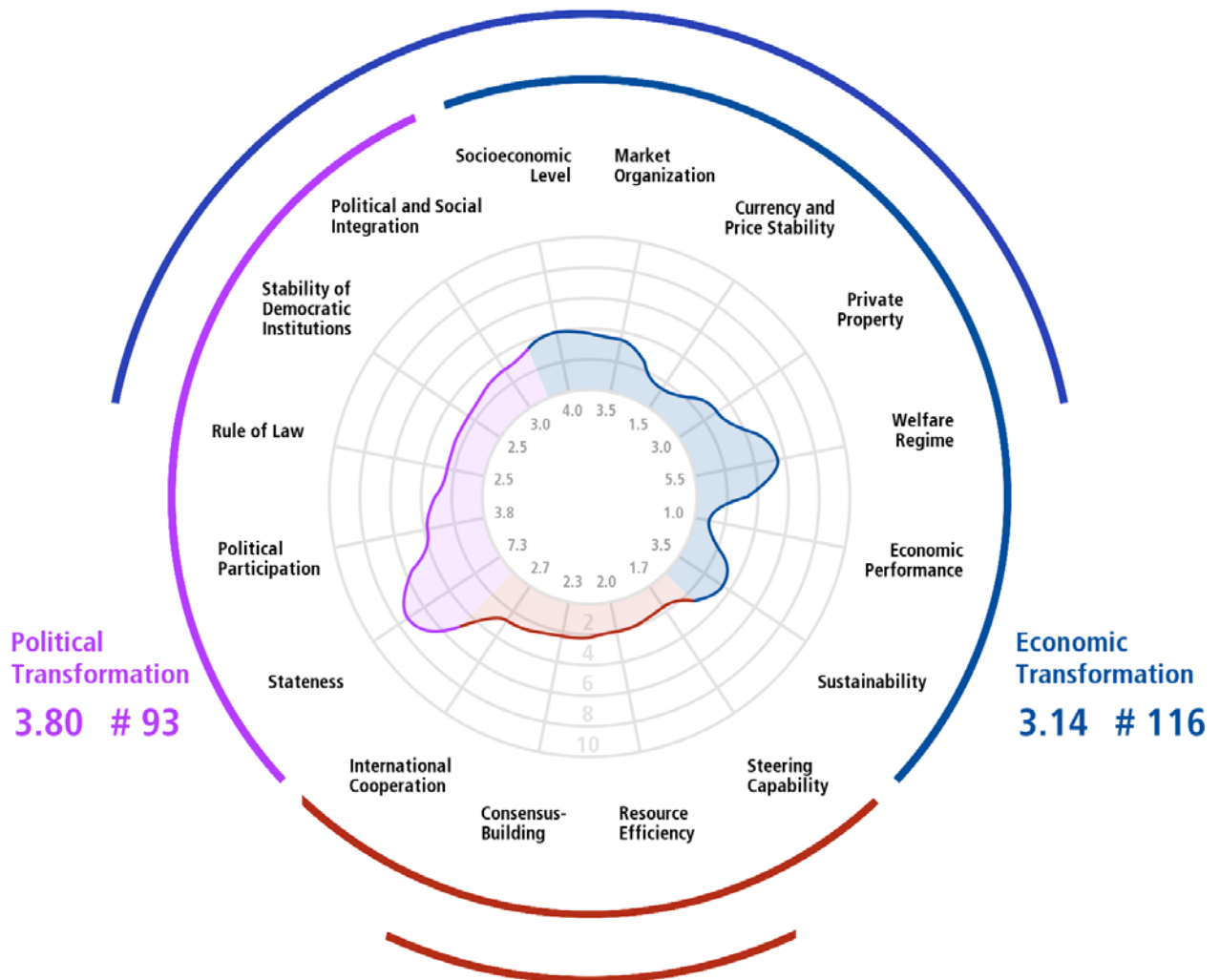


Venezuela

Status Index

3.47 # 110

on 1-10 scale out of 129



Political Transformation
3.80 # 93

Economic Transformation
3.14 # 116

Governance Index

1.86 # 125

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	31.6	HDI	0.767	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	1.3	HDI rank of 188	71	Gini Index	46.9
Life expectancy	years	74.4	UN Education Index	0.738	Poverty ³	% 15.4
Urban population	%	89.0	Gender inequality ²	0.461	Aid per capita \$	1.2

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Venezuela is arguably the worst extant case of the Dutch disease. While it has depended on oil revenues for nearly a century, it was the Bolivarian regime that exacerbated the petro-state symptoms. During the review period, the country topped the Cato Institute's World Misery Index for the 2nd straight year as the world's most miserable economy. After nearly two decades of unsustainable rentier populism, poverty is back with a vengeance, with the socioeconomic status of Venezuelans in 2015 dropping to 1975 levels. The regime has made poverty a state policy, discouraged private initiative and the work ethic, wrecked the economy, depleted the nation's financial reserves and heavily mortgaged its future revenues, sunk public-service ethics in a morass of corruption, and ended up by suspending democracy.

The fiscal deficit in 2016, estimated by the IMF at around 25% of GDP, was financed by printing money. This in turn has fueled inflation as the economy has contracted at an accelerating pace: around -6% in 2015 and -20% in 2016, according to preliminary central-bank estimates. Year-to-year inflation in 2016 was about 800%, and the IMF has predicted conditions of hyperinflation for 2017.

The right to life and personal integrity is under assault due to the insecurity expressed in one of the world's highest homicide rates and conditions of near-total impunity for criminals (homicide rate 90/100,000, impunity rate 96%). The 2016 Global Peace Index ranks Venezuela as the world's fourth-most-violent country, after Syria, Iraq and Afghanistan. The report estimates the economic impact of violence at over 40% of GDP; the economic impact of homicide alone – 36% of GDP – is the highest in the world.

Surprisingly – and also not so surprisingly – the opposition won the 2015 parliamentary elections with a two-thirds majority, although the election was neither entirely free nor fair. At the time of writing, the legislature could be regarded as the last democratic institution in the country; however, it was incapable of performing its functions. In 2016, President Maduro decreed a state of

emergency that extended his powers and prolonged it beyond the constitutionally prescribed limit. In October 2016, the Supreme Court assigned itself the core function of the legislature – that is, the power to approve the 2017 draft national budget. There were speculations about a potential dissolution of the legislature by the Supreme Court, and Maduro himself has warned that the “days of the National Assembly were numbered.” Although the legislature commands more legitimacy and public support than other “institutions,” it is unable to perform its functions in the current situation. In an eventual process of democratic transition it may play an important role, but such a case is rather unlikely, not least because of the military’s veto powers.

The new hemispheric integration architecture – the Bolivarian Alliance ALBA (2004), the Union of South American Nations UNASUR (2008) and the Community of Latin American and Caribbean States (2012) – initiated by the late President Chávez in order to block the U.S.-inspired Free Trade Area of the Americas and bypass the OAS, seems to be losing vitality. Venezuela’s checkbook diplomacy was successful in garnering regional support vis-à-vis the international community for the Bolivarian regime. Underpinned by highly favorable oil supply programs such as Petrocaribe and Petrosur, as well as promises of huge continental projects like the gas pipeline from the Caribbean coast to the Southern Cone, Venezuela’s hemispheric integration initiatives took center stage. However, the country’s declining ability to meet its promises and the changes of governments in Argentina and Brazil have cast a damper on this enthusiasm. This has been reflected by Venezuela’s failure in its bid to prevent the OAS Secretary-General from presenting a report on the country’s deep social, political and economic crisis to the Permanent Council, as well as the temporary suspension of its full membership in Mercosur.

History and Characteristics of Transformation

Venezuela is a textbook example of a petro-state that missed opportunities to overcome the resource curse. Petroleum took center stage in the economy during the 1920s, spurring social and economic modernization. The government managed to improve the state’s share in the foreign-dominated oil business, and the transition to representative democracy in 1958 opened the door to nationalization of the industry. The leadership was aware of the perils inherent in the reliance on petroleum. Petroleum Minister (1959–1964) and OPEC founder Juan Pablo Pérez Alfonzo was convinced that oil would bring ruin; he called it “the devil’s excrement.”

Successive governments formed in the context of an elite pact model – “puntofijismo” – pursued the diversification of the economy through the creation of a state-owned basic-industry sector and import-substitution industrialization in a protected market, a model that swallowed huge subsidies rewarding inefficiencies. Even the increased revenue generated during the boom proved insufficient, and the foreign debt exploded. The overvalued currency resulted in poor economic performance and spurred capital flight. The currency was devalued and exchange controls introduced in the 1980s.

The positive results of that period include the construction of a modern infrastructure, the emergence of a middle class and increased upward mobility, as well as significantly improved education and health care systems. Poverty and inequality were not eradicated, but were reduced to levels significantly lower than those registered in 2016 (Gini index 42.5, poverty gap 2.79 in 1992).

A second opportunity to reduce the dependence on petroleum was lost with an IMF-assisted adjustment program launched as a shock policy by technocrats of the Carlos Andres Perez administration (1989–1992). This policy triggered spontaneous popular protest that degenerated into widespread riots. The government's answer was to call in the military, which used excessive force and led to a huge death toll. The rebellion and its repression provided a group of conspiring army officers led by Lt. Col. Hugo Chávez with a pretext for staging two coup attempts in 1992. President Caldera (1994–1999) dropped the charges against Chávez and reversed the adjustment program. Chávez toured the country campaigning, this time in the political arena, and was elected as president in 1998. His first move was to get a Constituent Assembly elected, which was overwhelmingly dominated by his movement's delegates; they wrote a new constitution that effectively produced regime change, which was adopted by referendum in 1999. A series of plebiscite-style electoral victories, beginning with the relegitimation 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, the recentralization of the state and a state-regulated social market economy. The constitution outlines a system of checks and balances but in practice, it is ineffective given the concentration of power in the executive. Defying the rules, and backed by an almost entirely pro-government National Assembly, product of the opposition boycott of the 2005 parliamentary elections, the president packed the judiciary, the electoral council and the so-called citizens' branch (attorney general, comptroller and defender of the people) with loyalists.

