3

The judiciary is not independent, as evidenced both by its procedures (specifically, the appointment and removal of provisional judges and prosecutors in violation of constitutional and legal provisions; around 50% of the judges are provisional nominees) and its verdicts in specific cases (for example, the Judge Afiuni case, and others which were criticized in a 2011 Inter-American Commission on Human Rights report). In December 2010, the outgoing legislature appointed nine new judges to the Supreme Tribunal of Justice (TSJ), all of whom are generally viewed as friendly to the government. The instrumental and subservient character of the judiciary was underlined by the Supreme Court’s public expression of commitment to Chávez’s political agenda, made at a plenary session and broadcast by the official VTV television channel. In April 2012, a former Supreme Court justice and Chávez loyalist who was fired following allegations that he had protected drug traffickers and now lives in exile declared that judges receive precise instructions from the executive on how to rule in sensitive cases.

Independent  
judiciary  
2

Venezuela’s anti-corruption agency, the General Audit Office, imposed sanctions for 35 cases of corrupt practices in 2011, followed by 42 in 2012. The Audit Committee of the National Assembly filed 730 corruption cases in 2011, of which 438 were investigated. However, 434 of these were ultimately shelved, and a mere four were presented for prosecution. The strikingly wide gap between high-profile corruption cases such as those involving the Caracas Bus System, the distributed power

Prosecution of  
office abuse  
3

generators, importers of rotten food, and the Barinas sugar refinery, to mention just a few, and the marginal cases actually brought to trial may be due to the chronic underfunding of the Audit Office. The irrelevance of this body in the eyes of the government majority is illustrated by the fact that the 2013 budget sets aside just \$82 million, about 0.1% of total government expenditure, for its funding. Corruption charges are routinely brought against opposition leaders in order to remove them from the political sphere. Corruption is rarely prosecuted within the administration. A Reuters survey of business leaders in Latin America reported that Venezuela was perceived as the most corrupt country in the hemisphere.

The constitution and legal framework provide comprehensive de jure protection of civil rights. In 2012, the country joined the Optional Protocol to the Convention Against Torture (OPCAT). The National Assembly approved the Law to Sanction Crimes, Disappearances, Tortures and Other Violations of Human Rights for Political Reasons during the period 1958 – 1998, thereby suggesting that such violations ended when Chávez assumed the presidency. However the real picture is gloomy. Above all, the right to life is seriously impaired. The homicide rate climbed to 73 per 100,000 persons in 2012, and impunity continues to reign unchecked according to the Observatory of Violence, a human rights watchdog. PROVEA, another human rights NGO, noted 56 cases of torture in its 2011 report. In most cases, perpetrators are simply transferred to a different police authority. The interior minister has admitted that one in five crimes are committed by the police themselves. In 2012, eight deported Colombian citizens accused Venezuelan authorities of torturing them in order to make them admit they were members of the FARC guerrilla organization. Colombian forensic doctors confirmed their allegations.

The weak and dependent judiciary fails to be a guarantor of human rights. In September 2012, the government announced Venezuela's withdrawal from the American Convention on Human Rights, the region's most important legal instrument for citizens seeking redress for human rights abuses.

#### 4 | Stability of Democratic Institutions

The formally democratic institutions at the national level do not perform their functions effectively due to the de facto absence of any separation of powers. Counterproductive friction arises from the president's unpredictable ad-hoc decision-making. Responsibility is diluted by the parallel structures of ministerial and "social mission" bureaucracies, which are further complicated by the oil company's transversal multi-task competence. President Chávez's obsession with centralization has stripped regional and local governments of significant competences and made them dependent on central government funding. Transfers provided to the growing number of community councils not elected through universal suffrage, which are

Civil rights  
5

Performance of  
democratic  
institutions  
3

dependent on approval by central authorities, surpass the expenditure earmarked for local governments in the 2013 budget.

The government party's absolute majority in the National Assembly falls short of qualified majority thresholds. As a consequence, the parliament has not fully carried out nomination processes for Supreme Court justices, the Comptroller General and several directors of the National Electoral Council. A subservient judiciary is obviously at odds with the idea of democratic performance, as is a public administration based on loyalty to a leader rather than allegiance to transparent rules.

Relevant political actors, as well as the public in general, accept democracy as the best form of government but are deeply divided when it comes to practical issues of living together and tolerating dissent. Their commitment to the constitution at the level of discourse becomes somewhat discretionary in the qualification of institutions, events or actions as legitimate or illegitimate. While President Chávez and his supporters openly pursue uncontested dominance and claim that their revolution is irreversible, both assertions of questionable compatibility with the constitution to say the least, opponents claim to stick to the pluralist principle enshrined in the constitution. Any discussion about the commitment of actors to representative democratic institutions seems pointless in Venezuela's case.

Commitment to  
democratic  
institutions

3

## 5 | Political and Social Integration

The party system mirrors the society's political polarization. The Chavista Great Patriotic Pole is composed of a dozen organizations clearly dominated by the United Socialist Party of Venezuela (PSUV; this contributed over 85% of the PP's vote in the 2012 regional elections); the opposition Democratic Unity Platform (MUD) is composed of about 30 groupings (of which five parties concentrated about 80% of the MUD votes in those elections). However the dichotomy is unstable, as there are frequent individual and collective defections on both sides.

Party system

4

Both coalitions are movements rather than socially rooted parties. While the PSUV is a strictly conducted and disciplined organization with over 7 million registered activists, the MUD is a loosely coordinated alliance with no direct membership.

Some parties maintain pockets of support centered around regional and local leaders with access to administrative resources, with their existence depending largely on the success of these leaders.

Clientelist practices are common in both camps. Recruitment into the national, regional or local administrations depends largely on party affiliation. Voter volatility continues to be relatively low; the 2012 election results (presidential and regional) produced similar results, with a Chavista lead of 10 points over the opposition.

