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A Look to the Future for Venezuela

Country Department Andean Group

Emmanuel Abuelafia
José Luis Saboin

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José Luis Saboin

CAN/CAN

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http://www.iadb.org

eabuelafia@iadb.org

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A LOOK TO THE FUTURE FOR VENEZUELA

By: Emmanuel Abuelafia and Jose Luis Saboin

Supervision: Osmel Manzano

Inputs and comments from: Andrade, Gabriela; Arias Ortiz, Elena; Bocco, Maria Julia; Buscarons Cuesta, Luis; Garcia, Gustavo; Granados, Jaime; Ibarraran, Pablo; Loo-Kung, Rudy; Massini, Marina; Mejia, Isabel; Mejia, Juan Andres; Mejia-Guerra, Jose Antonio; Mendieta, Claudia; Montanez, Leopoldo; Mosqueira, Edgardo; Muente, Arturo; Navarro, Juan Carlos; Olivo, Victor; Pacheco, Manuel; Pimenta, Carlos; Pinto, Ana Maria; Prats, Joan; Robles, Marcos; Salazar, Lina; Santiago, Ana; Stampini, Marco; Sucre, Carlos; Suescun, Rodrigo; Valdez, Hector.

FOREWORD

I'll never forget the first time I traveled to Venezuela from Bogota. It was in 1992, when I was working as Colombia's minister of economic development. At that time, there were very few air connections, and I was traveling with huge expectations. After all, the neighboring country of Colombia had been a sort of Mecca for many of my compatriots who had crossed the border looking for better opportunities, especially last century during the seventies.

My first impression was of arriving somewhere that was much more prosperous than the place I had left. The infrastructure, the buildings, and the people in the streets all confirmed what I had been told: I was in a place in Latin America where the possibilities of progress seemed limitless.

That impression was confirmed when I met many people with different occupations. What called my attention was not only their professional qualifications and high level of education but also their combination of joy and good humor with seriousness on the job. Since then I have returned many times and built relationships that are a part of my life.

Because of this, I would be less than truthful if I said this is a topic I look at coolly and from afar. Although the current situation of the Venezuelan people is painful for anyone on the planet who knows about it - and particularly any Latin American - for me it is an ongoing and constant concern.

Without beating around the bush, this is the most serious humanitarian crisis in the history of the Americas. As indicated quite well by the statistics of international organizations charged with this matter, more than five million people have had to abandon the land of their birth, facing adversity, hunger and uprooting.

Many of these have been welcomed in a region that has demonstrated with facts what solidarity is all about. Others, it is painful to admit, suffer rejection or abuse, accentuated by a much more difficult economic reality.

For those living in Venezuela, things have not improved. In addition to long-standing woes, the COVID-19 pandemic has laid bare the failings of the health system and the risk of lacking appropriate means to contain infection and care for the sick.

This study summarizes the underlying explanations for the country's economic debacle from before the pandemic, together with the social and economic consequences of the crisis, including the impact on household income, social indicators, and the provision of basic services. It also looks at the way the pandemic has complicated the country's situation.

The study also describes potential short- and medium-term priority actions aimed at the emergency and economic recovery that were worked up in 2019 and 2020 by the Inter-American Development Bank in close coordination with counterparts and cooperating partners.

These pages abound in data showing the magnitude of the tragedy, behind which will always be the face of an adult who dreamed of a peaceful old age, a professional who saw her hopes dashed, a young student who left behind his books out of a need to find food, or a child who still smiles but watches her elders suffer.

The importance of the exercise we at IDB have carried out, however, is that it does not stop at delivering a bleak diagnostic but rather identifies solutions. Unquestionably, the figures required are considerable, but they are small compared to the cost of doing nothing. The consequences of inaction, measured in migrations, insecurity, and geopolitical tensions would be devastating for not only Venezuela but also the entire hemisphere.

We know the world will not turn its back on Venezuela, and hopefully we can work along the necessary fronts sooner rather than later. We are offering our ability to build effective responses in the hopes that with a cooperative effort we will be able to close this dismal chapter.

And when this occurs, we will see a revival that no-one will be able to stop. We will feel the change the way residents of Caracas do when the fresh breeze blows down from Mt. Avila bringing the aroma of flowers and nature and - why not - hope. The same breeze that pushes us to keep going.

Luis Alberto Moreno
President
Inter-American Development Bank

EXECUTIVE SUMMARY

The collapse of the Venezuelan economy is unprecedented. If the expected reduction in economic activity of 2020 (around 30%) is added to the 70% contraction between 2013 and 2019, the Venezuelan economic downfall will be one the largest in the world. As part of this crisis, there has been a dramatic drop in household purchasing power, with consequent increases in poverty and inequality. Moreover, social indicators deteriorated substantially and the provision of basic services collapsed. The COVID-19 pandemic is in its exponential phase, and the ability to react of the public sector is very limited. Fiscal resources are insufficient to provide food to the population and the condition of the health sector is grave.

The Venezuela's crisis has its origin in the collapse of economic activity due to increase in state interventionism, changes in the rules of the game in the oil sector and an irresponsible macroeconomic management. During the last 20 years, State presence in economic activity increased substantially, the oil sector saw its production and profitability devastated due to its mishandling, and the country did not take advantage of the boom years to accumulate buffers. Likewise, public institutions in Venezuela were substantially weakened over the last 20 years, including governance, public procurement, fiscal institutions, identity systems, among others. One of the consequences of this mismanagement is the skyrocketing public debt, reaching 500% of GDP, that represents a substantial challenge for the recovery process.

Human capital, a fundamental input for reconstruction, is decimated. Venezuela's growth potential is being severed by the migration process that already exceeds 5 million people and the worsening in social conditions. Poverty and malnutrition increased, health status of the general population worsened, education quality decreased and there is a remarkable increase in young people who neither study nor work.

An orderly transition of power in Venezuela would allow to take the necessary steps to forcefully address the challenges facing the country. This will permit the improvement of the quality of life of the population and the recovery of the economy after years of mismanagement and inaction. Given the magnitude of the challenges, it is necessary to sequencing the interventions to focus, at first instance, on addressing the emergency and reestablishing the basic institutional framework. After stabilizing the country, the interventions should focus on advancing the reform process and consolidating the improvement in living conditions of the population.

The IDB Group has been working with its counterparts of the Interim Government of Venezuela and the international community to delineate and design the main interventions focused both on addressing the crisis and on rechanneling the country on the path of sustained and inclusive economic growth. The actions include specific interventions to improve income and nutrition of the population, increase access to health and education, and adopt reforms aimed to facilitate the return of private investment and the revitalization of the economy. As part of this effort, the IDB held numerous working sessions with the Interim Government , as well as meetings with key development partners, non-governmental organizations (NGOs) and the private sector interested in supporting the reconstruction process.

Among the actions aimed at meeting the urgent needs of the population, it is suggested the implementation of a unconditional cash transfer program at the national level of almost universal coverage .Its aim is to cover the largest share of the population in the shortest possible time. The program will be complemented by in-kind transfers for special situations. In the medium term, it is expected to transition towards a targeted cash transfer program focused on alleviating poverty and supporting the consumption of the most vulnerable population, initially without conditionalities. The estimated cost for the first year of the almost universal and in-kind transfer program is US$ 2.8 billion. For the second year, the cost is US$ 2.9 billion, in which case targeted transfers represent more than 50% of total spending. For the third year, the cost has been estimated at US$ 2.3 billion.