Chávez was reelected in 2006 and 2012; his movement scored further victories at the polls in local, regional and national elections. However, he was unable to assume office in 2013 due to his illness. His handpicked successor Maduro secured a razor-thin victory in the presidential elections of April 2013. Maduro, who lacks the charisma and leadership of his predecessor, has continually lost popular support, because declining oil revenues and his stubborn pursuit of unsustainable economic, monetary and exchange policies imposed through repression has rendered Chávez' rentier populist model unviable.

In the parliamentary elections of 2015, the opposition secured a comfortable two-thirds majority in the National Assembly. Expectations that this would open the door to some kind of cohabitation and a gradual change of course were soon dashed when the government urged a compliant Supreme Court to declare the National Assembly "in contempt" in order to bypass the legislative power.

Venezuela's economic, social, political and humanitarian crisis has accelerated the country's spiral of violence and increased repression. It is on a path to becoming a failed state.

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 erosion of the state's monopoly on violence has continued to accelerate. Not only have violent deaths spiraled out of control, with the homicide rate topping 90/100,000, but the state has also effectively abandoned vast urban and border areas controlled by state-sponsored gangs called "colectivos," drug cartels or mining mafias. Prisons are controlled by inmate kingpins "pranes," whose gangs organize a substantial share of the growing kidnapping "business," often enough in complicity with security forces.

Special police raids such as the "Operations to Liberate and Protect the People" (OLP), designed to halt the country's surging crime rates, cannot be counted as demonstrations of the state's monopoly on violence, since regular security forces team up with those non-official colectivos in sweeping particular areas, often committing massive human-rights violations and massacres in the process (Caracas Cota 905, Barlovento, Cariaco). In 2015, 245 killings were attributed to the OLP; only a handful of those cases are being investigated or prosecuted. Likewise, clashes between mining mafias in complicity with the National Guard and groups of small-scale miners in the southern state of Bolivar have claimed dozens of lives in 2016.

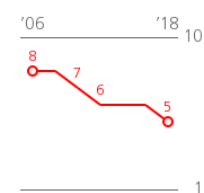
All relevant groups in society agree on the issue of citizenship and accept the nation-state as legitimate. Nevertheless, the official rhetoric merges state and socialist party identities, referring to dissidents and opponents as anti-patriotic traitors.

The constitution grants access to citizenship to Spanish, Portuguese, Italian and Latino-country nationals after five years of residence; to all others after 10 years.

Question
Score

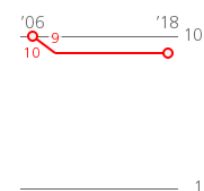
Monopoly on the
use of force

5



State identity

9



Venezuela's legal framework and institutions are entirely based on secular norms and positive law.

No interference of religious dogmas

10



The state's administrative structure provides easily accessible public services throughout the country. A host of highly politicized social programs called "missions" aimed at securing popular support for the regime operate as a parallel structure, funded by extra-budgetary resources supplied by the state oil company. Such parallelism proves inefficient as well as ineffective; recent social data show evidence of significant increases in poverty due to the financial unsustainability of these programs.

Basic administration

5



Judicial services are provided by over 2,200 courts stacked with judges loyal to the regime, most of them (70%) holding provisional positions, in clear violation of the tenure and stability requirements that should guarantee their independence.

The taxation and identity-document authorities meet professional standards. The state-owned telecommunications company is the market leader in fixed line and mobile telephony and the provision of internet services. Two private providers also have considerable market shares, though there is no real competition since tariffs are tightly regulated.

Interurban transport is mainly provided by the private sector. Massive urban-transport systems exist in major cities, complemented by private microbus lines. The country's ports, poorly managed by a Cuban-Venezuelan company, are inefficient and obsolete in terms of installations and equipment. Most airports fail to meet international security standards.

Public utilities evidence severe underinvestment, with poor distribution networks, decaying power plants, constant electricity outages and a precarious water supply, all of which contribute to frequent public protests and road blockings.

The "new institutionality" of a traditional bureaucracy and parallel missions has proven extremely ineffective in terms of health care and education. The diversion of billions of dollars to the mission programs has stripped the traditional networks of funds while failing to improve the quality of the services offered in either area, as evidenced by the highly negative basic health and education outcomes.

2 | Political Participation

Until the parliamentary elections of December 2015, voting processes were more or less regularly held in Venezuela. In those elections, the opposition scored a sweeping victory, securing a comfortable two-thirds majority in the National Assembly. Thereafter, opposition initiatives aimed at triggering a recall referendum against President Maduro were obstructed and finally blocked by the electoral authority, and nationwide gubernatorial and state legislative elections due in November 2016 were postponed sine diem. Faced with dwindling popular support and the prospect of defeat at the polls, the incumbent United Socialist Party (USP) has used the compliant electoral authority and Supreme Court to prevent the people from expressing their preference in elections. The Venezuelan Electoral Observatory, a non-partisan election watchdog, concluded that democracy had been de facto suspended in 2016.

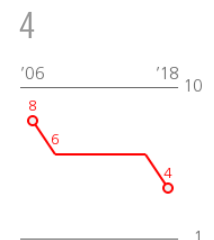
Even though the opposition victory in December 2015 was overseen and ultimately certified by the election authority, the election was neither entirely free nor fair. Public servants faced pressures to attend campaign rallies and threats should they dare not to support the USP, with the implication that their vote would not be kept secret. The election was not fair because a biased arbiter turned a blind eye on the massive use of public financial and material resources for the USP campaign.

Electronic voting machines linked to fingerprint scanners for voter identification and printers that produced a paper proof to be deposited in a ballot box secured transparency of the vote count, and produced the possibility of a manual recount if necessary. Ballots were manually counted for control purposes in a random sample of polling stations.

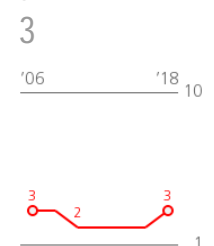
It should be added that the terms of two of the five members of the electoral authority ended in November 2016. Complying with its constitutional mandate, the National Assembly initiated the process of selecting and nominating their substitutes, but was blocked by the Supreme Court; the Court instead reinstated the original members, overriding the procedure established in the constitution, thereby securing the government's four-to-one majority in the agency.

The regime's authoritarian tightening, gradual dismantling of democratic institutions and erosion of the separation of powers by elected leaders culminated in 2016, when the opposition-dominated National Assembly was stripped of its legislative and oversight competences by a compliant Supreme Court, voter initiatives were blocked, and regional elections postponed. The country's democratically elected representatives – the Maduro government on the one hand, and the opposition in parliament on the other – have clearly differing power to govern.

Free and fair elections



Effective power to govern



While the former has grown increasingly autocratic, the latter – including MPs with parliamentary immunity – are harassed, obstructed or arbitrarily arrested and imprisoned on invented charges.

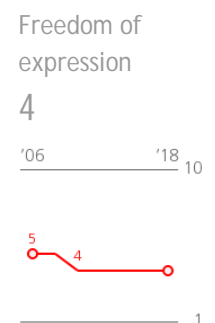
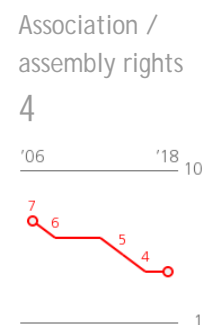
The Supreme Court has not handed down a single ruling against the executive; the electoral authority is deeply biased; the prosecutor sees no reason to investigate alleged criminal activities attributed to members of the president’s family or senior officials who have been sentenced or are being probed in the United States on suspicion of drug trafficking, money laundering or taking kickbacks; the comptroller turns a blind eye to clear corruption practices in major public contracts such as those revealed by the Brazilian construction giant Odebrecht; and the ombudsman has been blind to the regime’s massive human rights violations. It should be mentioned that the prosecutor, at least, contacted her Brazilian counterpart regarding Odebrecht’s bribe revelations.

The individual-rights catalog of the constitution guarantees the freedom of association and assembly on paper, but the regime in fact engages in outright repression. Vague legal language makes it easy to criminalize groups and individuals critical of the government. The 2010 Law on Political Sovereignty and National Self-Determination threatens sanctions against any “political organization” that receives foreign funding or hosts foreign visitors who criticize the government. Arbitrary detentions of protesters, journalists and activists are common. The UN Human Rights High Commissioner has expressed acute concerns about grave and repeated reports of repression directed against the opposition and members of civil society, arbitrary arrests, enforced disappearances, and the use of excessive force against peaceful protesters and journalists (September 2016).

Nevertheless, at least as of the time of writing, the opposition has still managed to assemble (including parliament) and voice its protest, and thus to assume its constitutionally guaranteed rights.

As other constitutional guarantees, the right to express opinions freely exists on paper but is systematically obstructed and violated in practice. Government-sponsored gangs and thugs harass critical journalists and media. Critical media exist but are denied access to public information sources, camera teams trying to record protest scenes or lines of people waiting for an opportunity to buy food are attacked by security forces, and libel laws are used to intimidate media organizations. As a consequence, self-censorship is widespread.

Print media reflect a plurality of opinions, while broadcast media exhibit an overwhelming government influence, not least due to the frequent – practically daily – obligatory announcements by the president, the so-called “cadenas.” Venezuela refused to recognize the ruling of the Inter-American Court of Human Rights, binding for the signatories of the Convention, ordering the reinstatement of a private TV



network that was closed in 2007. The Supreme Court simply declared the ruling “unenforceable.”

Venezuela’s ranking in the World Press Freedom Index has declined continuously in recent years from 77th place out of 134 countries in 2002 to 139th out of 181 countries in 2016. Freedom House categorizes Venezuela as “not free.”

3 | Rule of Law

The 1999 constitution recognizes the principle of separation of powers (Art. 136: “Public power is distributed between municipal power, state power and national power. National public power is divided into legislative, executive, judicial, citizen and electoral. Each of the branches of public power has its own functions, but the organs exercising it shall cooperate with one another in attaining the goals of the state”), but fails to consistently assure the autonomy and independence of those powers – that is, to develop checks and balances.