The space in which interest articulation and mediation between society and the state can take place has narrowed sharply in recent years. In the government's vision, social participation and interest organization must be inseparably linked to the Bolivarian revolution. Given that revolution and state are one, social interest articulation must take place under state auspices, and cannot reflect competing social concerns. President Chávez himself articulated this in his definition of civil society in one of his broadcast speeches: "What is civil society? I am civil society." Ideologically aligned organizations are hence subservient to the state and cannot assume the role of mediators between society and the state. Dissenting interest groups are seen as enemies and are consequently harassed or even criminalized. In 2011, a group of more than 130 civil society organizations demanded the cessation of harassment and criminalization by the state, citing numerous specific cases of such practices. Obviously, dissident organizations have an extremely hard time trying to act as mediators between society and the state.

Interest groups  
4

Although there are interest groups that are not aligned with either blocs, the fact of their ostracism is of little help in the search for common ground or the establishment of platforms for dialogue between society and the state. The South Africa-based World Alliance for Citizen Participation/CIVICUS ranks Venezuela 27th out of 33 societies in their Civil Society Index (CSI). The 2012 NGO Law Monitor report notes a number of barriers to entry for interest groups (registry is mandatory, registries make processes difficult or even refuse registration); barriers to advocacy (cases of government retaliation and prosecution against group members) and barriers to international contact (direct government retaliation and threats against groups that work with foreign organizations).

Summing up, the mediation capacity and impact of interest groups on policy is at best insignificant.

Rates of support for democracy as a form of government within Venezuela are still among Latin America's highest, but dropped in 2011 (Latinobarómetro, from 84% to 77%). However, only 20% of Venezuelans are satisfied with their democracy in its present shape. Democracy is more strongly related to equality than to freedom. The high support for democracy can be explained at least in part as a consequence of a populist dynamic in which huge resource rents allow the translation of a state-centered, radical discourse into clientelistic distribution programs, suggesting that equality can be achieved within a short time frame by sacrificing only a small degree of freedom. Civic culture studies demonstrate strong correlations between support for authoritarian and delegative practices and support for Chávez. Overall support for democracy as measured by the Latinobarómetro surveys combines support for delegative democracy with support for representative democracy.

Approval of  
democracy  
n/a

Levels of interpersonal trust and civic engagement, the two components of social capital assessed here, are relatively low. Although available data vary substantially,

Social capital  
5

the general judgment can be upheld. According to Lationobarómetro 2011, 25% of Venezuelans trust their fellow citizens, a level slightly above the Latin American average of 22%. CIVICUS, for its part, reports an interpersonal trust level of just 6.6% (2011). Less than one in five persons takes part in activities expressing civic engagement. London-based Legatum (2012 report) ranks Venezuela in the sixth decile regarding social capital, down from the fifth decile in 2010.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

The continuing presence of poverty and inequality has defied the extraordinary increase in government spending in recent years, especially in the area of social policy. Over 9 million Venezuelans still live in poverty, and the country has made no headway in terms of equality, as the gap between its rank in the overall Human Development Index (HDI) and the inequality-adjusted HDI widened from -1 in 2010 to -16 in 2011. The poverty rate (using the poverty line defined in the National Statistical Institute's INE data) dropped to 31.6% in 2011, down from 32.6% four years earlier, an improvement of one percentage point over four years. At this pace it is set to miss the Millennium Development Goal in poverty reduction of 19.9% by 2015 (half the 1990 rate of 39.8%). Income inequality has stagnated at a Gini coefficient of 0.39 (INE 2010, 2011), while the country's HDI gender equality rank in 2011 is five slots below its overall HDI rank. The literacy rate is 95.2% (HDR), the female/male enrollment ratio 105% (INE), the gross enrollment ratio 103% (HDR) and female labor force participation rate 51% (INE). Poverty has not disappeared despite lavish government spending and missions explicitly designed to serve the poor better than established government agencies. Poverty still is as high as it was during the last oil boom in the 1970s, and inequality is still substantial, suggesting that they are at least in part structurally ingrained.

Question  
Score

Socioeconomic  
barriers  
6

Economic indicators		2009	2010	2011	2012
GDP	\$ M	329419.0	393807.5	316482.2	<b>381286.2</b>
GDP growth	%	-3.2	-1.5	4.2	<b>5.6</b>
Inflation (CPI)	%	27.1	28.2	26.1	<b>21.1</b>
Unemployment	%	7.8	8.6	8.3	-

Economic indicators		2009	2010	2011	2012
Foreign direct investment	% of GDP	-0.8	0.5	1.2	<b>0.6</b>
Export growth	%	-13.7	-12.9	4.7	<b>1.6</b>
Import growth	%	-19.6	-2.9	15.4	<b>24.4</b>
Current account balance	\$ M	2258.0	8812.0	24387.0	<b>11016.0</b>
Public debt	% of GDP	26.1	25.4	39.7	<b>57.3</b>
External debt	\$ M	59854.8	61256.6	67908.0	-
Total debt service	\$ M	3803.1	4454.5	6180.9	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.7	11.2	11.5	<b>12.2</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.5	2.1	1.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	0.9	0.8	<b>1.1</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Market competition is increasingly restricted, with administered pricing now the norm. The state controls the prices of many products and services including food, house prices and rents, and bank credit. Firms must register with the National Superintendent of Costs and Prices (SUNDECOP) and feed detailed information data on products and costs into the Automated System for Price Administration (SISAP), which will determine their allowed profit margins. Exchange controls have been tightened, reducing the flow of dollars for necessary private-sector imports and causing the (illegal) parallel exchange rate to skyrocket. The resulting supply shortages produce long lines when people hear that a scarce product is available somewhere. Among the manifold discriminations against private companies, the restricted access to foreign exchange is certainly one of the most damaging. Private enterprises are often at a disadvantage when competing with public enterprises, specifically in terms of accessing foreign exchange at the official rate.

Market-based  
competition

3

Whoever reads the World Bank/IFC index on the matter cannot but think that doing business in Venezuela requires a dose of heroism. The country ranks 180th out of 185 countries in terms of the ease of doing business, 152nd for starting a business, 181st for investor protection and 185th for paying taxes.

Discrimination based on ownership is highlighted by the fact that private courier service customers are forced to pay a fee in return for nothing at all. The state postal service is extremely inefficient and rarely used, but because it is packed with employees, rival service companies must charge the official postage on top of their own tariffs and then transfer the fees charged to the Postal Institute. The informal economy has shrunk somewhat but still employs 42% of the working labor force.