In the health sector, interventions during the emergency should focus on restoring the provision of priority health interventions and the treatment of acute illnesses, reinstating critical services in hospitals, and containing and mitigating the impact of the COVID-19 pandemic, including the purchase and distribution of medicines and basic medical supplies. In the medium term, it seeks to consolidate the restoring efforts of the basic functioning of the health system and to move towards the expansion of the health system toward universal coverage. The fiscal cost of the proposed interventions for the first year reaches US$ 1.9 billion, in addition to approximately US$ 170 million aimed at attending to the COVID-19 pandemic, with similar amounts for the following years.

In the education sector, the proposed interventions focus on eliminating access barriers once school attendance can be resumed. It is recommended to focus on alleviating the emergency related to the lack of food and basic learning materials. In addition, actions should be implemented to improve the quality of education, and the reintegration of students outside the system or with the greatest educational lags. In the medium term, it will seek to consolidate the reform process, including recovering school infrastructure, reviewing programs and curriculum, enhancing teacher training and developing an information systems.

The problems of deterioration of the infrastructure will demand long-term actions but it is imperative to ensure a minimum quality of service of electricity, water and transport that allows citizens to be able to prepare food, and to go to work and school, among others. After the provision of basic services to the population has been achieved, medium term interventions would aim at improving quality of life and supporting the country's economic growth.

In the electricity sector, interventions would focus on the restoration of thermal generation and of critical backup generation capabilities. In the medium term, it will seek to improve the institutional framework and the sustainability of the system. The estimated cost for the 5-year period is approximately US$ 7.1 billion, including generation and transmission and distribution improvement activities. The minimum resources required for the first year represent US$ 217 million and could reach US$ 1.0 billion if resources are available.

Emergency interventions in the water sector aim to guarantee the provision to hospitals and other key facilities, and to secure the provision of 50 liters per day per person. It also includes support to the reconversion of water companies. In the medium term, the objective of the interventions is to ensure a supply of 200 liters per person per day. Also, it includes the rehabilitation of infrastructure and the formulation of a tariff scheme aimed to increase the sustainability of the sector. The minimum cost of interventions in the sector was estimated at US $ 675 million for the first year[1], while for the following 4 years a total cost of US $ 3.8 billion is estimated.

1 - This value reflects the minimum amount that should be invested in the first year, with the possibility of expanding it to US$ 1.4 billion if resources are available.

In the transport sector, interventions will focus on the recovery of the sector's operability and its role within the country's productive infrastructure. It includes the rehabilitation and maintenance of critical transport infrastructure, the renewal and repair of the cargo and passenger fleet, and the recovery of the operation of ports and airports, as well as improving the efficiency of border crossings.

The deteriorated institutional framework of the country requires specific short and medium-term interventions to restore it and to allow the market economy to function and to attract investment and trade. In the short term, it is necessary to introduce reforms (or return to previous institutional frameworks) eliminating excessive or unnecessary controls on business activity and reinstating a framework conducive to the resurgence of private activity. It is also necessary to strengthen the functioning of the domestic financial sector due to its role in the planned monetary transfer program, as well as its role in financing trade and investment.

The country's reconstruction effort will need an agile and secure international trade system that allows the entry of aid and supplies. The proposed actions are to work on a contingency plan for the emergency in order to guarantee that imports and donations can enter the country safely.

To implement programs and projects it is required to have a transparent and efficient public finance management system as well as the availability of key information for decision making. The proposed actions in this area includes the creation of a Center of Government, the strengthening the capacity to generate administrative and statistical information as input for decision making, as well as reconverting the identification and civil registration system.

The oil sector will continue to be the main engine of the economy; therefore, it is important to create the institutional framework to attract new investments and knowledge to it. Likewise, specific sectoral policies are necessary to increase the dynamism of the economy, such as the tourism and the agricultural sector.

Rebuilding Venezuela is going to be a daunting task . The financing needs for the first years exceed the capacities of individual institutions, requiring a close coordination between all development partners. Moreover, the recovery process will take more than a decade, warranting a long-term commitment. It is necessary to develop a communication campaign that highlights the difficulties of the process and manages expectations.

The institutional capacity within the public sector in Venezuela deteriorated substantially in recent years, exacerbated by the migration of specialized human capital due to the political and economic crisis. The possibility of executing programs and projects depends on having technical teams capable of carrying out these activities in an efficient and transparent manner.

The country's reconstruction process also represents an opportunity for Venezuela to make a transformational leap forward towards a modern and sustainable growth model. It is the opportunity for Venezuela not only to recover its lost well-being but to adapt its growth model to a different world scenario than the one that allowed it to be among the most developed in the region.

The IDB Group is ready to work with the Venezuelan people in the reconstruction of the country when the political-institutional situation permits it.

INTRODUCTION

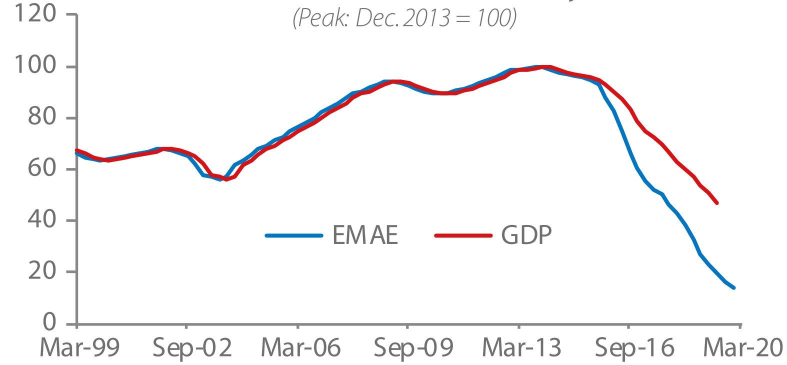
The current collapse of the Venezuela economy is unprecedented. From its peak in December 2013 to the first quarter of 2020, the size of the economy shrank by 86%[2] (Graph 1, panel A), representing the worst crisis on record in Latin America (Graph 1, panel B) and one of the worst in the world in countries outside areas with armed conflict (Saboin, 2020a). This decline is due as much to a collapse in oil production as to a deepening deterioration of the country's non-oil activity[3]. The non-oil gross domestic product (GDP) is already 17% below 1998 levels and the oil GDP is 53% below the levels seen twenty years back.

Growth expectations for 2020 are equally disheartening. If we include the expected impact of new economic sanctions on Venezuelan oil trade, the continued decline of infrastructure and the impact of the COVID-19 pandemic, the shrinkage could fall between 15% and 30% if no substantial changes are seen in the political context and economic performance (Abuelafia, et al., 2020).

The goal of this study is to summarize the explanations behind the country's economic debacle even before the COVID-19 pandemic, analyze the pandemic's impacts on the country, and outline short- and medium-term priority actions for dealing with the emergency and recovering the economy. The document also summarizes the efforts made by the Inter-American Development Bank (IDB) in 2019 and 2020 to diagnose the problem, design interventions and establish a dialogue with counterparts and development partners.

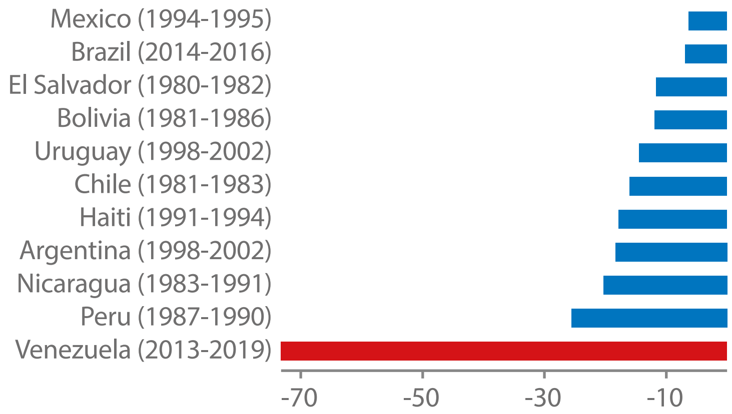
Graph 1 - Impact of the Crisis on Venezuela's GDP

A. Trend
Venezuela: Economic Activity
(Peak: Dec. 2013 = 100)



Sources: BCV and National Assembly

B. Comparison with Other LAC Countries
Latin America: Cumulative GDP Contraction by Period
(Cumulative change, %)



Sources: IMF, Venezuela National Assembly and IDB calculations.