De facto, there is no separation of powers in Venezuela. Supreme Court justices have publicly rejected the principle of separation of powers enshrined in the constitution, pledged their commitment to advancing the government’s political agenda and declared the National Assembly “in contempt,” thus ruling that its actions are void. With the legislative power marginalized and the remaining branches – electoral, judiciary and citizen – aligned with or in submission to the policies of the executive, the principle of separation of powers is inexistent.

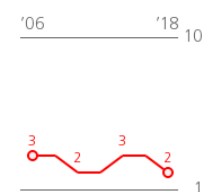
The submission of the judiciary to the executive is blatant. The OAS Secretariat for Legal Affairs found that the judiciary had ceased to function as an independent branch of government.

In the latest Rule of Law Index by the NGO World Justice Project Venezuela, is ranked 113th out of 113 countries – at the bottom of the global scale. It fails on every measure, but especially with regard to the indicators of corruption in the judiciary, independent auditing, limits by the judiciary, the right to privacy, improper government influence and unreasonable delay, correctional system efficacy, and respect for due process. According to Latinobarómetro (2015), around three-quarters of the country’s population has little or no confidence in the judiciary.

In a 2014 report, the International Commission of Jurists found that: “A judiciary characterized by the lack of independence, as in Venezuela, cannot effectively fulfill its role in maintaining the rule of law. ... Indeed, the justice system is itself being abused, made to serve as a mechanism for the persecution of political opponents and dissidents.”

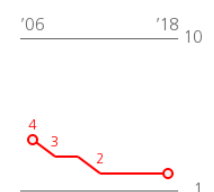
Separation of powers

2



Independent judiciary

2



Nepotism and conflicts of interest are the most widespread forms of office abuse in Venezuela, in flagrant violation of constitutional (Art. 145, 146), legal (Anti-Corruption Law 14) and ethical (Public Service Ethics Code 6, 43) provisions. Despite mounting evidence of systematic patronage with regard to the staffing of senior positions in the administration, there has not been a single investigation or indictment. Relatives of key figures such as the first lady, USP leader Cabello and Chávez himself crowd the top levels of public agencies. Two U.S. Drug Enforcement Administration (DEA) informants linked to the drug-trafficking case against two nephews of the first lady were murdered inside Venezuela. The comptroller, whose responsibilities include the prosecution of such irregularities, installed 13 of his relatives in senior positions of his agency (Art. 43 of the ethics code: “Public officeholders shall not appoint family members or friends to the agency they are in charge of.”).

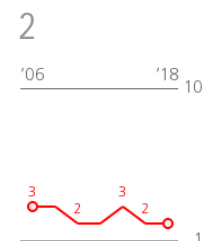
While other countries mentioned in Odebrecht’s spectacular revelations about bribes and kickbacks paid to public officials have investigated those cases, Venezuelan authorities have remained silent on the issue. The few remaining opposition-allied media outlets have covered the case. However, this has had no further consequences – first, because the reach of opposition media is limited, second, because the government is already regarded dismally by public opinion anyway, and, third, because the judicial branch is neither willing nor able to prosecute officials. The judiciary is ranked by Venezuelans as among the most corrupt institutions. In addition, integrity mechanisms are used as tools against opposition officeholders or government officials fallen into disgrace.

Furthermore, two nephews of the first lady were sentenced for drug trafficking by a U.S. court. They had diplomatic passports, admitted that they had used the president’s ramp in Venezuela’s main airport for their criminal activities, and accused senior Chavista figures as drug kingpins. At least by the time of writing, there had been no response whatsoever on the part of Venezuelan authorities. A U.S. executive order stated that the situation in Venezuela posed a national security threat, citing – inter alia – the public corruption by senior officials in the country’s government and even naming several officials who were being probed for drug-trafficking.

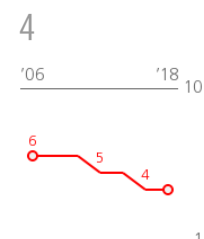
Given the absolute submission of the judiciary to the executive, the de jure situation concerning the protection of civil rights is irrelevant. De facto, civil rights are systematically violated. Personal liberty is severely constrained by the absence of the rule of law. The right to life and personal integrity is under assault due to the insecurity expressed in one of the world’s highest homicide rates and conditions of near-total impunity for criminals (homicide rate 90/100,000, impunity rate 96%).

Torture is a common practice in security-force detention centers (the Prague-based Casla Institute had filed 55 documented cases of torture in Venezuela before the International Criminal Court in The Hague as of January 2017). The privacy of communications is systematically violated (senior officials frequently publicize the

Prosecution of office abuse



Civil rights



private telephone conversations of opposition representatives in state-owned broadcast media). Access to justice is unequal and due process is not the rule (while opposition MPs have to wait up to six years for Supreme Court rulings, the governing party obtains them on short notice or immediately; moreover, in the trial of opposition leader Leopoldo Lopez, not one of the dozens of witnesses presented by the defense was admitted, but the court relied on evidence obtained from anonymous “cooperating patriots”).

Of particular concern is the systematic engagement of the Bolivarian Intelligence Service (SEBIN) police force and Bolivarian National Guard (GNB) officials in torture and arbitrary detention, with absolute impunity. Despite multiple reports at court hearings, including direct testimony by victims, no serious investigations are under way regarding cases of torture or cruel, inhuman, or degrading treatment, and the torturers are still in their jobs. They may even be promoted when they are reported or identified (Foro Penal 2016).

Harvard’s Human Rights Program (2016) describes the civil-rights situation in Venezuela as follows:

- The main legislation governing communications surveillance in Venezuela falls short of international human-rights standards, and Venezuela’s intelligence agencies, which lack independent oversight, have conducted surveillance based on political considerations.
- Courts have relied on evidence obtained from anonymous “cooperating patriots” to prosecute perceived opponents of the government, and senior government officials have used personal information gathered by cooperating patriots to intimidate government critics and human-rights defenders.
- The executive exercises significant influence over the communications sector, leaving private communications and personal information at risk of illegitimate political influence.
- Mandatory SIM card registration and data-retention requirements placed on telecommunications companies are measures that contravene international human-rights standards on the right to privacy, as they are neither necessary to achieve a legitimate aim nor proportionate to the aim pursued.
- In absence of a robust data-protection framework, the use of biometric technologies for the sale of basic goods in supermarkets and pharmacies, as well as in the voting system, creates privacy risks.

Key international actors have reacted regarding the deteriorating human-rights conditions in Venezuela:

- The UN Human Rights Committee expressed serious concern.
- The Inter-American Court of Human Rights ruled that Venezuela had violated free-expression rights when it arbitrarily closed down the RCTV network.
- The Human Rights Watch 2016 report found a continuing erosion of human-rights guarantees and stated that the government intimidates, censors and prosecutes its critics, leading to increasing levels of self-censorship. The list of violations includes security-force abuses, arbitrary detentions and deportations, limits on the freedom of expression, the harassment of human-rights activists, horrible prison conditions, and the denial of the right to health.

4 | Stability of Democratic Institutions

Under Venezuela's authoritarian regime, there are no democratic institutions capable of functioning. The democratically elected opposition-dominated National Assembly was deprived of its legislative and oversight functions by a submissive Supreme Court in flagrant violation of constitutional principles. It therefore has at best a symbolic function in the political system as the only legitimate democratic institution, and serves as a potential focus of confrontation against the increasingly despotic Maduro regime.

The public's highly diffuse commitment to democracy as the best form of government contrasts with an institutional reality of accelerated democratic erosion. The actors who are able to concentrate power effectively are definitely not committed to democratic institutions. The only democratic institution is the legislature, and it has been systematically undermined by the authoritarian government.

Performance of democratic institutions

3

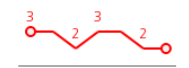
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Commitment to democratic institutions

2

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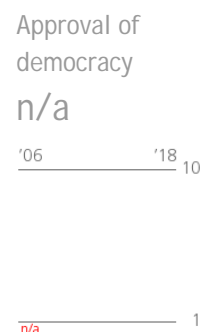
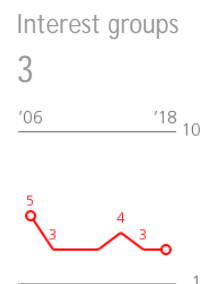
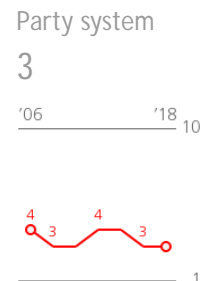
5 | Political and Social Integration

Recent political-culture studies indicate that party identification in Venezuela is associated with attitudinal rather than socioeconomic variables, making it difficult to clearly define the social rooting of political parties. The USP’s constituency is characterized by a rentier populism, while opposition supporters tend to favor some sort of liberalism, while nevertheless appearing anxious to avoid that label. Except for the strictly top-down USP, the dozens of other national and regional parties are loosely organized with informal membership. Grassroots USP activists are rewarded with public service jobs or other paid positions in the missions or state companies, but work mainly for the party.

The current situation is marked by strong polarization between the clientelistic United Socialist Party of Venezuela (USP) and the heterogeneous, fragmented opposition Democratic Unity Table (MUD) bloc. The highly fragmented system becomes effectively a two-party race when it comes to elections. The USP leads a coalition of roughly a dozen individual parties, of which it contributes about 90%. More than two dozen opposition parties form the MUD, dominated by a handful of conservative, liberal and progressive parties that represent the bulk of its support. Recent public-opinion surveys show a still respectable electoral preference for USP candidates (27%), while a clear majority of 53% favors MUD candidates and 15% would vote for independents.

Interest groups – trade unions, community, professional, entrepreneurial and cultural organizations – are politically aligned and consequently polarized in pro-official and pro-opposition camps. Long-standing traditional interest groups refused to submit to the regime from the beginning, so parallel groups were created that can easily be identified because most include the epithet “Bolivarian” in their names. Neither of the two categories wields any influence on politics. The National Assembly invited interest groups to hearings related to the laws it passed in 2016, but since such legislative initiatives were declared unconstitutional by the Supreme Court, they were not taken into account in policy-making. The government-sponsored parallel groups know their role is limited to applauding whatever initiatives the executive thinks fit to pass without ever consulting them, and act correspondingly.