The 1992 competition law created the Procompetencia antitrust agency; both are formally in place as a new bill approved by the National Assembly in 2006 did not come into force. In practice Procompetencia is inactive; it accepted five complaints in 2011 (latest data) and issued two opinions. An anti-monopoly bill needed in order for Venezuela to comply with Mercosur standards (*Ley Contra los Monopolios y Otras Prácticas de Similar Naturaleza*) was under discussion as of late 2012 in the National Assembly. It will be applicable solely to the private sector. The fact that artificial monopolies created by the state in strategic areas are exempted is logical. But the exemption of all state-owned enterprises is discriminatory, and can be understood as one more step on the road toward Bolivarian socialism. A government-party sponsor of the bill dispelled any doubts to the contrary when he said it was intended to help lay the foundations of the socialist model. Analysts characterize the bill as competitively counterproductive, confiscatory and in general a dire prospect for consumers.

Anti-monopoly  
policy

3

Venezuela finally joined Mercosur on 1 July 2012 after six years of waiting. Argentina, Brazil and Uruguay reacted to the impeachment of President Lugo by Paraguay's Senate by suspending that country's membership and using its absence to welcome Venezuela into the organization. Paraguay's Senate had for years refused to ratify Venezuela's accession treaty.

Liberalization of  
foreign trade

4

The country is ranked 119th out of 132 nations in the World Economic Forum's (WEF) 2012 Index of Market Access. However, with an applied tariff of 6.5% it fares better in the World Bank's Trade Tariff Restrictiveness Index (TTRI) which indicates that its tariff regime is more open than Latin America's average. It ranks 72nd out of 125 countries in that index. The country ranks in the top quarter regarding the complexity of tariffs. The trade-weighted average tariff is 11.5% (WTO). Import quotas are established for some goods, such as vehicles from Colombia. According to the WEF survey, burdensome bureaucratic procedures are the most problematic factor for importers, along with non-tariff barriers and corruption at the border.



Import procedures take an average of about 71 days to complete; the country ranks 130th out of 132 in the WEF's Border Administration Index.

Restricted access to imported inputs and trade finance complicates exports. Export restrictions apply to some goods such as gold and some agricultural products. Export procedures take an average of about 49 days to complete. Due to its dependence on imports, Venezuela can hardly afford to restrict foreign trade too much. Nonetheless, trade often suffers from political maneuvering. In 2006, Venezuela officially withdrew from the Andean Community (AC). Under AC rules, following a member's formal withdrawal, only tariff-related decisions and resolutions remain in force, and these expire after a period of five years from the date of withdrawal. For Venezuela, the five-year period ended on 22 April 2011. AC norms, which cover a wide range of disciplines, have over the years been incorporated into the Venezuelan legal framework. Although the Venezuelan government has yet to officially clarify the legal impact of leaving the AC, Venezuela has to date continued to comply with AC norms.

According to the UK-based Centre for Economic Policy Research, Venezuela has 11 protectionist measures in place, fewer than Argentina (191), Brazil (114), Mexico (39) or Peru (18), but more than neighboring Colombia (7). According to the WTO, Venezuela applied a simple average tariff of 15% on agricultural goods and 12.1% on nonagricultural goods in 2011. After joining Mercosur, Venezuela will have to adopt the Mercosur Common External Tariff (CET) and provide duty-free treatment to its four Mercosur partners on all goods within four years, with sensitive products allowed a two-year extension.

Venezuela has been a member of the WTO since 1 January 1995 and participates in the G-20, G-33 and NAMA (Non-Agricultural Market Access) negotiations. Venezuela is involved in a number of trade-dispute cases, including one in which the country is the complainant, two in which it is a respondent and 16 in which it is acting as third party.

Venezuela's financial sector is partially sound, but is tightly controlled by the state. The banking system consists of private and public institutions which hold deposits of about \$158 billion (around 47% of GDP), 66% in private and the remainder in public institutions. The three biggest institutions, all private, account for about 45% of the market. The system includes about 3,500 retail offices scattered around the country. Under the Organic Law on the Financial System, banking is a public service obliged to contribute to social programs, especially housing. Banks risk government intervention should they fail to comply with this mandate; this has taken place repeatedly in recent years. Five percent of profits must go to communal council projects, and 10% to a fund established to pay wages and pensions in cases of bankruptcy. Credit portfolios are partly obligatory (known as mandatory mortgage portfolio): 25% must be devoted to agriculture, 15% to housing, 10% to the

Banking system

5

manufacturing sector, 3% to tourism and 3% to microfinance. Thus, the banking system essentially lacks full control over 56% of the funds it has available to lend (moreover, in February 2013, after the end of the review period, the government raised the mandatory mortgage portfolio share for housing to 20%). In adaptation to Basel III (with no obligatory portfolios), a “controlled liberalization” with a dynamic portfolio system will be introduced.

A Bank Supervision Superintendent (SUDEBAN) oversees the financial industry. This agency establishes detailed disclosure rules and must be given unrestricted access to banks’ account books. The sector’s capital adequacy ratio is 9.68% (according to SUDEBAN; in 2012, the World Bank reported this as 10.2%, both exceeding Basel I). The share of non-performing loans was 1.5% (according to SUDEBAN, or 2.5% according to the World Bank).

Banks can legally lend no more than 20% of their capital to a single individual or private entity. In 2011, the sector’s efficiency, liquidity and profitability indicators all showed positive tendencies. However, most banks are highly exposed to the public sector through government deposits and bond holdings. The negative outlook associated with sovereign risk and the government’s propensity to intervene in the banking business represent serious liabilities. The Global Competitiveness Report 2012 – 2013 ranks Venezuela 133rd out of 144 countries concerning financial market development, and 96th concerning the soundness of banks.

## 8 | Currency and Price Stability

Venezuela has experienced persistently high levels of inflation, averaging 30% annually since the bolivar’s devaluation in 1983 after decades of stability. Perhaps for this reason, inflation is a non-issue in public opinion. No fundamental policy change is in sight, as the rate again surpassed 20% in 2012, and is forecast by the IMF to keep to that pace in the foreseeable future.