2 - According to estimates of the National Assembly's monthly economic activity index (EMAE), the only official indicator with data available up to the first quarter of 2020.

3 - According to IMF figures, the non-oil GDP fell by 49% from 2013 to 2018, while the oil GDP shrank by 28%.

The first two sections describe the causes of the crisis and its impact on the country's population and productive fabric. The third section focuses on the impacts of the COVID-19 pandemic on the macroeconomic situation and population's quality of life. The fourth section outlines the main priority actions for dealing with the emergency and the urgent needs of the population and for building the minimum institutional framework for the country's recovery and reconstruction. The fifth section summarizes the dialogue activities carried out by the IDB Group. Finally, section six gathers the final considerations.

1. THE CAUSES OF THE COLLAPSE

The crisis in which Venezuela finds itself is rooted in the collapse of economic activity due to state interventionism, changes in the rules of the game in the oil sector, and irresponsible macroeconomic management. In the last 20 years, the state's participation in the economy increased substantially, the oil sector's production and revenues were decimated by its mismanagement, and the country failed to take advantage of the bonanza years to accumulate buffers. These three factors will be described in detail below.

1.1. State interventionism: destruction of the price system and market rules

The last twenty years in Venezuela can be characterized by a high degree of state interventionism, which has impacted the country's legal security and investment incentives. Buttressed by the oil bonanza at the time, the government made inroads on implementing an interventionist economic model through currency market and price control policies and a long list of expropriations of companies and productive assets, as well as measures to strengthen its control over international trade. Mismanagement and interventionism have also decimated the financial sector's role of catalyst. All this is reflected in the deterioration of ease of doing business indicators.

The government set up controls over both production and price of basic necessities. The history of price control in Venezuela did not start with Chavez Government[4], but the regime restored it in earnest in 2003 by setting prices for a list of 45 goods and seven services declared basic necessities - a list that since then has been renewed and expanded repeatedly. In addition to price controls, the government has increased its interference in the production and sale of basic necessities by the private sector. The consequences of price control have been shortages, higher inflation, and a resurgence of the black market. Until 2019, the Law of Agreed Prices was in force, but its effectiveness has been extremely limited due to the hyperinflationary process. In 2020, Nicolás Maduro's government announced the restoration of said price controls as one of its measures to deal with the pandemic.

4 - For more details, see Abadí and García (2016).

Currency control was the cornerstone for the private sector's strangulation. The country had already had unsatisfactory experiences with exchange controls[5], and the Venezuelan foreign exchange system in the last 20 years has been highly complex, introducing significant distortions into the workings of its economy[6]. From its 2003 introduction to 2019, the scheme consisted of a system of multiple rates, where the parallel market was considered illegal as of 2010. Foreign exchange became a labyrinthine process, where companies and individuals had to look for other ways to get foreign currency just to pay for imports, affecting optimum resource allocation and generating income from arbitrage that became high capital outflows (Reinhart and Santos, 2015). In 2019, foreign currency exchange rates were reunified, bringing the official exchange rate into line with parallel market prices. The parallel market's exchange rate had depreciated substantially in the preceding 17 months, however, in sync with the macroeconomic imbalances that had been provoked. The domestic currency depreciated 8,034% in 2019 and 526% up to August 2020.

Added to the state's price and exchange rate controls is its encroachment into the economic sectors. According to CONINDUSTRIA reports, from 2002 to 2016 the government expropriated 692 companies, mostly in manufacturing (49%), construction (27%), and oil (12%). *Transparencia Venezuela* identified an increase in the number of public companies from 74 in 2001 to 580 in 2018. The expanded number and indiscriminate creation of public companies were based on non-negotiated processes, in many cases arbitrary or inconclusive expropriations and occupations. Extensive state intervention has limited competition and economic efficiency[7]. Direct political intervention in operational decision-making, often with boards of directors and management boards stacked with military officers and government officials and very little transparency, has led to a disruption of productive linkages, adversely affecting both private companies and households.

The state also took on an active role in managing imports and production. The government not only assumed responsibility for importing goods and productive inputs, it also required certain products to be sold to it directly to enforce its price and currency controls and make the expropriated companies viable. According to BCV data, during the last 20 years, public sector imports grew from 10% to 58% of all imports.

Venezuela's economic environment is not conducive to private activity. The lack of legal certainty, along with strong state interventionism and a systemic failure in the provision of public goods (which will be addressed further on in this document), has made for an unattractive business environment for private activity. Private investment is at rock bottom, foreign direct investment is negligible and negative, and no effective policies are in effect to facilitate trade or promote investment. Venezuela's relative standing in the ease of doing business indicators has deteriorated considerably in recent decades.

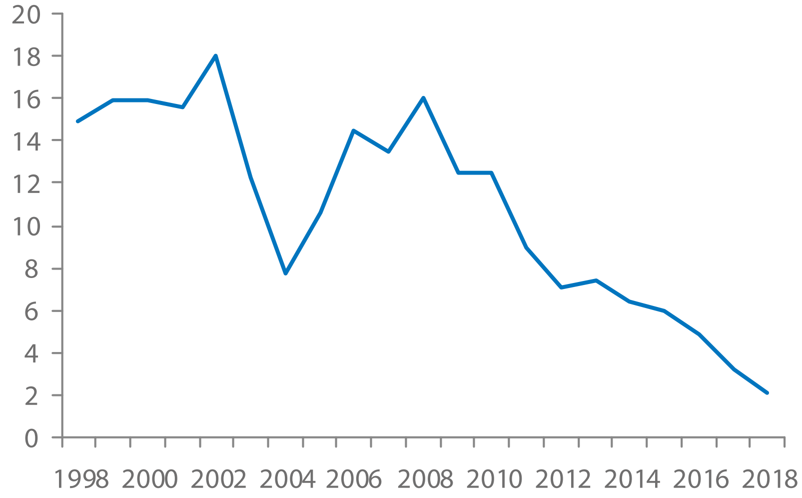
5 - For more details, see Hausmann (1992).

6 - For more details, see Saez, Zambrano and Vera (2018).

7 - For more details, see: Obuchi, Abadí and Lira (2011).

Private investment is nearly nonexistent in Venezuela. The state has not only increased its presence in the economy but also the regulation and intervention of private activity. As this occurred, private investment took a steep downward turn, falling from 15.9% of the GDP in 1998 to an estimated 2.1% in 2018.

Graph 2
Venezuela: Private Investment
(% GDP)



Sources: BCV and IMF.

The macroeconomic and political context is not conducive to foreign investment, either. In 2018, Venezuela experienced a net foreign direct investment (FDI) of US $225 million, in line with the recent trend: average FDI inflows during the 2013-2017 period were estimated at US $684 million in comparison to an annual US $2,990 million during the period from 2008 to 2012. The 2017 Investment Law included provisions that discouraged foreign investment, such as, for instance, an 100% increase in the tangible asset requirement and threats of fines for participating in the public debate.

As a consequence, the economy's dependence and vulnerability to oil prices and foreign capital flows increased. The tradeable sector's relevance in the economy was whittled away. Even before the onset of the current crisis, the non-extractive tradeable sector's share of the GDP had already dwindled from 21% to 16% between 1997 and 2014, while non-oil exports had fallen by 44%. The non-oil economic sector was turning into an economy led by the non-tradeable sector. At the 2018 close, the non-oil tradeable sector's share of the GDP had shrunk to 11%, while the non-tradeable sector's share was at 69%.