Venezuelans have traditionally been leaders or co-leaders – along with Uruguay – with regard to the diffuse approval of democracy in regional multinational opinion surveys (Latinobarómetro). This has not changed, even though the approval rates evidence a declining tendency (2014: 87%; 2015: 84%; 2016: 77%). Referring to performance in general terms, the share of citizens who think democracy enables solutions of the country’s problems (72%) is Latin America’s highest. But when it comes to evaluations of their present government, only 18% agree that the administration governs for the good of all, while 79% are convinced that it governs

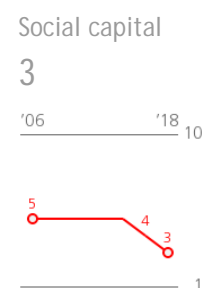


for the benefit of specific groups, and a mere 6% think the country is progressing under its present rulers. Two-thirds are convinced that the current regime is a dictatorship.

Political trust has continuously declined in recent years, but remains highly polarized: the pro-regime public, now a minority, mainly expresses trust in fundamental institutions of governance, while the pro-opposition majority expresses deep distrust. Such polarization makes negotiated regime transformation a hard sell within either camp.

The rate of social or interpersonal trust dropped to 14% in 2016 (Latinobarómetro), evidencing a constant decline over the years from above-average levels to lower-than-average levels as compared to the rest of Latin America. Following a steep 2014 decline in the Legatum social-capital index, the 2016 edition reports a still-stronger deterioration of 36 ranks, with the country falling from 94th place to 130th place out of 149 states. The data reflect the fact that the country's politically and socially hostile environment demoralizes voluntary community organization and solidarity. The same is true of people's willingness to participate in human-rights campaigns. While the MUD opposition alliance was able to mobilize up to one million people in massive protest actions calling for a recall referendum and elections in 2016, its renewed call to the streets for elections in January 2017 was poorly attended. This probably reflects the political cost for MUD's decision to participate in the UNASUR-mediated "dialog" between government and opposition, which was perceived as an effective move intended to revitalize the government and avoid the recall referendum.

On the other hand, the regime's increasingly repressive character has invigorated human-rights activists, whose organizations are thriving despite an ever-more-hostile environment. Amnesty International, the Venezuelan Observatory of Social Conflict, the Observatory of Violence, the Observatory of Prisons, Public Sphere and PROVEA constantly monitor the civil-rights situation and present regular reports. Their communicative action represents a valuable counterweight to the powerful official propaganda apparatus, preventing it from imposing the official truth as the only truth regarding what happens in the country.



II. Economic Transformation

6 | Level of Socioeconomic Development

During the review period, Venezuela topped the Cato Institute's World Misery Index for the 2nd straight year as the world's most miserable economy. After nearly two decades of unsustainable chavismo-style rentier populism, poverty is back with a vengeance. A recent survey conducted by a multi-university research group found that the socioeconomic status of Venezuelans in 2015 had dropped back to 1975 levels. The income poverty rate of 76% was significantly higher than the 55% rate that Chávez had blamed on the "oligarchic system" he proposed to radically change when he assumed power in 1999. His Bolivarian revolution effectively made poverty a state policy, discouraged private initiative and work ethics, wrecked the economy, depleted the nation's financial reserves and heavily mortgaged its future revenues, sunk any remaining public-service ethics in a morass of corruption, and ended up by suspending democracy.

According to the 2015 Human Development Report, Venezuela still belonged to the "high development" group, with an index score of 0.762 (down from 0.764 in 2014) and a rank of 71st place (down from 68th in 2014). It should be observed that in 1998, the year before Chávez came to power, the country ranked at 45th place with an index score of 0.860 (however, from 2010 onward, the calculation adopted a new method). When adjusted for inequality, the Human Development Index (HDI) score drops to 0.612, or 19.7% lower than the unadjusted figure. The Gender Inequality Index score (2015) was 0.476, with Venezuela ranking at 103rd place worldwide. Inequality as measured by the Gini coefficient is 0.448. GDP per capita estimates vary substantially depending on the source of information and the exchange rate applied: \$12,265 or \$17,664 on a purchasing-power parity basis (2014, World Bank national accounts data), \$8,217 (2015, World Economic Forum), or a mere \$5,908 (2016, IMF World Economic Outlook).

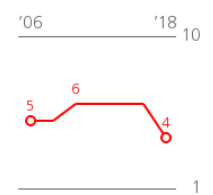
Social exclusion is caused by insufficient coverage of programs as well as a systematic denial of access for political reasons. According to the survey mentioned above, the social programs called "missions" cover only 25% of the population, of whom three-quarters qualify as poor. Half of those who have no access to missions said they were excluded. Over one-third of respondents were convinced that access to such programs was reserved for government supporters. Furthermore, these missions are based on handouts – thus, they have no impact on the structural roots of poverty. The educational and health care missions aimed at structural poverty have been largely abandoned due to the declining availability of funding from the debt-ridden oil company.

Question

Score

Socioeconomic
barriers

4



As employment in the battered private sector has contracted, the informal economy now employs about one-half of the workforce and is growing; the streets in inner cities have been transformed into markets offering everything from basic food to clothes and hardware, including services such as haircuts. Rigid price and exchange-rate controls have contributed to the emergence of a black market in which basic goods supplied by the military mafias in charge of official food imports are sold through networks of street vendors at inflated prices.

Venezuela's future socioeconomic development is compromised by a massive brain drain caused by political as well as economic reasons. In the past 15 years, about 1.8 million Venezuelans – most of them skilled or degree-holding professionals – have emigrated. Venezuelan oil-industry professionals have helped neighboring Colombia double its oil production since 2003, when President Chávez fired 20,000 of them for having staged a crippling strike.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	371006.3	-	-	-
GDP growth	%	1.3	-	-	-
Inflation (CPI)	%	40.6	62.2	109.7	-
Unemployment	%	7.8	7.0	6.8	6.9
Foreign direct investment	% of GDP	0.6	-	-	-
Export growth	%	-6.2	-	-	-
Import growth	%	-9.7	-	-	-
Current account balance	\$ M	4604.0	3598.0	-20360.0	-
Public debt	% of GDP	72.3	63.5	32.1	31.4
External debt	\$ M	132345.8	135747.7	124386.2	113023.9
Total debt service	\$ M	23135.2	23674.2	23977.9	17442.1

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.4	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.5	1.5	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.4	-	-	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

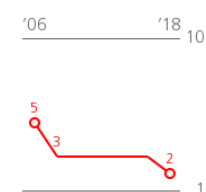
There is no market-based competition in Venezuela, since a “fair prices” law establishes rigid price controls, profit limits and penalties of up to 14 years in prison for violating the provision’s terms. The law is arbitrarily enforced, with action often triggered by anonymous “cooperating patriot” informants. In recent years, November/December have been preferred months for arbitrary control actions that included the confiscation of stocks that were then sold at ridiculously low prices to cheering crowds. In 2013, weeks before the municipal elections and Christmas, the victims were consumer-electronics stores; in 2014, a chain of children’s wear stores; in 2015, in the run-up to the parliamentary elections, a host of stores in shopping malls were ordered to lower prices by 30% to 50%; and in 2016, the complete stock of leading toy distributor Kreisel was confiscated and later distributed through the governing party’s organization and the military – all of this amounting to pure and simple looting by the authorities.

The government’s bizarre exchange-control system (a special rate for essential imports, at VEF 10 to \$1; a “market rate” for non-essential imports, at roughly VEF 700 to \$1) is complemented by a “border exchange market” on the Colombian border where Venezuelans can buy Colombian pesos at a fixed rate and then buy up to \$200 cash per person/month in a rather complicated bureaucratic procedure from which low-earners are excluded. The black-market rate (January 2017) was about VEF 3,800 to \$1.

The protection of intellectual-property rights is inadequate and fails to meet international norms. Delayed payments add significant time and costs to shipments that are further obstructed by inefficient port operations. Since Venezuela withdrew from the World Bank International Center for the Settlement of Investment Disputes,

Market-based competition

2



firms have diminished access to international arbitration. Labor laws make layoffs practically impossible, thus encouraging the use of independent contractors. Frequent minimum-wage increases (five in 2016) and the lack of transparency in the exchange-rate regime are an additional challenge for budgeting, and businesses face enormous difficulties in obtaining primary materials and spare parts, not to mention the challenges posed by electricity and water supply rationing; they also continue to lose skilled professionals to emigration. State-owned companies enjoy preferential access to foreign exchange.

The Anti-Monopoly Law of 2014 grants the enforcement agency broad investigative powers with regard to prohibited-practices proceedings. No activity is on record under the law for the years 2015–2016. The lack of activity suggests that competition is not a policy priority. The former pro-competition superintendent was replaced by an anti-monopoly superintendent; however, this was a mere change in title, since there were no structural or staff changes as compared to the situation under the previous law.

In the WEF’s Global Competitiveness Index 2015, in the sub-category of “Effectiveness of anti-monopoly policy,” Venezuela was ranked 140th out of 140 countries.

Though not fully decoupled from the world market, foreign trade is entirely state-supervised and controlled.

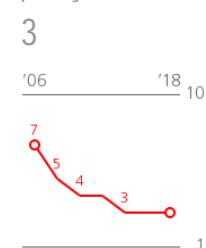
Venezuela’s performance with regard to trade facilitation is below the average of the upper-middle-income countries in nine of the 11 OECD subject areas. The World Economic Forum’s Enabling Trade Index ranks the country 136th out of 136, with bottom rankings in all of the sub-indexes (efficiency and transparency of the border administration: 135/136; availability and quality of the transport infrastructure: 122/136; availability and quality of transport services: 132/136; operating environment: 135/136; market access: 132/136).