Inflation has been triggered by consumption-oriented government spending, especially in pre-election years like 2011 and 2012 (each of which saw state expenditure rise by 40%). Instead of tightening the money supply, the central bank has added liquidity by printing inorganic money that is used to buy government bonds, whose revenues are then transferred to the FONDEN development fund. This fund is also filled by the difference between the reference oil price established in the budget (\$50 per barrel in 2012; \$55 per barrel in 2013) and the market price (over \$100 per barrel in 2012), and through the transfer of “excess reserves” by the central bank. Since the fund’s creation in 2005, close to \$100 billion has been spent without any parliamentary control or audit, adding to the extra-budgetary, unaudited spending

Anti-inflation /  
forex policy  
3

by the PDVSA on social programs. Both accounts are handled directly by the president and are used at his discretion.

The government's anti-inflation policy consists largely of exchange controls that keep the currency overpriced; this makes imports comparatively cheap at the (probably not unwelcome) cost of wrecking domestic private-sector production thanks to the price-controlled environment. If 2010, the point of the last devaluation, is set at a reference point of 100, the real effective exchange rate by mid-July 2012 had climbed to 145. The deficit caused by the spending splurge in the run-up to the 2012 elections will be financed by devaluation, again fueling inflation.

Venezuela is a soft authoritarian regime whose overarching goal is making its grip on power irreversible, preferably with the electoral support of the people. Macroeconomic stability is thus at best a secondary issue, particularly given the ready access to petrodollars. Consequently, there is no stability policy framework in place or in sight that might set and monitor macroeconomic targets. The macroeconomic stabilization fund (FEM), which was created before Chávez's accession to power, has been depleted; its stock had fallen to \$30 million by the time of writing. With oil production levels more or less stagnant over the years, the country depends increasingly on rising oil prices. Should the oil sector's dollar revenues fail to produce sufficient quantities of Bolívares for the regime's needs, the most expedient solution at hand has been to close or at least narrow the gap between the official and the real effective exchange rates. Since the introduction of exchange controls in 2003, the government has devalued the local currency six times (2003, 2004, 2005, 2007, 2010 and 2011), and as of the time of writing appeared set to do so once more in the near future.

Venezuela's current account balance amounts to 6.7% of GDP, but is forecast by the IMF to halve by 2016. The general government gross debt is manageable at 51% of GDP, but is forecast to climb to a more uncomfortable 74% by 2016. External debt is around one-third of GDP (2012), while debt service (including central government, the joint Chinese-Venezuelan Fund, and PDVSA) amounts to about 12% of GDP (2012) and is forecast to increase to 16% in 2013, according to Barclays. The fiscal deficit rose to 16.5% in 2012 (up from 11.6% in 2011); when taking into account off-budget funds, this rises to 19.5% (according to Barclays). The central bank reported reserves of \$25.9 billion at the end of 2012, equivalent to about six months of imports at the 2012 level.

## 9 | Private Property

Property rights are guaranteed on paper by the constitution but are not fully protected by law and are not respected in practice. According to the Federation on Industries, the government seized close to 1,200 companies between 2002 and 2012, some of

Macrostability  
4

Property rights  
3

them through negotiated accord, some following due process and some in open violation of due process. Many former owners are still waiting to collect the compensation established by law. Even private housing is tightly controlled. A new housing-sector law requires owners and landlords to register with an authority that has the power to fix rents and house prices.

According to the Heritage Foundation's Index of Economic Freedom, property rights are severely threatened in Venezuela – the country receives just five points out of 100 with respect to property rights. The judiciary is dysfunctional and completely controlled by the executive. Politically inconvenient contracts are abrogated, and the legal system discriminates against or in favor of investors from specific foreign countries. The government expropriates land and other private holdings across the economy arbitrarily and without compensation.

The International Property Rights Index also places Venezuela at the bottom of its list. The country's overall rank here is 128th of 130; for the protection of physical property rights, it holds 130th place of 130; and for the protection of intellectual property rights, it is 129th of 130.

The constraints on private enterprise were tightened further during the period under review with the approval of the Law on Fair Prices and Costs (2011), by which a newly established Price and Cost Superintendent fixes maximum prices for a wide range of products on the basis of detailed data provided by the companies. Though operating under pressure as a result, the nonfinancial private sector generates close to 60% of GDP and employs about two-thirds of the formal economy's workforce. The main obstacles to free operation include restricted access to foreign exchange, inputs and raw materials; burdensome customs procedures; an excess of controls; and both the threat and reality of expropriations. However, the private sector's scope of operations still makes it crucial for the government's fortunes, despite all the talk about destroying capitalism. Though unproductive and increasingly state-dependent, private enterprises are highly profitable; indeed, they have benefited more from 21st century socialism than have the workers – while stock market prices have skyrocketed, real wages have remained at best constant.

Private enterprises are mainly active in the manufacturing, retail, real estate, construction, communications, banking and transport sectors. Since Chávez's accession to the presidency, the private sector's share of GDP has remained relatively constant at around 60% (59% in 1999, a maximum of 63% in 2006, 58% in 2012), indicating that nationalizations have not added significant productive strength to the public sector.

Private enterprise

4

## 10 | Welfare Regime

The Social Security Institute (IVSS) offers free health care in its hospital network, unemployment benefits (60% of salary for a maximum five months) and pensions (under a hybrid pay-as-you-go plus state-funded system, with 2.3 million current pensioners). Private and public sector workers receive substantial severance payments (up to two months' salary per year worked). Most public institutions run their own (state-funded) pension systems.

A parallel health care system or "mission" also runs hospitals and basic care centers, mostly staffed by Cuban doctors who are sent to work in Venezuela in exchange for the petroleum shipped to Cuba. As the government privileges the parallel system over the long-standing traditional network, public hospitals are chronically underfunded, understaffed and in poor physical condition. While the impact of the health care mission on public opinion has been very positive, its impact on public health indicators is hard to determine. The Statistical Institute uses the undefined indicator of "lives saved." From its creation in 2003 to November 2011, for example, the basic Barrio Adentro (inside the poor neighborhood) health care mission was alleged to have saved 1.7 million lives.