The banking system's role is limited to facilitating transactions. Private sector credit is extremely limited, and 90% of deposits are at sight. The role of the banking system is primarily to act as a clearinghouse for financial transactions, thanks to high penetration due to the social programs and the need for electronic management in a context of hyperinflation[8].

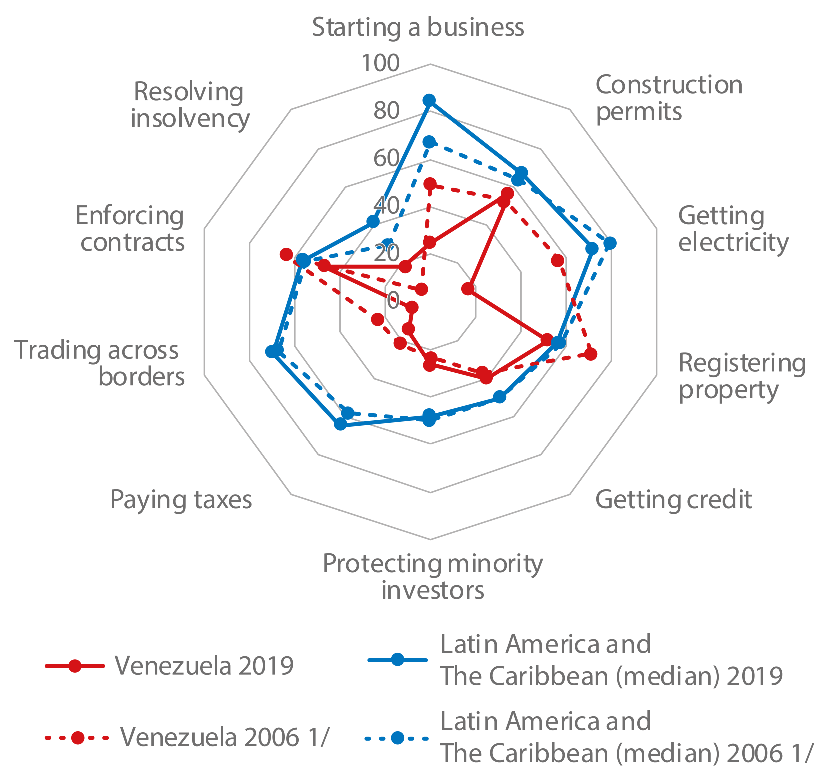
8 - Due to the country's accelerated inflation since 2015, the indicator of coins and banknotes in circulation to deposits has fallen considerably from 13% at the end of 2013 to 3% at the end of 2019.

Additionally, the banking system has become the central government's financing agent. At the close of 2019, public banks accounted for 78% of all assets and managed 96% of investments in securities. Considering that government bonds represent 96% of all these investments, this means that 69% of the banks act as the central government's finance agent, while the credit portfolio accounts for only 4% of all assets. At the 2019 year-end parallel exchange rate, banking assets were at US $5,129 million, of which US $1,126 million corresponded to private banks[9].

Regulation of the financial system also limits its role in the economy. The lending rates of the country's top six banks were at around 29%, with saving deposit rates of 21%, both substantially lower than the inflation rate, which could close out 2020 at 7,000%. Added to this is the portfolio system that introduces minimum quotas in the targeted sectors for credit.

Due to the government's onslaught on private activity, the ease of doing business indicators have deteriorated substantially for Venezuela. In 2006, the country placed at 120 out of 155 countries in the general ranking, while in 2010 it had dropped to position 177 out of 182 countries, and today it ranks 188 out of 190 countries on the Doing Business Index for 2019. The slide in the ranking and its components is notable. If we look at the dynamics of the indicator sets from 2010 to 2019, we see a marked decline in all dimensions, especially in enforcing contracts (from 75 to 148), dealing with construction permits (from 94 to 152), and registering property (from 97 to 138). These results contrast with the results for the region, where countries have been able to maintain or improve their performance on the different components of the index.

Graph 3
Venezuela: Doing Business Project Scores



Source: Doing Business Report 2019.
1/ Access to electricity data starts on 2010.

9 - This information can be found at http://www.sudeban.gob.ve/wp-content/uploads/Estadisticas/2019/BPR-2019-12.zip.

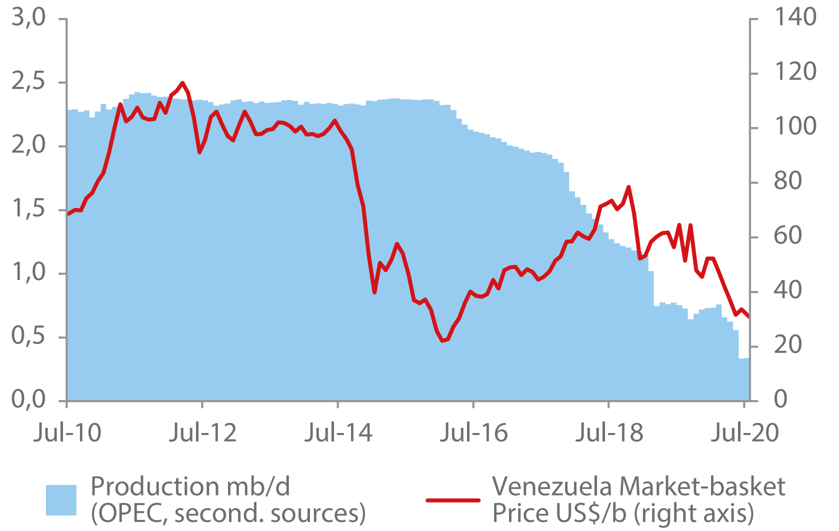
1.2. Changes to the Rules of the Game in the Oil Sector

The collapse of the oil sector can be explained by both price and quantity factors. Between June 2014 and February 2016, oil prices plummeted by 75%, ending the days of Venezuela's oil revenue greatest bonanza in history and making it obvious that the fiscal management was unsustainable. Prices for the 2015-2019 period were 41% lower than those for the 2004-2014 period. Although the prices were lower, if production had been maintained constant at 2014 levels, income from exports would have been substantially higher[10]. This shows that the problem in the sector is also the drop in production, which began in 2013 to steadily fall, decreasing by 13% that year and reaching today an accumulated drop of 73%. From its peak of around 2.7 million barrels per day (mb/d) in 2005, production in July 2020 was at little more than 0.34 mb/d[11].

The collapse of oil production is linked to the state's operational control and, therefore, to a lower take of the returns by private partners. The other component in this precipitous fall in Venezuelan oil production became its inefficient management and lack of transparency and the investment needed to maintain production. Espinasa and Sucre (2017) argue that the progressively changing laws for the sector, as well as the government's constant meddling in PDVSA's operations, had become a barrier to foreign investment.

The drop in production is also due to a lack of funding of Petroleos de Venezuela (PDSVA). Looking deeper into the problems in the oil sector, we can see that PDVSA's funds were earmarked for other purposes. Up to 2015, PDSVA had allocated US $255 billion to financing social programs (between missions and specific funds), which limited the funds it could have had available for investing in the industry[12]. To partially offset this lack of funding, PDVSA took on considerable debt during the oil sector's

Graph 4
Venezuela: Oil Sector - Production and Prices



Sources: OPEC and PDVSA

bonanza period. The deterioration of PDVSA also had an impact on the environmental management of the industry. According to reports from the state oil company between 2010 and 2013 the number of oil spills increased by a factor of 4[13]. This situation has continued to deteriorate in recent years. In July 2020, a hydrocarbon spill apparently originated in the El Palito refinery was reported through the media. According to experts from the Simón Bolívar University, it is estimated that this incident could include about 26,700 barrels of oil that have affected the Morrocoy National Park[14].