Barriers to importing include burdensome import procedures, corruption at the border, domestic technical requirements and standards, crime and theft; barriers to exporting include difficulty in gaining access to inputs at competitive prices, inappropriate production and technology skills, difficulties in meeting buyers’ quality and quantity requirements, and difficulty in accessing trade finance.

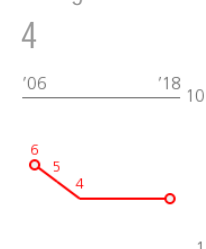
In 2015, the value of exports totaled \$47.5 billion, while imports totaled \$33.4 billion.

Venezuela is a member of the WTO, Mercosur (though its membership was temporarily suspended in 2016), the Latin American Integration Association, and the G-20, the G-33 and NAMA-11. The country is a beneficiary of the Generalized System of Preferences. As of the time of writing, it had participated in a number of WTO disputes, serving as complainant in one case, as respondent in two and as a third party in 15. Its trade-weighted average tariff is 12.6%.

Anti-monopoly policy



Liberalization of foreign trade



Very high levels of inflation imposes a massive tax on the banking system's financial assets, which are mainly monetary. Since lending rates are strongly below the inflation rate, bank assets are being eroded. Despite such adverse conditions, banks are still profitable. According to SUDEBAN, the banking system regulator, the return on assets was 3.6% and the return on equity 54% as of July 2016, down from 2015 figures of 3.9% and 61.5% respectively. However, returns are highly negative in real terms due to inflation.

Private banks hold 64% of the country's deposits, with the remaining 36% in public banks. Private banks are required to make semi-fiscal contributions, for example to the Fund for the Social Protection of Bank Deposits. Public banks are exempted from this duty. Due to these extra burdens faced by private banks, their liquidity is lower than that of public banks, whose share of the surplus total is 80% even though they hold only about one-third of the country's deposits. The ratio of non-performing loans in the system is very low (0.4%), while provisions for those loans are high (618%).

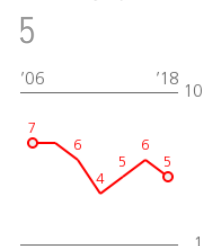
According to an analysis by The Economist, the banking sector is generally adequately capitalized, with the average capital adequacy ratios standing at 10.65 (2015). This is above international minimum standards, and complies with the Basel Accords, but remain below the prudential level for emerging markets. The analysis warns that the country's macroeconomic policy framework and degree of political intervention increase risk within the banking sector. If capital controls were eased, liquidity would flow into more profitable investments, resulting in a rapid deterioration in these indicators. On the other hand, the sector's low exposure to dollar-denominated debt might enable it to withstand the eventual floating of the currency.

Foreign bank groups are still present in Venezuela: Spain's BBVA owns Banco Provincial, while Scotiabank of Canada holds a 40% share in Bancaribe, and the Spanish Fierro Group controls Banco Exterior.

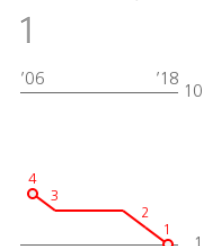
8 | Currency and Price Stability

The government's economic and financial management can only be characterized as a grotesque accumulation of every possible mistake one can even think of. The loose budget policy and monetization of the deficit, both stubbornly pursued, have driven inflation upward to reach an astounding 800% annual rate by the end of 2016, according to preliminary central bank estimates released to the press. The public-sector deficit, which is financed by the central bank (which effectively serves as the executive's money-printing agency), soared to about 20% of GDP in 2016. From October to November 2016, the M2 money supply skyrocketed from VEF 7.5 trillion to VEF 9.2 trillion, an increase of 23% in just one month. Since the same preliminary central bank estimates reflect a GDP contraction of 20%, the increase in money supply will not encourage the use of unemployed resources, but rather fuel stagflation.

Banking system



Anti-inflation /
forex policy



The exchange-rate policy is even more bizarre, epitomized by a span between an official rate of VEF 10 to \$1 and a parallel market rate of VEF 3,800 to \$1. The two-tier exchange rate system reserves a preferential “Dipro” rate that is pegged to the dollar at VEF 10 for essential imports – food and medicines – and which can be devalued whenever authorities deem necessary. Then there is a purportedly market rate, the “Dicom,” which is set daily by the central bank for all other operations. At the time of this writing (January 2017), this was approaching VEF 700 to \$1, showing a slow but steady upward tendency. However, the real effective exchange rate as of November 2016 was VEF 1,162 to \$1 (BIS-Basel).

The system is absolutely ineffective in alleviating shortages of goods and services, because it allows only limited – and politically controlled – access to the tier one and two rates, funneling exchange produced this way primarily into businesses managed by government cronies who wield a centralized control over foodstuffs, medicines and other imports. Ecoanalitica analysts estimate that 90% of imports were paid for with the preferential dollar, and two-thirds of the dollars were sold at that preferential rate. Public-sector imports represented two-thirds of the total. Despite that huge subsidy aimed at protecting the consumer, the price of the dollar weighted by imports soared from VEF 51 in 2014 to VEF 1,331 in 2016, fueling inflation. Consumers clearly do not benefit from such developments.

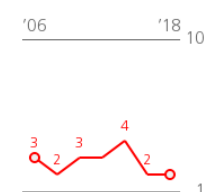
The government’s loose fiscal and debt policies, combined with an unsustainable exchange rate overvaluation, helped to trigger an import-based consumption boom fueled by the oil bonanza, break the spine of the private sector through rigid controls and expropriations, attract political loyalties and support, and create the illusion that the Bolivarian revolution was a success story. When oil revenues tumbled due to falling prices and production fell thanks to underinvestment, that dream ended in the current nightmare. Making matters worse, government policies have continued to exacerbate the fiscal, monetary and exchange-rate imbalances that undermine macroeconomic stability. The fiscal deficit in 2016, estimated by the IMF at around 25% of GDP, was financed by printing money, which in turn has fueled inflation as the economic contraction has accelerated. Growth was around -6% in 2015 and -20% in 2016, according to preliminary central-bank estimates. Year-to-year inflation in 2016 was about 800%, and the IMF predicts conditions of hyperinflation for 2017.

According to the IMF, the current-account balance showed a deficit of 3.4% of GDP in 2016, while government consumption totaled 14.6% of GDP (according to the World Bank) and total reserves were \$11 billion (according to the Venezuelan central bank). No recent data on the cash surplus or deficit were available. Total debt service will amount to about \$8.7 billion yearly through 2020.

Financing is badly needed, but the markets are cautious; this is evidenced by the fact that the sovereign-risk premium soared from 150 basis points in 2006 to over 2,500 in 2016.

Macrostability

2



9 | Private Property

Due to the absence of the rule of law, property-rights protection in Venezuela is extremely weak. The administration has arbitrarily confiscated and expropriated private property without due process or compensation, in flagrant violation of constitutional safeguards, and given the government-aligned judiciary, with no access to judicial review. Conindustria, a business federation, estimates that over 1,400 businesses have been expropriated, and the administration owes billions of dollars in unpaid compensation. Managed by the state, the expropriated companies' payrolls have increased, but in most cases production has declined, and many have ended up in bankruptcy.

A number of arbitration procedures are pending before the International Center for the Settlement of Investment Disputes; in 2016, the agency ordered Venezuela to pay Canadian mining company Rusoro \$966 million plus interest for unlawfully expropriating its mining investment.

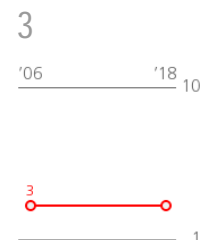
Venezuela receives a score of six on the Heritage Foundation's property-rights index that is, between "private property is outlawed/corruption is endemic" (0) and "private property is rarely protected/expropriation is common" (10). The Intellectual Property Rights Index ranks Venezuela at 128th place of 128 countries.

Instead of promoting private initiative and safeguarding the freedom of enterprise, commerce and industry, as expressly established in the constitution, the state's policy aims at asphyxiating private initiative and cracking down on private enterprise, commerce and industry. The Venezuelan government respects private enterprises only when forced by sheer economic necessity, as in the case of Empresas Polar.

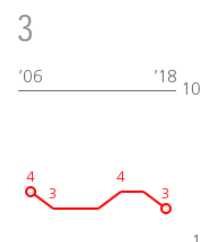
The control agency often sets prices below cost, so production declines and severe shortages follow. The government blames such shortages on an "economic war" waged against the people, and responds by tightening the controls even more, making things worse and rendering shortages chronic – a vicious circle with no end in sight. Consequently, Venezuela dropped further to rank 187 out of 190 in the World Bank's most recent Doing Business Report, and to 175th place out of 178 in the Heritage Economic Freedom Index (2016).

Privatization is not an issue except for the informal privatization of health care and education due to the poor quality of the public services in these areas. Private expenditure in the health care sector is significantly higher than public expenditure (PAHO), and from 2004–2005 to 2014–2015, enrollment in private schools increased by 38% as compared to a 3.5% decline for public schools (Memoria Educativa).

Property rights



Private enterprise



10 | Welfare Regime

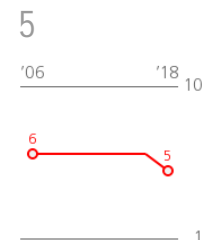
The welfare system is made up largely of parallel structures to the traditional structures run by the ministries. These so-called missions (the Sucre Mission, the Ribas Mission, the Robinson Mission, etc.) were already inefficient when oil prices were high. The Social Insurance Institute (IVSS) administers the pay-as-you-go pension system. A parallel program mainly financed by extra-budgetary contributions is in charge of the non-contributive pension system (Mission Love the Old Age). The two systems cover about 3 million beneficiaries who receive a fixed monthly pension equivalent to the current minimum salary; this pension level is frequently adjusted due to the runaway inflation (five times in 2016), but is still worth only a fraction of the basic food basket (as of November 2016, the basic food basket was worth 12 monthly pensions). Most public-service agencies, the universities, the military and the state-owned oil company have their own severance pay and pension funds that offer better conditions than the IVSS.