Conditional cash transfer schemes include the educational missions (focusing on improving literacy, boosting secondary and tertiary education enrollment, and providing cash for students, mainly in the newly created mass universities). Mission benefits are granted on political rather than rational criteria, and cannot be claimed on the basis of rights.

The social budget amounts to about 38% of overall expenditure, or about 10% of GDP.

Most reference indicators evidence that equality of opportunity has been achieved. The female literacy rate (98%) is higher than the male rate (95%), the female to male enrollment ratio is 105% and the gross enrollment rate is 93% for both genders. The female labor force participation rate is 51.7% as compared to 80.3% for males. Furthermore social mission conditional cash transfer programs privilege women (70%) over men. On the other hand, about one-third of households are single-parent, most of which are headed by women, among which poverty rates are significantly higher than in other households. This is reflected in the Gender-related Development Index, which ranks Venezuela five positions lower than does the overall Human Development Index (rank 73 vs. rank 78). According to the European Commission's country strategy paper on Venezuela, indigenous peoples are disproportionately affected by discrimination, poverty and unemployment. Although the constitution guarantees equal opportunity and the country ratified International Labor

Social safety nets

6

Equal opportunity

7

Organization Convention No. 169 on indigenous and tribal people, implementation remains a challenge.

## 11 | Economic Performance

The economy resumed growth in 2011 (4.2%), with the pace accelerating further in 2012 (5.7%) fueled by increased government spending ahead of the presidential election. The IMF forecasts growth rates of 3.3% in 2013 and 3.4% in 2014. GDP in 2012 (on a PPP basis) totaled \$402 billion or \$13,242 per capita. Inflation (end of period CPI) continues to be high at 22% (2012), with forecasts of 29.2% for 2013 and 28.3% in 2014, according to the IMF. According to the Statistical Institute, unemployment fell to 5.9% in December 2012; the definition of “occupied workforce” includes persons over the age of 15 who told the interviewer they “had worked or been employed last week.” The IMF reports total accumulated FDI of \$45.2 billion; net inflow in 2012 was \$5.3 billion. Public debt levels reached the equivalent of 51.2% of GDP by 2012, and were forecast by the IMF to climb to 56.4% of GDP in 2013 and 62.2% in 2014. According to the IMF, the government’s cash deficit was 7.4% of GDP in 2012; analysts estimate the 2012 fiscal deficit to be 16.5% of GDP, and the quasi-fiscal balance to be -3% of GDP (Barclays). Tax revenue totals 28.6% of GDP, while gross capital formation is 23% of GDP (World Bank).

Output strength  
5

## 12 | Sustainability

The Yale University’s Environmental Protection Index ranks Venezuela as a modest (rank 56, with a value 55.62) and declining performer, along with 10 other Latin American countries. The World Health Organization characterizes Venezuela as one of the most contaminated countries in Latin America. The oil industry produces 20,000 tons of petroleum coke daily in the process of upgrading heavy crudes. Dust from the mountains of residual coke causes severe health problems in eastern Venezuela.

Environmental  
policy  
3

The country’s CO<sub>2</sub> emissions of 6.5 tons per capita surpass the Latin American average, but are much lower than those of other Caribbean hydrocarbon producers. In GDP-related terms, its emissions of 0.9 tons per \$1,000 GDP are higher than those of Europe (0.28) or the United States (0.4).

Venezuela is a party to the International Tropical Timber Agreement and the Cartagena Protocol on Biosafety. It protects over one-third of its territory as national parks, but on the other hand allows an annual deforestation of over 280,000 hectares.

Ambitious environmental regulations exist on paper but are not enforced. There is substantial but as yet largely untapped potential for improvement though means such as reforestation, the use of renewable energy sources such as wind and solar energy,

the substitution of liquid fuels for gas in thermal plants, and the enforcement of better environmental practices in the oil industry such as gas capture and CO<sub>2</sub> sequestration. The government makes little effort to promote any of these options.

Venezuelans enjoy the cheapest gas prices in the world (under 2 cents per liter), which provides little incentive to optimize the fuel efficiency of an obsolete automobile fleet (averaging 10 kilometers per liter). While 98% of the population perceives global warming as a threat and only 27% are satisfied with government action to reduce emissions, fewer than 6% are active in environmental groups.

Education is one of the government's showcase sectors. Indeed some indicators can be presented as proof of positive achievements, including the adult literacy rate (96%); the preschool (73%), primary (103%) and secondary (83%) enrollment rates; the presence of over a dozen new universities; and the 125,000 persons graduated in 2010, more than in Argentina, Colombia or Spain, all countries with far bigger populations. Other indicators paint a different picture, however. According to the U.N. Education Index, the state spent about 3.6% of GDP on education in 2010, well below the Latin American and Caribbean average of 4.7%. In the 2013 budget, planned spending on education dropped to 3.05% of GDP.

The quality of education offers a mixed picture. According to the U.N. education index, the 94% enrollment ratio by the fifth grade is above the regional average (there is no data for the pupil/teacher ratios, however). The national government does not assess student performance. The state of Miranda, which includes Caracas, applied the PISA assessment in its state schools, which are better than many in the country. Subsequent results showed that 58% of the students reached the lowest level of proficiency in reading literacy, and 57% in science, compared with an OECD average of 81% and 82% respectively. Investments in science and technology have declined over time. The 2013 budget sets aside the equivalent of 0.13% of GDP for science and technology purposes. This decreasing emphasis has been reflected in publication rates; the number of papers published fell from 65.4 per 100 researchers in 2000 to 20.5 per 100 researchers in 2010.

Education policy /  
R&D  
6

## Transformation Management

### I. Level of Difficulty

Venezuela's available human and natural resources, its level of social and economic development, its civic culture, and the international economic environment are all favorable factors that should help the country overcome existing obstacles and thrive. One such obstacle is the entrenched rent-seeking behavior that was exacerbated with President Chávez at the helm. Poverty is partially structurally entrenched, as indicated by the stagnating number of poor households, but the incidence of extreme poverty has declined. The labor force exhibits adequate formal education levels and the country's geographical location is ideal. However, there are severe infrastructural deficiencies such as obsolete ports and airports, badly maintained roads, an obsolete electricity grid and poor standards in sanitation.