10 - US $12,447 million more than what will be received in 2020 (some US $3,650 million).
11 - According to secondary sources reporting to the Organization of Petroleum Exporting Countries (OPEC).
12 - Based on PDVSA account statements.
13 - Provea's Annual Report (2014).
See the website https://www.reuters.com/article/us-venezuela-oil-environment/venezuela-coast-could-take-half-a-century-to-recover-from-oil-spill-researcher-says-idUSKCN25F2NZ

1.3. Irresponsible Macroeconomic Management

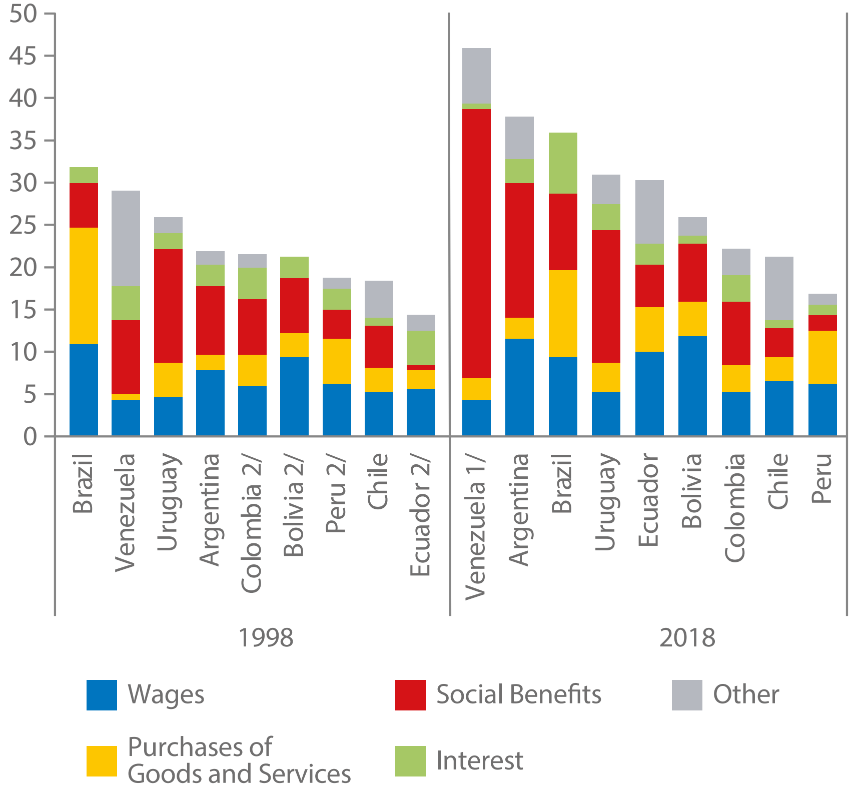
Economic mismanagement, together with the actions described above, precipitated the economic crisis. The country did not take advantage of oil prices to accumulate buffers for cushioning outside fluctuations. Imports grew in line with the oil boom, without accumulation of funds, while spending and public debt expanded massively. When the external situation reversed, foreign currency inflows sank along with access to external financing, so the government resorted to monetary financing of the deficit, which led to the country's ravaging hyperinflation. The external sector was adjusted by a substantial decrease in imports and gradual loss of international reserves.

Instead of being used to accumulate buffers, the oil price boom was used for imports to encourage consumption. Oil export revenue increased markedly during the 2004-2012 period, thanks to high oil prices. Imports simultaneously increased substantially with this currency flow, displacing domestic production (idle industry capacity was at 40% for this same period, and private investment continued to trend downward)[5]. Imports of goods thus accounted for 50% of the GDP in 2012, compared to their 22% level in 1997.

The government failed to use prudential savings mechanisms. From the start of the Chavez administration, the government failed to use the country's existing mechanisms - such as the investment fund for macroeconomic stabilization, for example - to soften flows and build up savings for future generations. If these instruments had been used, US $262 billion could have been accumulated by 2014 to offset falling oil prices.

In conjunction with increased imports, there was a massive expansion of public spending. Between 1997 and 2015, the public sector's restricted current account as a proportion of the GDP was doubled[16]. Today, Venezuela has the highest spending as a percentage of the GDP in the region.

Graph 5
Latin America: Overall Government Current Expenditure
(Percentage of GDP)



Source: IMF and IDB Calculations.
1/ Venezuela figures adjusted for extrabudgetary expenses
2/ Colombia: 2004; Bolivia: 2002; Peru: 2000; Ecuador: 2001.

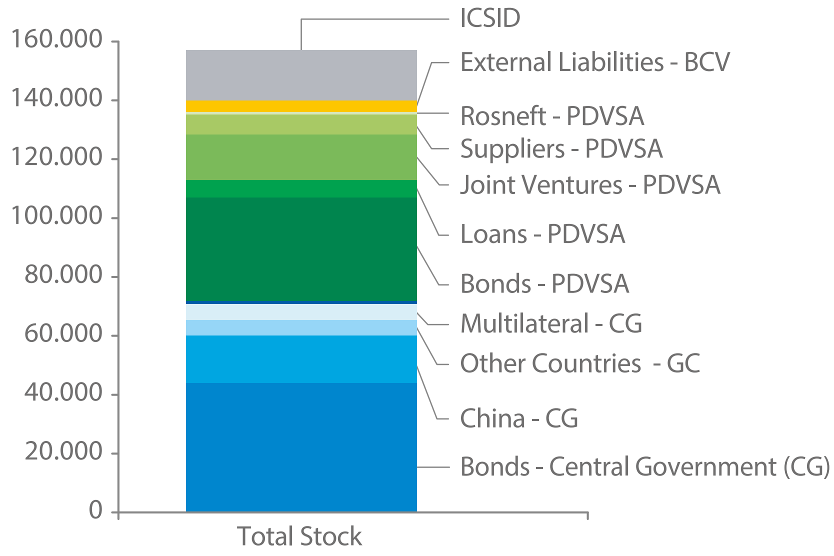
15 - According to CONINDUSTRIA figures.

16 - The restricted public sector includes the central, state and municipal governments, social security, PDVSA, and the rest of the non-financial public companies.

Regardless of the bonanza era, the debt grew at an increasing pace. Even though oil revenues were high, external debt increased fourfold from US $29,067 million in 1999 to US $129,153 million in 2015[17]. Part of the debt was funding from the Joint China-Venezuela Fund for more than US $50,000 million, which affected the country's capacity to generate fresh funds in the event of falling oil prices, since this debt is amortized in kind. With the closing of financial markets for Venezuela in 2015, the oil company ROSNEFT (whose majority shareholder is the Russian government) has provided the financing mechanism for PDVSA[18].

The total debt stock at December 2019 reached US $157,000 million[19]. The country's external debt is at around 500% of the GDP[20]. Approximately 46% of the stock corresponds to the central government and 41% to PDVSA, to which are added debts to Chinese and Russian public and private sectors. Also included are outstanding International Centre for Settlement of Investment Disputes (ICSID) awards for the expropriations, which account for approximately 11% of the total debt[21]. The conjunction of accumulated external debt, high interest rates, and falling oil prices and production increased the debt burden as a percentage of export earnings fivefold to 54% of oil export revenue in 2016. This precipitated the bond debt default that same year. Even though the country was in default with capital markets and multilateral agencies, debt repayment to China and Russia in kind decimated the country's available liquidity. By 2018, it was already estimated that only 38% of oil exports generated liquid resources for the country (Krivoy and Herrera, 2019). At present, what little debt service there is goes into interest paid to China (it is assumed that China has granted a grace period on the principal)[22] and payment of other PDVSA obligations to partners in joint ventures, which is carried out through swaps of crude oil for diesel[23]. The debt renegotiation process will represent one of the most complex processes of this type, given its scale and the composition of creditors.