Health care in primary care clinics and public hospitals is free. The public hospital network comprises about 300 hospitals with a bed density of just one per 1,000 people, well below the Latin American average of three per 1,000 as estimated by the WHO. The primary-care network covers the whole territory but has shortages of staff, operative equipment and medical supplies. Quantitative indicators evidence a steady decline in services offered since 2005, and qualitative indicators rank Venezuela at 81st out of 89 countries in the 2014 Health Care System Index. The government stopped publishing health care data in 2014 and banned international aid in an effort to conceal the extent of the humanitarian crisis. A Human Rights Watch report (2016) described severe shortages of medicines and medical supplies that made it extremely difficult for many Venezuelans to obtain essential medical care, and accused the government to have been more vigorous in denying the existence of a humanitarian crisis than in working to resolve it.

A food distribution program was started in 2016 with the creation of the so-called Local Committees for Supplies and Production organized by the USP. Centralized food imports are distributed to those committees, and national producers must supply them with part of their production. Once per month, the committees put together bags with a handful of basic groceries and sell them door to door to previously listed households at subsidized prices. A considerable share of those products ends up on the black market, with the revenues filling the pockets of the military-cum-party mafias. It should be observed that the epithet “Production” in these committee’s name is merely decorative, as they don’t produce anything.

Needless to say, a monthly ration of some groceries neither solves the severe food shortages nor alleviates the long lines of people waiting for their turn to buy subsidized products if they should arrive in a local supermarket. Looting of food transports, food riots and crowds ransacking supermarkets are common.

Social safety nets



The framework of legal safeguards regarding formal equality of opportunity is modern and comprehensive, but the deep political polarization impedes fairness in implementation and enforcement; access to employment in the public service or state companies, as well as to a host of social programs such as housing, openly discriminates against government critics.

Public education institutions offer free non-discriminatory access, but quality is low. Private institutions offer better quality, but costly fees are discriminatory against lower income sectors. The same is true for access to public/private health care

Venezuela ranks 103rd in the Human Development Report's Gender Inequality Index, 33 positions below its HDR rank. Women hold a mere 14.4% of parliamentary seats despite the 30% female quota established in the electoral law. The female/male enrollment ratio is 97.1 at the primary-school level, 109.7 at the secondary level and 146.2 at the tertiary level. The female labor-force participation rate is 51.1% compared to 79.2% for men, a little below the Latin American average of 53.7% and 80.3%.

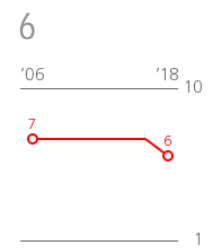
It should be observed that in a near-failed state like Venezuela, there are practically no opportunities especially for young professionals, so there is a degree of equality in the lack of opportunity that is reflected in the high and growing emigration of talent. Two-thirds of the over 2 million Venezuelans who have left the country since the year 2000 hold college degrees; the UN High Commissioner for Refugees registered a 2,900% rise in the number of Venezuelan asylum seekers in the region for the years 2012–2015.

11 | Economic Performance

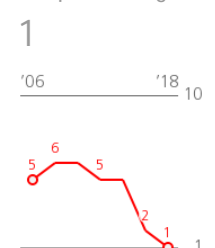
Whatever indicator is chosen, the picture is the same, and is described by international observers as either economic free fall or as collapse. Venezuela holds the title of the world's worst-performing economy for the second straight year. It is also the country that has recorded the largest decline in the Legatum Prosperity Index over the past 10 years. The near-6% contraction in GDP in 2015 (IMF) was followed by a free fall of between 10% (IMF estimate) and 20% in 2016 (confidential BCV preliminary estimate), with inflation accelerating to about 800% (IMF: 255%). According to IMF estimates for 2015 and 2016, this general pattern also holds for GDP (PPP) per capita (\$16,784 in 2015 and \$13,761 in 2016, down from \$18,607 in 2013); total investment (falling from 42.1% to 9.0% of GDP); unemployment rate (rising from 7.4% to 21.2%); and the current account balance (-7.8% to -2.4% of GDP), among other indicators.

However, this data should be taken with caution due to the lack of updated and trustworthy official information. According to a 2016 parliamentary report, Venezuela's central bank (BCV) has not published price index and shortages data for

Equal opportunity



Output strength



36 months, and official data on health and education indicators respectively lagged four and two years behind. Despite being party to the General Data Dissemination System GDDS, as well as to the e-GDDS, Venezuela has delayed completing Article IV consultations since 2004.

12 | Sustainability

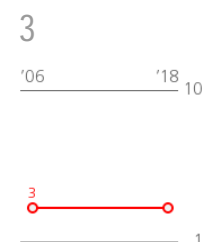
The government's proclaimed "ecosocialism" exists only as a catch-phrase. Venezuela signed but had not ratified the Paris Agreement on Climate change of 2016 as of the time of writing. In the midst of the current economic crisis, ecological issues are clearly not a priority. Although protected areas cover one-half of the territory, twice the Latin American average, and despite generating nearly all of its electricity from hydroelectric plants, Venezuela has the highest levels of carbon pollution in Latin America, mainly because of its wasteful use of fuel. Environmental interests have been downgraded and even dropped from the agenda. One such victim was the Ministry for the Environment, once a pioneering institution in Latin America, which was eliminated in 2016. Another was the country's vast protected biological-diversity reserve in the Guiana shield area, which is now open to mining operations under Maduro's Mineral Arch Decree. The decision ignored environmental controls and safeguards, and was made without the mandatory process of consultation with the indigenous people living there.

Tax and energy policies do not take environmental goals into account; there are no incentives for environmentally sound consumption and investment. Quite the contrary, the continued deterioration of the oil industry caused by underinvestment and poor maintenance has significantly aggravated and multiplied accidents and oil spills. The country is still Latin America's biggest CO₂ emitter per person, and also the 10th worldwide in terms of annual loss of woods.

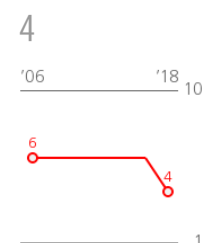
Venezuela's most recent score on the UN Education Index was 0.682 (2013, rank 57, literacy rate 95.5%), with public spending on education totaling 4.9% of GDP. The government says it spends 2.6% (2016) on science and technology. While two public universities still made it to the list of the thousand best universities in The Times World University Rankings, available performance data referring to education and scientific production reflect severe problems and decline.

The 2015 PROVEA annual report found a growing number of children out of school: 15.7% at the pre-primary level, 3.7% in the primary and 14.5% at the secondary levels. Furthermore, children lose class time due to the lack of teachers, especially in the fields of mathematics, physics, chemistry and biology, and lose even more class time because they as well as their teachers spend their morning hours in lines waiting for food. Dropout rates are 12.9% in the primary and 19.3% in the lower-secondary levels; completion rates for the last grade of primary and lower-secondary levels are 87.1% and 80.7%, respectively.

Environmental policy



Education policy / R&D



Available data (Ricyt) on the country's scientific production are disappointing. The rate of 0.90 researchers per 1,000 members of the labor force is low by Latin American standards (average 1.30). The bibliometric indicators reflect a sharp downturn. Publications in the SCI per 100 researchers are down to 9.62 from 69 before the Bolivarian revolution; likewise, the number of Pascal- and SCOPUS-indexed publications respectively declined from over 30 and over 80, to just over 1 and 15. The steep decrease decline reflects the brain drain mentioned earlier.

Governance

I. Level of Difficulty

Venezuela features arguably the worst case of Dutch disease observable today; it has depended on oil revenues for nearly a century, but it was the Bolivarian regime that exacerbated the petro-state symptoms. These have included a spoils system, increased indebtedness even in boom periods, destruction of the private sector and its significant industrial and agricultural production for ideological reasons, increasingly deeply entrenched corruption, and deterioration of the oil industry itself through underinvestment and mismanagement. Even as the national oil company's payroll swelled from about 40,000 employees to over 120,000, production dropped from 3.5 million barrels per day to just over 2 million barrels, with prices down to less than half their value in the boom years. Summing up, these difficulties are structural in origin, but their severity is largely homemade.

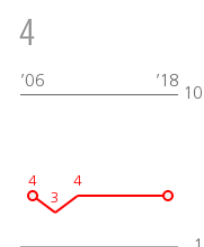
Further difficulties include structural poverty that was not eradicated by the social "missions," as this was greater at the end of 2015 than at the beginning of the Bolivarian regime; the loss of human capital due to the massive brain drain; a deficient infrastructure with obsolete ports and airports and poorly maintained utilities. Again, all of these are structural in origin but have been exacerbated by local policy choices.

In a social environment of exponential growth in crime and impunity, interpersonal trust has dropped to a low of 13%; the 2016 Legatum index ranks the country at 130th out of 149 nations in terms of the strength of social capital, and 129th in with regard to safety and security, dozens of positions down from 2014. The fairly strong civil-society traditions of the past have given way to poorer associational activity due to political interference and repression.

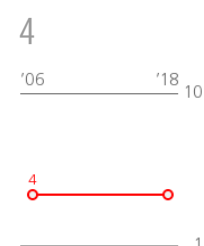
Sinergia, a network of civic associations, registers about one thousand member groups, of which 60% have disappeared or are inactive, probably due to the continued harassment of critics by the government. In 2016, the OAS Permanent Council criticized the use of public powers to interrupt the free association and other activities of opposition groups and the media.

The network of government-friendly local committees and associations is a top-to-bottom creation rather than an expression of genuine civic engagement.

Structural constraints



Civil society traditions



The 2016 Global Peace Index (Institute for Economics and Peace) ranks Venezuela as the world's fourth-most-violent country, after Syria, Iraq and Afghanistan. The report estimates the economic impact of violence at over 40% of the GDP; the economic impact of homicide alone – 36% of the GDP – is the highest such level in the world.

The society and the political elite are deeply split along political lines. While regime-critical supporters of opposition forces represent a huge majority of more than two-thirds of the population, the government can still rely on the unconditional support of about one-fifth of the people despite the hopeless social, economic and humanitarian crisis.