Structural  
constraints  
4

Although Venezuela has a respectable tradition of civic engagement that is reflected in a broad range of associations, the meaning of "civil society" is politically charged. In the government's perspective, this concept is inextricably linked to the bourgeoisie and therefore counterrevolutionary by definition. The government promotes popular participation that is aligned with the revolution and mediated by the state. The government claims to have promoted the creation of over 50,000 participatory groups and organizations, although CIVICUS estimates the total number of civil society organizations at 32,000. On the other hand, the Venezuelan civic organizations network REDSOC reports just under 1,000 registered non-profit organizations in Venezuela.

Civil society  
traditions  
4

The CIVICUS Civil Society Index ranks Venezuela 27th out of 33 countries. Interpersonal trust is estimated by that organization to be expressed by just 6.6% of the population, a figure much lower than Latinobarómetro's 25% (2011). Only one in five Venezuelans is engaged in voluntary work. On the other hand, 26% report having joined a demonstration or signed a petition and a further third said they were prepared to do so. CIVICUS attributes the gap between engagement in formal civic organizations and the rate of participation in public demonstrations to the lack of institutional channels by which to take action.

The extreme political polarization has created a general climate of conflict in the society; by contrast, ethnic and religious cleavages are of little significance. The

Conflict intensity  
5



Venezuelan Observatory of Social Conflict registered 5,500 protest actions in 2012, about 15 per day, of which 80% were related to social rights. The incidence of politically motivated violence is alarmingly high, especially during election campaigns, as seen in 2012. The government's aggressive discourse aims at delegitimizing any kind of dissent or opposition, thereby inciting its followers to obstruct, insult or even attack opposition groups. Violence is both widespread and intense; indeed, the country is one of the most violent in the world. The Venezuelan Observatory of Violence registered 21,400 violent deaths in 2012, or more than 73 per 100,000 inhabitants. The figure for Caracas was 122 per 100,000. About 600 kidnappings were reported in 2011.

## 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 BTI's normative framework of a mixed representative and direct democracy and a market economy. The regime's de facto priority has been to stay in power as the necessary, albeit not sufficient, condition of achieving its strategic goals. This primary goal has led to a privileging of ad-hoc actions and reactions over longer-term, evidence-based policymaking. Foreseeable problems are routinely dismissed as the inventions of troublemakers; when they manifest, they are attributed to enemy action and consequently addressed through a tightening of controls, which in turn tend to aggravate the problem.

Agriculture and food production provide a case in point. Declaring that it was safeguarding the peoples' access to food at affordable prices, the government imposed controlled prices that did not cover the rising production costs of many items nor take into account the persistent inflation. As a logical consequence, production dropped. Arguing that the oligarchy was starving the people, innumerable farms and enterprises were seized and transformed into socialist production units that proved to be much less productive than their "unproductive" capitalist predecessors. The result is an increasing dependence on food imports and a skyrocketing bill to pay for them.

Faced with foreseeable but insufficiently addressed problems, the government also often creates new ministries on an ad-hoc basis, with the corresponding bureaucracy. Cases in point include the following: the creation of the Ministry for Food as a response to supply shortages and as a guarantor of local production resulted in persistent supply shortages and a huge increase in imports; the creation of the

Question  
Score

Prioritization  
3

Ministry of Electricity to solve the power shortages of 2010 was followed by persistent crisis and more blackouts than before; and finally, the creation of the Ministry of Prisons in 2011 as a response to a deadly prison riot, with the mission to humanize Venezuela's horrible, overcrowded prisons was followed by increased overcrowding and the deaths of more inmates in riots.

The regime's strategic priority to create Bolivarian socialism was outlined in Chávez's First Socialist Plan (2007 – 2012) and reconfirmed in the second edition (2013 – 2019). Fourteen years into his regime's rule, seven broad goals contained in these plans can be assessed on the basis of available evidence.

The first goal involves the creation of a new socialist ethic. To provide specific evidence in this area is obviously a difficult task, although available indicators, above all the World Bank's governance index (specifically in the areas of accountability and control of corruption), point exactly in the opposite direction. The second goal is the eradication of poverty; available indicators paint a mixed picture in this regard. The third involves the creation of a new political culture of revolutionary democracy; in this regard, available studies note that "external locus of control" attitudes have tended to increase, suggesting the emergence of a revolutionary object rather than subject. The fourth goal centers on the implementation of an endogenous productive model; in this case, hard data indicate that the country has in fact increased its external dependence. The fifth goal was to establish a new national geopolitical framework with socio-territorial equity; in this area, territorial inequality has increased. Sixth, the regime has sought to transform Venezuela into a global energy powerhouse and reduce its dependence on oil; in fact, the country is more dependent on oil than ever, and even imports energy (gas from Colombia, petrol and diesel from the United States). The seventh goal was to create a new international geopolitical framework, strengthening national sovereignty and diversifying international relations; here, there is a mixed picture of achievements given the diversification of relations and setbacks in sovereignty related to the growing Cuban influence in Venezuelan affairs.

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

Policy learning is anathema to the government, as demonstrated by the persistently sliding governance indicators, the absence of reliable policy-outcome monitoring and evaluation, and the resulting opaqueness in terms of reporting. Changes introduced once facts can no longer be ignored tend only to reduce the capacity to acquire knowledge further, indicating pathological learning processes. Groupthink is a further impediment to policy learning. The symptoms are obvious: a fervent belief in the rightness of the cause of Bolivarian socialism, immunity from critique,

Implementation  
3

Policy learning  
1

stereotyped views of out-groups as enemies, and direct pressure on dissenters within the group.

## 15 | Resource Efficiency

The vast expansion of the government payroll, the fiscal troubles in times of significant petrodollar inflows and the unprecedented explosion in the number of government agencies providing generally poor service are indications of unprecedented waste.