Graph 6
Venezuela: External Public Debt - December 2019 1/
(Millions of US$)



Sources: BCV, Bloomberg, Ecoanalítica, Ministry of Finance
1/ Includes arrears in interest payments

17 - This figure does not include contingent liabilities.

18 - See the website: https://www.bloomberg.com/news/articles/2020-02-24/sanctions-free-rosneft-affiliate-boosting-venezuelan-oil-exports.

19 - This figure includes contingent liabilities and arrears in interest payments to date.

20 - This depends on the exchange rate used for the calculation.

21 - In February 2019, a new arbitration award was handed down by ICSID in favor of ConocoPhillips for US $8.7 billion for the expropriation of oil projects in Venezuela.

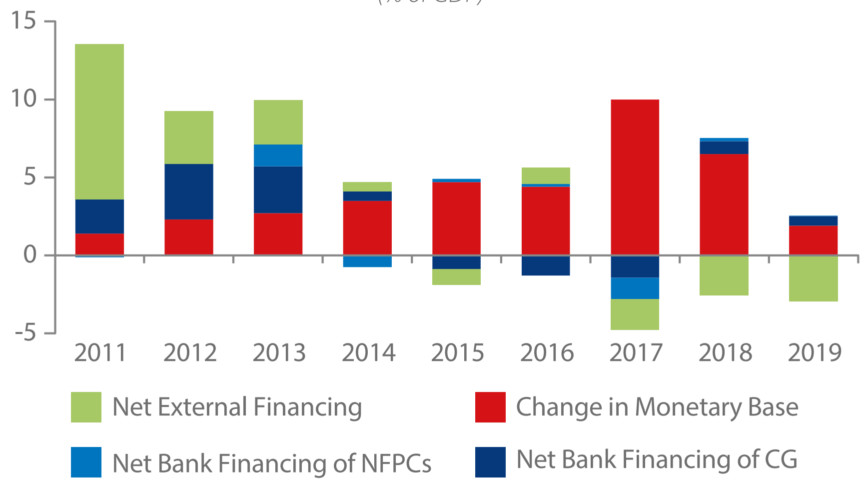
22 - See the website: https://lta.reuters.com/articulo/venezuela-china-idLTAKCN2581W7

23 - See the website: https://www.argusmedia.com/en/news/2124819-venezuela-scraping-by-on-diesel-swaps

With the delay of macroeconomic adjustments and the shutting off of international financing, the government turned to monetary financing of the deficit. Historically, PDVSA would transfer funds to the Treasury for royalties and payment of income tax. Moreover, PDVSA was financing certain social expenditures with company funds. In 2014, when the price of oil fell by 30% and access to external financing started to be shut off, the BCV began issuing currency to finance PDVSA and other non-financial public companies. These transfers reached a peak in 2017 (10% of the GDP)[24].

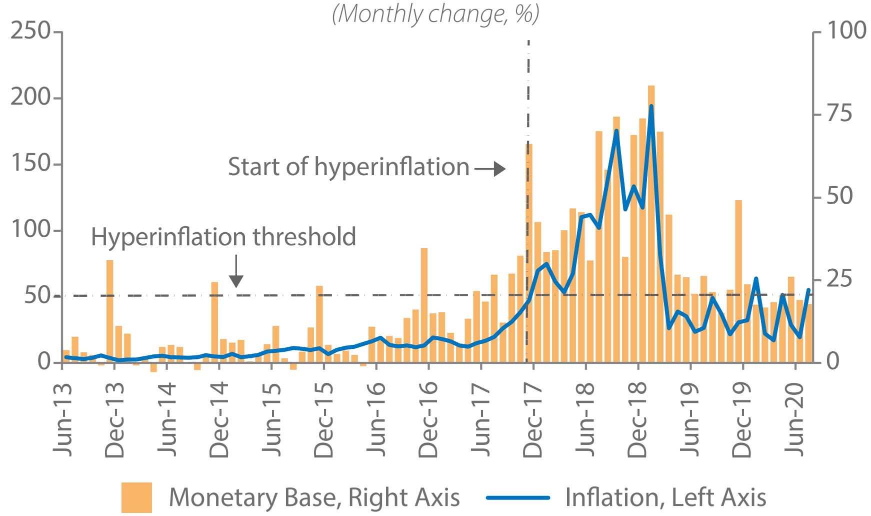
When monetary financing went over the top in 2017, it triggered the hyperinflationary process plaguing the country today. In 2017, when international financing had dried up, BCV financing of the public sector jumped to 10% of the GDP and then later, in 2018, it dipped slightly to 6.5% of the GDP from the effect of hyperinflation on both the purchasing power of seigniorage and economic activity[25]. Finally, by 2019 it was at no more than 2% of the GDP[26].

Graph 7
Venezuela: Financing of the Public Sector Deficit
(% of GDP)



Sources: BCV, Bloomberg,PDVSA and IDB calculations.
CG: Central Government. NFPCs: Non-financial public companies

Graph 8
Venezuela: Monetary Base and Inflation
(Monthly change, %)



Sources: Monetary Base: BCV. Prices: Central Bank until 2015, average of: BCV, secondary sources and National Assembly from 2016.

24 - This occurred in a context of institutional deterioration of the BCV where the monetary authority: (i) gave the treasury "exchange rate profits" generated by the application of inappropriate accounting methods (about US$ 19 billion between 1999-2006); (ii) transferred around US$ 44 billion of international reserves to FONDEN (2005-2012) and (iii) reformed the BCV law at the end of 2009, opening the door to direct financing of the fiscal deficit, by allowing the purchase of securities to PDVSA and other public companies. This reform also gave legal status to the transfer of international reserves to the Treasury.

25 - Hyperinflation has two effects: a nominal one (through price adjustments to preserve the value of transactions in foreign currency) and a real one (reflected in the economic contraction).

26 - For more details, see Saboin (2018).

SIDEBAR 1
Evolution of Dollarization in Venezuela

Dollarization first emerged as a response by Venezuelans to the local currency's loss of attributes as a store of value and means of payment. Later, given the public sector's critical external situation, the government decided to validate this social behavior. According to studies by local consultants[a], in October 2019 some 56% of transactions at interviewed merchants were made in foreign currency, while in February 2020 the percentage had climbed to 64%. Public salaries, social security transfers, and pensions, however, are still paid in domestic currency. Dollarization has become another source of inequality in a country that is already extremely unequal.

- **Currency transactions appear to dominate in the regions.** In the west, in cities such as San Cristóbal and Maracaibo, for instance, more than 90% of transactions are made under this modality. This region is followed by the eastern region, with Nueva Esparta and Lecherías in top place with 82% and 72%, respectively. Caracas places sixth with 59%.

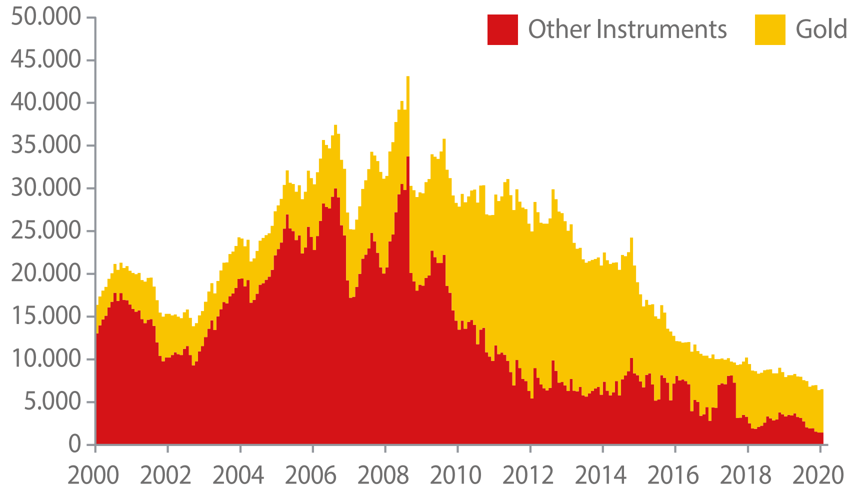
a - Ecoanalítica, Weekly Reports No. 39 of 2019 and No. 7 of 2020.