The crisis is reflected in growing social protest, conflict and violence. The Venezuelan Observatory of Social Conflict registered 5,772 protest actions, 771 of them lootings, in the first nine months of 2016. The year ended with the devastation of Ciudad Bolívar's business community when around 500 stores were looted in the context of the nationwide chaos created by a sudden presidential order to demonetize the 100-bolivar banknotes within 48 hours, making cash payments even harder than they had already been. The order was later postponed, as the previously announced introduction of new higher-denominated banknotes had to be delayed because they had not arrived. Following his conventional strategy of employing conspiratorial narrative to explain all disaster, Maduro blamed the delay on an international conspiracy against Venezuela.

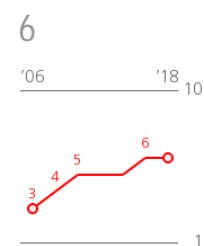
II. Governance Performance

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. However, the regime's all-encompassing strategic priority is currently survival under admittedly adverse circumstances that include declining oil revenues, a dwindling base of popular support, an increasingly hostile international environment and an opposition with majority parliamentary and public support. Consequently, its basic and not necessarily mutually exclusive options are to make the circumstances change in its favor or adapt to them as best as possible.

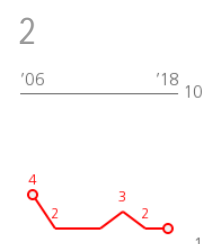
The regime leadership's tactical maneuvers followed this path during the crucial year of 2016. After the USP's crushing defeat in the 2015 parliamentary elections, Maduro named as vice-president Aristóbulo Isturiz, a moderate who was seen as a possible bridge builder, and would have been successor if the president was recalled by referendum after the January 2017 deadline – that is, without immediate presidential

Conflict intensity



Question Score

Prioritization



elections. On the other hand, the regime increased repression, bypassed the National Assembly, and suspended democracy by definitely blocking the referendum initiative and postponing scheduled regional elections.

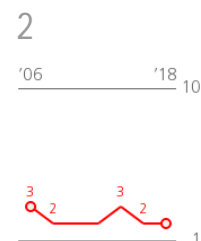
In another move ostensibly signaling a willingness to talk, Maduro succeeded in convincing the Vatican to moderate a dialog initiative promoted by UNASUR Secretary-General Samper and three Ibero-American ex-presidents. The opposition also agreed to talk, but nothing was achieved; however, the government was able to buy time as the opposition canceled a massive pro-referendum demonstration that had been announced for the beginning of November and had already drawn substantial public interest. As later calls for street actions by the opposition leadership evidenced, the suspension of the November march had effectively demobilized the people. In a further move, Maduro replaced Vice-President Ithuriz with hardliner El Aissami, signaling that no change of policy was to be expected. If there were doubts, USP Vice-President Cabello dispelled them by declaring there would not be any more elections, but more revolution would come.

In terms of policy planning, implementation and monitoring in pursuit of strategic goals, the government lacks vision, competence and continuity. Maduro staged 90 cabinet reshuffles in 45 months, mainly rotating through a limited pool of top USP figures. Every ministerial change comes with the change in the senior officials in that department, rendering policy follow-up challenging if not impossible.

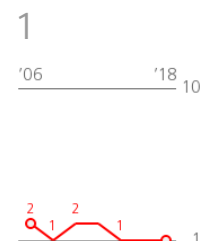
The government has been effective in securing survival under difficult circumstances, which is its only genuine strategic priority. Goals established in policy platforms such as the 2nd Socialist Plan 2013–2019 are mere political-communication soundbites rather than guidelines for executive action. The Plan's lofty ideals, such as the creation of a new socialist ethic and political culture, the eradication of poverty, the conversion of the country into an energy powerhouse, reduction of the dependence on oil, the preservation of life on the planet and the salvation of humanity are polite fictions rather than genuine or serious policy goals. The contrast between these declared ideals and the down-to-earth facts could not be greater.

The current leadership has both learned the late Hugo Chávez's lesson regarding the progressive authoritarian tightening of the political regime through the accumulation and centralization of power, and also acquired the ability not to have to learn. Thus, if the facts prove the theory that guides the policies wrong, it is not the theory or the policies that must be changed, but rather the facts. This processing of reality is adapted to a symbolist narrative based on stereotyped enemy pictures such as "unpatriotic oligarchs," "lackeys of the empire" or "fascists" that dichotomize the society and foster a perception of reality in which others are to blame for all evils. The leadership continues to stick inflexibly to its rotten Bolivarian socialism, rejecting any suggestion that the course be changed and demonstrating what amounts to political autism. There is no correspondence to the normative framework of the BTI.

Implementation



Policy learning



15 | Resource Efficiency

About 21.5% of the workforce is employed in the public sector, a figure somewhat higher than the OECD average. While this has more than doubled in 10 years, the payroll inflation has not translated into better or more efficient services; indicators regarding education, health, public safety, energy and water supply, infrastructure and transport all reflect downturns in recent years. There is no evidence that the public sector's workload has increased significantly; quite the contrary, when Maduro ordered a two-day week for public workers in April and May 2016 to save energy, there were no complaints regarding the access to services.

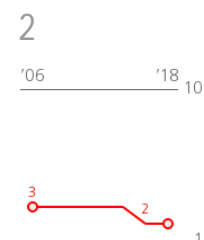
Dismissals for political reasons have been justified by senior government officials who have insisted that employees signing the recall-referendum petition be sacked; consequently, thousands were dismissed by the state oil company alone. It should be observed that the dismissals themselves reveal a confidentiality violation by the electoral authority.

Competitive recruiting procedures are established in the Public Service Law, but a spoils system prevails. Just one example: Maduro appointed his son to a newly created position as Director General for Presidential Delegations and Instructions of the Vice-Presidency of the Republic, whatever that means.

Deficit spending has been the rule in recent years, but has not succeeded as a growth tool. Loose monetary policies aimed at financing the budget deficit have increased inflationary pressures and the risk of default. Opaque budget planning, parallel budgets and funds fed directly by the state-owned oil company have made proper auditing a challenge. The executive has bypassed the National Assembly's budgetary sovereignty, and did not present its mandatory annual accounts during the review period. In the years 2014 to 2016, the government regularly overspent the budget by as much as 100%. The grotesque variation in the multiple exchange rates makes things worse. One analyst put this in perspective by converting the country's nominal GDP of around VEF 8 trillion at the official and the black-market rates; at the official rate, it would be around \$1.3 trillion, similar to South Korea's, while at the black-market rate, it is just \$10 billion, similar to Tajikistan's. Consequently, the truth lies somewhere between South Korea and Tajikistan.

Most public administration units have been subject to a constant rotation of agency heads and the ensuing replacement of senior officials, with 90 cabinet reshuffles in 45 months. This lack of continuity has impeded effective professional management. Regional and local governments have been stripped of competences that were instead handed to USP grassroots committees or so-called development corporations dependent on the executive. The sub-national governments also depend on the central state financially. A 2016 study for CLAD (Centro Latinoamericano de Administración para el Desarrollo) found that local governments in Venezuela lack

Efficient use of assets



contact with their citizens' real problems, mayors have little clout with the central government and lack the resources to solve the most urgent problems.

The country ranks below the Latin American average with regard to e-government (90th place, down from 67th in 2014) and e-participation (107th place, down from 51st in 2014).

If an adequate institutional architecture secured successful horizontal and vertical policy coordination, Venezuela would be a showcase. A Federal Council of Government composed of the executive, the state governors and representatives of the mayors, and complemented by regional and local councils for public planning should foster policy coherence, implementation, monitoring and adjustment if necessary. However, what prevails in real policy-making is a command-based approach that renders the coordination architecture superfluous; the president dictates grand and petty politics on a daily basis, often enough improvising in a way that is surprising even for his close aides. The councils at the different levels lack a fixed agenda or permanent administrative underpinning, and opposition governors and mayors have occasionally been excluded. The Federal Council bypasses regional and local governments when it approves uncoordinated individual projects presented by “grassroots organizations of the people’s power” – that is, USP-dominated groups.

Public policies reflect a sharp contrast between the goals proclaimed in plans and the official rhetoric, and their outcomes. The economic policy announced for 2016 pursued the goal of boosting supply; the tools employed were tighter exchange and price controls as well as threats of expropriation. The unsurprising outcome was even more severe shortages. The declared goal of taming inflation was lost due to the massive printing of money, and the goal of “winning the war” against the parallel dollar ended in sending its price sky-high.

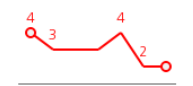
Several integrity mechanisms are formally in place, but either are not applied according to rule-of-law principles or are used as tools against opposition officeholders or government officials fallen in disgrace. Despite being governed by one of the most corrupt regimes on the planet, corruption is not a significant public-opinion issue; only one-fourth reports having heard of a corruption case in the last year. The understaffed and underfunded General Comptroller’s Office lists 90 audit activities at the national and 438 activities at the regional and local levels in its 2014 report. Had it audited itself, it would have discovered that its head, the comptroller, appointed 13 direct family members to senior positions in his agency, violating the conflict-of-interest dispositions of the Law against Corruption and the Public Service Ethics Code. The Audit Authority does not track the billions transferred from the state-owned oil company to USP-controlled community groups.

Venezuela is signatory of the UN Convention against Corruption and the Inter-American Convention against Corruption. A 2015 OAS report found that the Comptroller’s Office had insufficient human, technological and budgetary resources.

Policy coordination

2

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Anti-corruption policy

2

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It recommended that the recruitment of personnel should be competitive and merit-based, that the Supreme Court should publish annual performance reports of the judiciary, that the Public Defender should publish reports, that the system of prevention of conflicts of interest should be reviewed, and that the right to public information should be guaranteed.

The 2015 Jones Day Anti-Corruption Index states that there is a lack of real commitment to fight corruption and that systematic corruption exists at all levels of society, reporting a 92% impunity rate; it ranks Venezuela at 158th place out of 168 countries. The WEF Global Competitiveness sub-indexes rank Venezuela at 138th out of 138 countries with regard to the diversion of public funds, transparency of policy-making and favoritism in the decisions of government officials.