Efficient use of  
assets

3

While the government payroll has more than doubled under Chávez's watch, services provided by the state have not improved beyond their historic trends. Indeed, many have even deteriorated. Rather than fostering efficiency, the policy of overstaffing enhances inefficiencies, through means such as the dilution of responsibility. Politically motivated dismissals and appointments are the rule; the infamous Tascon list of citizens who signed the petition for a recall referendum against President Chávez in 2003 continues to be used as a reference for contracting in public administration. Senior positions are often filled by bypassing legally established competitive procedures and selection criteria, as evidenced by the designation of judges, electoral authority directors 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 2012 budget was deep in the red, while the parallel budget handled by the president without any parliamentary control cannot be audited. Opaqueness characterizes the budget planning and implementation process; deviation between planned and actual expenditures was over 40% in 2012. Legislators are not provided with audit reports for the security sector or extra-budgetary funds, and citizens are not provided with 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-related 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 consider themselves to be accountable to their constituents. Institutions or procedures aimed at modernizing the public administration exist but are ineffective, mainly due to the abovementioned promotion and compensation practices.

The incoherence of overall policy reflects imbalanced trade-offs between conflicting long- and short-term goals and in many cases simple incompetence, rather than competing interests. Quantitative easing needed to fuel present consumption conflicts with the goal of inflation control, pre-election handouts intended to ensure loyalty

Policy  
coordination

4

conflict with efforts to secure sustainability, and bureaucratic tutelage conflicts with the goal of establishing autonomy at the grassroots level. 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. Cases in point include the multiple housing programs directed and funded by missions, ministries and the state-owned oil company PDVSA.

The 2011 Global Integrity Report on Venezuela identifies the lack of a separation of powers as the single most important obstacle to transparency in public affairs. While the legal framework is de jure strong, overall integrity and actual implementation are assessed as very weak.

Anti-corruption  
policy  
2

Most contracts are awarded on an “emergency” basis without open competition; procurement officers have great discretionary power and companies found guilty of bribery are not excluded from future bidding processes. The 2012 Open Budget Survey report says that Venezuela has the worst budget oversight in South America. The very fact that a large portion of the budget is managed by FONDEN (the National Development Fund, whose status as a corporation owned by the finance ministry lets it disburse billions of dollars of public money subject to few of the reporting and disclosure requirements that apply to government entities) indicates the lack of transparency and oversight accorded to public spending.

The World Bank Enterprise Survey 2010 states that 66% of companies expect to give gifts in order to secure a government contract, compared to a Latin American average of 10%. The World Economic Forum gives Venezuela a score of two with respect to favoritism in government contracts and the diversion of funds due to corruption (on a scale from one to seven, with one meaning it is very common and seven indicating that it never occurs). Interestingly enough, corruption is not deemed a significant issue in the broader public opinion; indeed, it is not perceived as an important problem at all according to the Latinobarómetro surveys. While 23% agree that bribing a public servant is the only way to get things done, only 8% report having heard of a corruption case in recent months.

## 16 | Consensus-Building

The political polarization exacerbated by Chávez’s discourse has served him well in terms of uniting his support base. It also helped unite the opposition; this has in turn made consensus-building more difficult, as possible elite accords would most likely be a hard sell in each of the rival camps. This polarization overshadows underlying common beliefs that reflect a more or less broad majority belief that democracy is the best form of government (86%), that the market economy is an adequate

Consensus on goals  
3

framework for the country to prosper (56%), and that private enterprise is necessary for the country's development (77%). It also overshadows a common belief that reflects the deeply entrenched state centrism: 85% of the population thinks the state has the means to resolve all problems. In short, there is no consensus on the goal of establishing delegative democracy or Bolivarian socialism, nor on that of strengthening representative democracy and the market economy, although some elements of both paradigms are backed by popular majorities.

All relevant actors advocate democracy as the preferred and best form of government, while holding political opponents' views as being undemocratic. The government has long pursued a constitutionally questionable authoritarian path of revolution that relies on the potent fusion of power, Bolivarian myth and oil-driven wealth. As the country's most powerful actors, top regime decision-makers have demonstrated no interest in representative democracy or market-based reform. Dissenters who previously supported President Chávez's participatory approach have been unable to halt the radicalization of the movement, and have subsequently left its ranks. Reformers have been unable to garner majority support for any vision that would enable them to disrupt the authoritarian process.

Anti-democratic  
actors  
3

The predominant cleavages within Venezuela are simultaneously economic and political. Ethnic, regional and religious conflicts do not degenerate into cleavages. The economic cleavage stems from divisions between those who benefit from state resources and those who do not. This latter group grew to unsustainable proportions during the economic crisis of the 1990s, deepening the cleavage. Chávez came to power in 1998 in large part by relentlessly emphasizing and politicizing this cleavage. The political cleavage was deepened if not created by aggressive, intolerant and divisive discourse of Chávez and his followers, and has paid off in terms of electoral support within the current authoritarian environment. Government elites have continued to rely on polarization as a means of reinforcing their grassroots-level support, especially after it became evident that President Chávez's poor health might force him to cede power. He made the first public step in this direction with his December 2012 announcement, before traveling to Cuba to undergo cancer surgery, that he might be unable to assume office on 10 January 2013 as envisaged in the constitution, asking his followers to support newly designated Vice President Maduro as his successor. The Chavista elite have subsequently sought to exacerbate the country's polarization in an effort to present themselves as loyal heirs. Faced with Chávez's absence, they have publicly closed ranks and mobilized supporters to swear their continuing allegiance to the leader and his revolution.

Cleavage /  
conflict  
management  
3

One hopeful sign is that there seems to have been an implicit agreement to avoid open political violence. In addition, despite polarizing rhetoric and harsh legal measures, some political pragmatism has been evident in areas such as the scope accorded to private-sector action.

The government has sought to stifle the growth of civil society despite the explicit constitutional mandate (Art. 62) to facilitate and promote its participation in decision-making processes. The official political leadership sticks to Lenin's dictum that any attempt to avoid taking sides in the struggle must be fought. Consequently they see autonomous civil society organizations as enemies that must not be involved in agenda setting, policy formulation, decision processes, implementation or monitoring. The highly praised "social auditing" associated with policy implementation, especially price controls, is in practice a means to harass enterprises. As accountability has diminished, so has responsiveness to societal demands (for more detail, see the World Bank's governance indicators). Participatory rhetoric abounds and ostensibly grassroots organizations are proliferating, suggesting conditions of vibrant participation. However, most such groups have in fact been created by the government with the aim of preventing autonomous societal organization and participation.