- **The primary method of payment is with cash.** Reports say that 81% of all transactions are made in cash, 18.6% through electronic payments, and 0.4% through traditional transfers. It was also found that 86.7% of all transactions were made in U.S. dollars, 2% in euros, and, notably, 9.8% in Colombian pesos.
- **Dollarization gives access to durable goods, leaving the population that cannot obtain dollars with little means of covering this essential component of household spending.** By type of good, home appliances and electronics are purchased primarily with dollars, which were used for almost 100% of the transactions. The purchase of clothing, shoes and replacement parts is similar: more than 90% of transactions were dollarized. As for health, 76% of the spending was reported as being in foreign currency. By contrast, food and personal care items were less dollarized, since 62% and 48% of payments, respectively, were made in foreign currency.

The shutting off of external sources of financing and the oil sector's reduced generation of income led to the collapse of international reserves. International reserves reached US $43,127 million at the end of 2008, while at January 2020 they had dwindled to US $6,421 million[27]. As can be seen in Graph 9, this amount is highly influenced by the volatility of the price of gold because in 2008 the government decided to recompose reserve assets In terms of import coverage, the coefficients are relatively similar (from 89% to 95% of total annual imports), given the precipitous drop in imports.

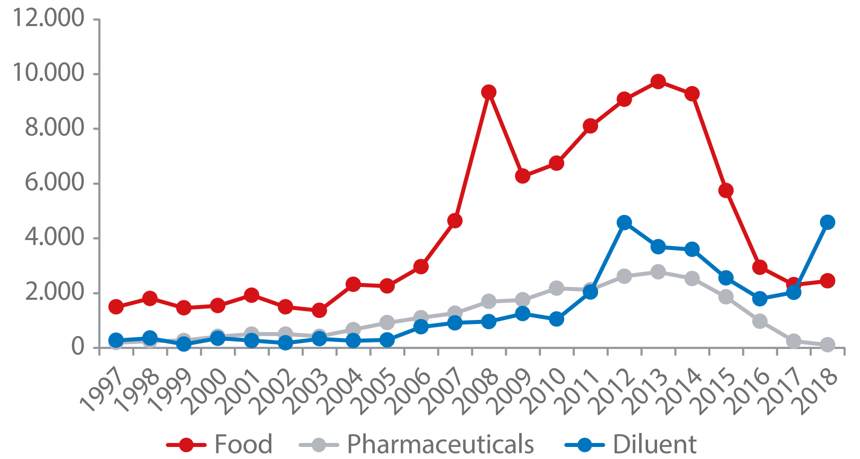
The external sector adjustment was made by cutting back on imports, especially food imports. Imports had grown significantly from 2004 to 2012 thanks to strong oil prices and available external financing. In 2013, however, total imports began to fall drastically, so that by 2018 they were at 15% of total 2012 imports[28]. In particular, 2018 food imports were at 18% of 2012 food imports, and if we add in the drop in medicine imports, which in 2018 were at 4% of 2012 medicine imports, we see a complex social situation.

Graph 9
Venezuela: International Reserves
(Millions of US$)



Sources: BCV and IDB calculations.

Graph 10
Venezuela: Imports of Food, Medicine and Diluents
(Millions of US$)



Source: IDB based on COMTRADE - Mirror Statistics.

27 - Figure as of August 19.

28 - Latest available data for business partners according to United Nations Comtrade.

Because of the country's degree of deterioration, recovery of quality of life, quality provision of public services, and economic dynamism is expected to take many years. In an analysis by Saboin (2020a), described in greater detail in the following sidebar, Venezuela is estimated to take at least 13 years to return to the per capita income level it had before the crisis - similar to the level seen in Peru and Ecuador before the COVID-19 pandemic.

SIDEBAR 2
Economic Recovery Outlook

The speed of Venezuela's economic recovery is highly relevant to the preparation of medium-term macroeconomic scenarios. A faster recovery of economic activity translates into more tax revenue, higher debt repayment capacity, and, at the end of the day, improved quality of life for the population. To infer how quickly Venezuela could recover, a systematic analysis was first made of the worst economic crises, globally, in the last 60 years[29].

During the 1960-2017 period, an episode of economic collapse was defined as a period in which the GDP contracted more than 20% and a recovery was defined as a period in which the GDP recovered to the level it had before the start of the collapse.

29 - For more details, see Saboin (2020a), unpublished.

According to this criterion, 57 episodes were found, of which nine were located in the Americas. The average duration of the collapses was five years, while recoveries took eight years. With recoveries, the average annual GDP growth rate for the entire recovery period was 5.3%, while during the first five years it was 7.5% and during the first year it was 10.1%.

To understand the differences in recovery speed among the crises under study, an analysis was made of the behavior of a series of macroeconomic variables during the recovery period and their relation to the recovery speed. The behavior was observed of investment and consumption, exports and imports, investment and foreign aid, fiscal and monetary accounts, and internal prices.

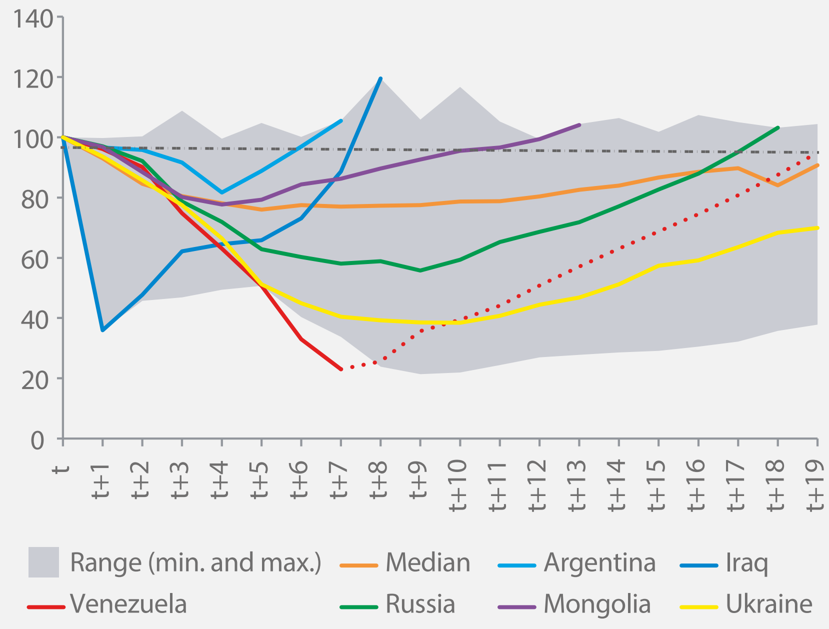
The experience of other countries shows that recoveries are associated with major rebounds in international trade (particularly exports), private consumption and investment, reduction of fiscal deficit and public debt, and increased direct foreign investment inflows and international reserves (although no substantial changes were seen in the sign and size of the balance of payments). Additionally, decreased inflation and a depreciated real exchange rate were seen. Finally, the shares of the monetary and financial sectors in the GDP also decreased.