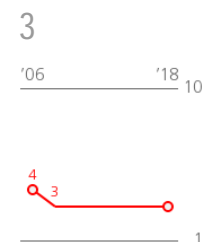
16 | Consensus-Building

There is no normative agreement on the political and economic systems best suited to foster development. There is virtually no common ground between a government focused on sheer survival at all costs and an opposition seeking to oust that government, or at the very least achieve a fundamental change of course. The UNASUR-inspired and Vatican-sponsored international mediation process, which sought a basis for dialogue between the two sides, went nowhere, since it was unsuccessful in getting an electoral agenda adopted as the smallest common denominator. The political system defended by the regime elite, from moderates to radicals, is a Cuban-style people's democracy – that is, a single-party dictatorship – while opposition groups, again ranging from moderate to radical, favor a pluralism of representative democracy and competitive elections.

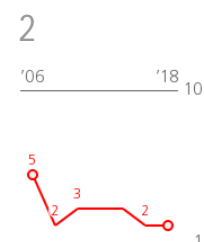
Regime elites, ranging from pragmatists to radicals, are focused on a centralized command-based economy with a marginalized private sector, while the opposition is less united in this respect, with different groups favoring models ranging from a liberal market economy to a social market economy or outright state-centered system.

The actors dominating the state and its institutions reject the principles of representative democracy and a market economy; they have effectively suspended democracy by declaring the acts of parliament void, blocking a referendum initiative and postponing sine die elections due in 2016. A recent UNASUR and Vatican-sponsored dialogue initiative led nowhere due to the government's absolute unwillingness to consider concessions; the Pope's representative blamed the failure on the government's refusal to comply with agreed terms. The government can definitely not be trusted when it comes to finding agreement on any kind of transition. What reformers can do is mobilize massive public protest at home and diplomatic pressure abroad.

Consensus on goals



Anti-democratic actors

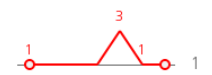


There are no deep ethnic or religious cleavages in Venezuela, and after years of economic crisis, there is also not much left of the former upper and middle classes. Therefore, the confrontation between “the people” and a supposedly elitist/oligarchical/fascist opposition, which rhetorically underlies the government’s populist strategy, is merely an artifact of propaganda.

Cleavage / conflict management



The political leadership is not interested in moderating the cleavage or polarization it has generated in order to simplify the identification of “us” versus “them.” The dichotomization between “good” and “bad” is essential for their survival; consequently, their populist rhetoric and policy exacerbates the cleavage. The regime’s repression-backed resilience in the face of crippling humanitarian, social, economic and political crisis; high unpopularity; explosive protest and violence signals its absolute lack of scruples in clinging to power whatever it takes.

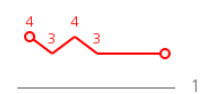


Civil-society participation is officially mandatory for the selection and appointment process of the members of the three branches of power not popularly elected: the Supreme Court, the Electoral Authority and the People’s Power (Ombudsman, Comptroller and Prosecutor). However, none of the appointments made in 2015 and 2016 respected the procedure established in the constitution.

Civil society participation



The regime leadership draws a line between “civil society” and “the people”; while the first is associated with “bourgeoisie,” “oligarchy” or “fascists,” the second refers to the regime’s (shrinking) loyal support base organized in a centralist top-to-bottom structure.



Neither civil society nor the people are involved in agenda setting, policy formulation, deliberation and decision-making, policy implementation or performance monitoring, with a few exceptions at the local level.

There have been no mayor historical injustices committed which are relevant to this question.

Reconciliation
n/a



17 | International Cooperation

There is no medium or long-term political agenda, as the rather vague phrase “21st century socialism” lacks any substance. The regime relies on three main sources of support, namely Cuba, China and Brazil, with the first two being compensated through oil deliveries. Cuba provides medical staff and supplies for the primary-care health network in exchange for about 90,000 barrels of crude per day. However, Cuba’s support has not resulted in a positive change in the country’s preventive health care indicators, as discussed in the health section of this report.

Chinese financial aid has helped the government weather serious cash problems. China is now rivalling the United States as a top export destination for Venezuelan crude oil, which it has typically paid for in advance through opaque contracts with unknown conditions. China also participates in heavy oil and mining projects in the mineral arch, and built a railway connection between Caracas and its southwestern outskirts.

Brazilian cooperation was significant and instrumental in a few infrastructure projects, such as the second Orinoco River Bridge and the Caracas subway system. The impeachment of President Dilma Rousseff and the unfolding of the Petrobras-Odebrecht corruption scandal brought this cooperation to an end; Odebrecht even removed heavy equipment from ongoing projects during the review period, not least because Venezuela is behind on payments.

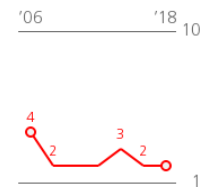
Venezuela’s already low credibility as a trustworthy partner has been further undermined by an offensive and confrontational foreign policy. Its report to the UN Human Rights Council in September 2016 was criticized for its “massive amount of manifestly false information.” Its credibility vis-à-vis the beneficiaries of its Petrocaribe and Petrosur schemes is vanishing because it can no longer deliver on its promised oil supplies.

In 2016, Venezuela closed its borders with Colombia and for a shorter time Brazil in a move to fight “mafias” that engage in contraband and money exchange in Colombian and Brazilian border towns. This temporary measure did not produce major effects and when the borders were reopened (only partially with Colombia), thousands of Venezuelans continued to flock into the border towns to buy food and medicines they could not get in their own country.

The new hemispheric integration architecture – the Bolivarian Alliance for the Americas (ALBA; formed in 2004), the Union of South American Nations (UNASUR, formed in 2008) and the Community of Latin American and Caribbean States (formed in 2012) – initiated by the late President Chávez in order to block the U.S.-inspired Free Trade Area of the Americas and bypass the OAS, seems to be

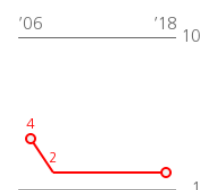
Effective use of support

2



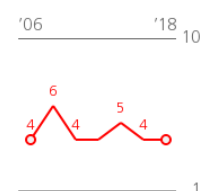
Credibility

2



Regional cooperation

4



losing vitality. Venezuela's checkbook diplomacy was initially successful in garnering regional support for the Bolivarian regime vis-à-vis the international community. Underpinned by highly favorable oil-supply programs such as Petrocaribe and Petrosur, as well as promises of huge continental projects like the gas pipeline from the Caribbean coast to the Southern Cone, Venezuela's hemispheric integration initiatives took center stage. However, the country's declining ability to meet its promises has cast a damper on this enthusiasm. This has been reflected in the fact that Venezuela failed in its bid to prevent the OAS secretary-general from presenting a report on the country's deep social, political and economic crisis to that body's Permanent Council.

In addition to these issues, Venezuela's foreign policy was dealt a severe blow when it was prevented from assuming the pro tempore presidency of Mercosur, and its membership was suspended. The new governments in Argentina and Brazil supported Paraguay's refusal to let Venezuela assume the position due to its undemocratic record and failure to comply with the provisions of the adherence treaty. Thus, Venezuela is being increasingly isolated, both in the hemisphere and beyond.

Strategic Outlook

Venezuela's economic outlook for 2017 through 2019 is grim; the IMF predicts continued recession, a steep contraction in GDP per capita and soaring unemployment rates. A radical change of course would be necessary to achieve a turnaround. The regime's repression-backed resilience in the face of the crippling humanitarian, social, economic and political crisis; high unpopularity; explosive protest movements and widespread violence signals an absolute lack of scruples in clinging to power at whatever cost. A regime change at the polls seems unlikely since the government had elections due in 2016 and a very promising recall referendum initiative suspended by a compliant Supreme Court and electoral authority, amounting to a de facto suspension of democracy. Any fundamental change in the regime's disastrous economic policy would lack credibility without a change in the man at the helm, since Maduro is perceived as being personally responsible for the disaster.

Maduro's resignation or removal would offer the regime a chance to abandon the command economy, loosen controls and encourage production. The short-term political cost of a policy change could be offset by winning back popular support in the medium term. However, the repression of opponents, dissidents and media and the bypassing of the National Assembly would likely continue as a means of closing ranks, while occasional conciliatory gestures such as the Vatican-mediated and UNASUR-sponsored dialogue initiative of 2016 would likely keep the opposition disunited and garner external support.

The opposition had lost significant momentum when they finally discovered that the government's dialogue initiative was a decoy to lure them away from their hitherto successful recall-referendum action and the scheduled massive demonstrations calling for an agenda for the regional elections due in 2016. This strategy had shaken the government to its very foundations; Maduro found himself caught between a rock and a hard place. However, the decision to give up the strategy and talk with the government, secretly taken and pursued by an inner circle, provided breathing space for the regime and demobilized the opposition. The challenge for the opposition leadership is to return to a strategy aimed at regime change through popular pressure, and convince the society of its chances of success. While increased regime repression will certainly discourage some, others will join the protest as a fight for sheer survival. Protest demonstrations will have to face increased violent repression by the security forces as well as the armed government-sponsored gangs known as "colectivos."

The steep decline in imports projected by the IMF for 2017 and 2018 will inevitably worsen the already-grave shortages and consequently breed more violence. Locally focused food riots, the looting of food transports, and the ransacking and plundering of stores will increase in frequency. An outburst of uncontrolled generalized violence similar to the Bolivar lootings in December 2016 or the "Caracazo" rebellion of 1989 cannot be excluded. It is hard to predict the reaction of the vast security apparatus should this happen. While the loyalty of the senior officers of the multiple security forces – the National Police, the Bolivarian Intelligence Service, the Militia, the National Guard, and the armed forces – seems to be secure, at least part of the rank and file may reject orders to use firearms against the people.

A fragile state in 2016, Venezuela seems to be on its way to becoming a failing state.