Civil society participation  
3

During the period under review, reconciliation was not on the government's agenda.

Reconciliation  
n/a

## 17 | International Cooperation

The government is convinced that the revolutionary project can be advanced through international support, and has been quite successful in mobilizing support based on the powerful combination of an anti-capitalist and anti-imperialist discourse with the provision of funds from deep, unaudited pockets. The most recent accomplishment in this regard was the Caracas Declaration of 10 January 2013. This is the date explicitly established in the constitution for the formal inauguration of the president-elect. As Chávez was unable to be present due to his ongoing cancer treatment in Cuba, the Supreme Court ruled that the inauguration was a formality that could be postponed indefinitely. What could have been regarded as a serious legitimacy problem was trivialized by the leadership as a marginal issue; however, this strategy was given weight by a declaration of support for the decision by 22 friendly Latin American and Caribbean governments. Thus, the country's political leadership was successful in securing the hemisphere's support for its revolutionary project despite its opposition to democratic and market reforms.

Effective use of support  
3

The government also engaged in international cooperation to implement reform measures such as the creation of its parallel health care system. In this case, hospitals and basic care centers have been created in poor neighborhoods, mostly staffed by Cuban doctors sent to work in Venezuela in exchange for petroleum shipped to Cuba. While the impact of this health care "mission" on public opinion has been very positive, its effectiveness in terms of medical outcomes remains hard to determine.

Aside from its partners in the Bolivarian Alliance for the Americas (ALBA) and a handful of authoritarian regimes, Venezuela is not regarded by the international community as a credible counterpart. Even friendly governments have publically expressed surprise or even embarrassment after moves such as the decision to leave the International Center for Settlement of Investment Disputes (ICSID), the World Bank's international arbitration body, or Chávez's withdrawal from the Inter-American Commission on Human Rights and the Inter-American Court of Human Rights.

Credibility  
2

Venezuela's regional cooperation follows an approach of *realpolitik*, exhibiting unrestrained support for allies (ALBA, Argentina, Brazil, Iran, Russia, etc.), while maintaining necessary and in some cases even friendly links to ideologically opposed but important partners (United States, Colombia), engaging in practical relations with neutral third parties, and displaying confrontational attitudes against open adversaries (Paraguay). The withdrawal from the Inter-American human rights bodies and the ICSID, following a string of unfavorable reports and rulings, demonstrates that decision-makers are reluctant to abide by rules set in the past with Venezuelan consent. On the other hand, its significant role in instigating peace talks between Colombian guerrillas and the government demonstrates its active interest in establishing a condition of peace within its neighbors' borders. With its accession to Mercosur, Venezuela committed itself to a range of new rules and provisions, among them a democracy clause known as the Ushuaia Declaration. It remains to be seen whether the government will play by these rules.

Regional  
cooperation  
5

## Strategic Outlook

President Chávez left for Cuba in early December 2012, where he underwent cancer surgery and died on 5 March 2013. Since his departure, Venezuela has faced a serious succession, with a regime focused around a charismatic leader whose symbolic presence was ubiquitous and whose physical absence destabilized a system built on his person and personality cult. Chávez's uncontested leadership and reluctance to select a successor even when he realized his cancer might be terminal generated a vacuum that he only half-heartedly tried to fill before boarding the plane to Cuba, by appointing Foreign Minister Nicolas Maduro as vice president. Chávez asked his loyalists to support Maduro should he be unable to return to assume his mandate on 10 January 2013, as established in the constitution. Even after Maduro's election as president in his own right in April 2013, the considerable power vacuum left behind by Chávez might lead to political instability in the near future. Maduro's ability to achieve a similarly charismatic leadership at the head of the Bolivarian movement, the armed forces and the state bureaucracy remains in doubt. The political events since April 2013 have shown that no significant steps are being taken to overcome the country's deep political polarization. As state institutions have been largely dismantled over the last 14 years, the new government and the opposition run the risk of falling into a zero-sum fight to take over the authoritarian reins, with dismal prospects for Venezuela's development.

A period of financial and economic adjustment cannot be put off much longer, and will undoubtedly take its toll on the government's popularity. The new government will have to address the discontent any such adjustments are bound to produce. Although the regime will need to perpetuate Chávez's confrontational discourse in order to be perceived as loyal to the Bolivarian revolution, it might also be open to engaging in dialogue with the opposition on ways of coexisting that enabled both sides to save face. Harsher discourse in this case might actually conceal an inclination toward talks.

A possible, if rather optimistic scenario would be an accord enabling the open government positions that require qualified National Assembly majorities (i.e., votes beyond the Chavista legislators) to be filled. As of the time of writing, these positions included a number of Supreme Court justices, directors of the electoral authority and the comptroller. Further areas of agreement might include election timing and conditions, a more respectful cooperation between the different layers of government, and a cessation to the harassment of dissenters. Even if not in the short term, dialogue and depolarization must take place at least in the medium term if the government wants to avoid a scenario of open political violence.

However, a far more pessimistic scenario is also possible. The power struggle within Chavism might extend to the society as a whole, turning anomy into anarchy. Groups in arms such as the Miranda Youth Front or the Bolivarian militia, claiming to be defending Chávez's heritage, might clash with the organized urban thugs and the constitutionalist and Chavista factions of the military,



pushing the country into chaos. The absence of a functioning institutional framework makes conflict resolution very hard to achieve but may also persuade actors to avoid escalation in times of extreme uncertainty. The government's strategy is to make Bolivarian socialism irreversible, while the opposition will try to muster support for stopping or even reversing this process. Both policy orientations tend to rely on superficial measures rather than in-depth reforms. While both government and the opposition appeared to be united in the run-up to the presidential election, they are by no means monolithic blocks; their fragmentation will surface once post-Chávez power-sharing arrangements and policies must be negotiated.