To apply this analysis to the Venezuelan reality, the country's current economic situation and the recovery potential of its main components were taken into consideration. The economic growth outlook for Venezuela has three basic pillars: 1) reactivation of the oil sector; 2) access to external financing for increasing imports, addressing the humanitarian crisis, and activating the non-oil economy; and 3) restoration of property rights and market institutions.

The economy is thus expected to grow by 11% coming out of the emergency to recover some 35% the next year and then grow by around 12% in the following five years to gradually even out at a 6% growth rate in the long run. Under these assumptions, Venezuela would take some 13 years to regain the income level it had prior to the start of the crisis. Venezuela would be one of the slowest countries to recover. After 13 years of steady recovery, Venezuela would have a per capita income similar to that of Ecuador or Peru today - and only a decade ago Venezuela had a substantially higher per capita income than those countries did.

30 - Higher levels than Venezuela's pre-crisis historical levels (close to an annual 2.5%) but slightly higher than the results of the data panel analysis of global economic contractions and recoveries (5.3%).

Economic Collapses and Recoveries
(t=Last year of growth)



Sources: WB, IMF and IDB calculations.

2. SOCIAL AND ECONOMIC CONSEQUENCES OF THE COLLAPSE

The collapse of the economy is reflected in the population's deteriorating quality of life and the state's deteriorating capacity to provide public goods. On the one hand, household purchasing power has plummeted, with a resulting increase in poverty and inequality. On the other hand, social indicators have deteriorated substantially, and the provision of basic services is foundering.

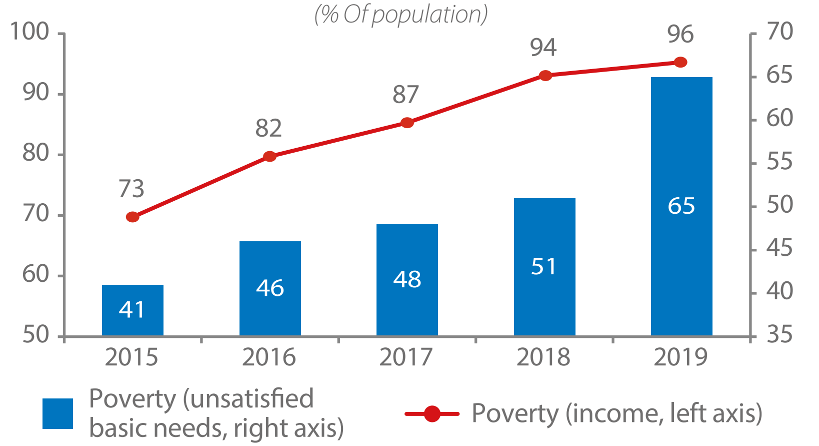
The deterioration summarized in the social indicators will have a sizable impact on the country's growth potential. The increase in poverty and malnutrition, the worsening health situation of the general public, and the reduced quality of education and educational achievement, together with an increase in the number of youths who neither study nor work and the more than five million migrants will all affect the country's growth potential. Venezuela will have less human capital for reconstruction than it had before the crisis.

2.1. Income and Poverty

The economic collapse has led to a setback in socioeconomic indicators. Venezuela's pre-crisis poverty indicators were below the regional average. Extreme poverty, as measured by income, reached 78% of the population in 2019, an increase by 8% from 2015 (Graph 11, panel A)[31]. The current economic situation has caused households to lack the money to cover their food needs. Some 89% of the population reported that they didn't have enough money to buy food in 2019. This compares with 80.5% in 2015 (Graph 11, panel B).

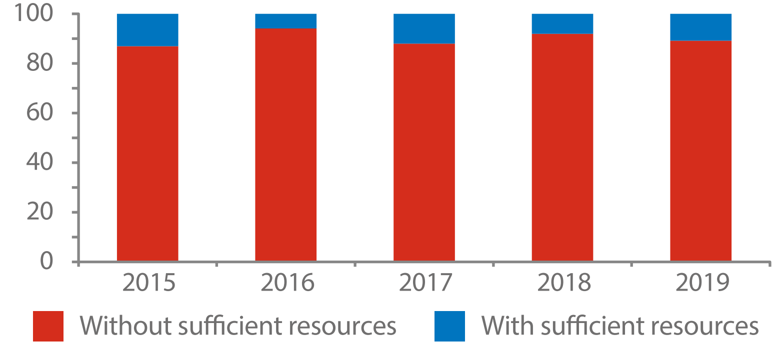
Graph 11
Poverty and Food Security

A. Venezuela: Poverty
(% Of population)



Sources: ENCOVI and IDB calculations.

B. Venezuela: Food Security
(% Households)



Source:ENCOVI.

31 - Corresponds to households with income of less than US $3.10 per capita per day.

Multidimensional poverty increased by more than 50% between 2015 and 2019. Multidimensionally-measured poverty has increased from 41% in 2015 to 51% in 2018, according to the Survey of Living Conditions (ENCOVI). This increase is explained more than anything by increased standard of living privations, a reflection of the deteriorating purchasing power of households. In 2016, poor housing quality explained 19% of this indicator, while in 2018 this explained only 8%. With the levels calculated for 2019, Venezuela falls within the countries with the most multidimensional poverty in the region. As discussed in Sidebar 3, the crisis has had a substantial impact on Venezuela's middle class, reducing it by 26% in recent years.

SIDEBAR 3
Venezuela's Middle Class

Anova (2019) gives a detailed analysis of the evolution of the Venezuelan middle class. Regardless of the definition that is used, the study corroborates an abrupt, systematic shrinking of the middle class as a percentage of the total population. The average real income of the middle class has fallen more than 70% since 2010, and today approximately nine out of ten families considered middle class at the start of the decade are no longer so. To further exacerbate the situation, the recession has had an adverse distributional impact on middle class segments.

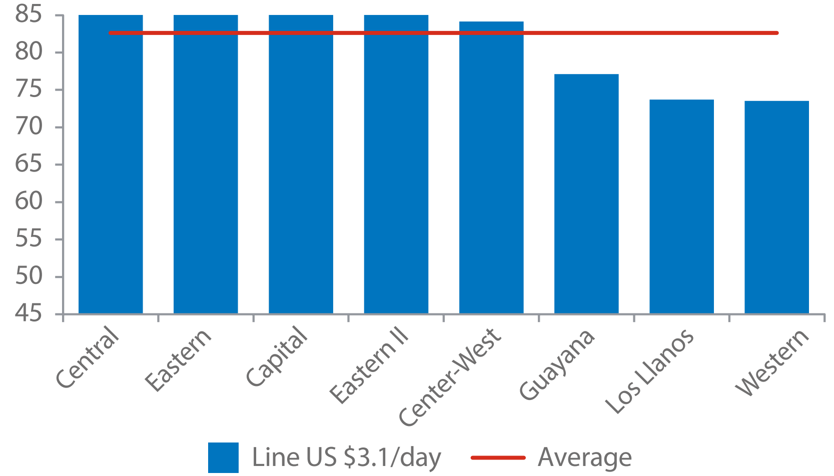
In addition, another key finding of this study is linked to a dynamic analysis of a synthetic panel of families, which shows evidence that a major portion of middle-class families (26%) have lost their middle-class status in the last two years, while close to four out of every ten Venezuelan households are classified as vulnerable middle class with a permanent risk of falling into poverty.

Furthermore, there is evidence that some wellbeing and economic security indicators have fallen sharply. This is the case, for example, of the formality rates of individuals in the labor market, the absolute number of highly-paid jobs, the coverage of private health insurance mechanisms, and indicators of household access to drinking water, which are compounded if we take into account quality of service indicators. In addition, the multidimensional analysis of the compound factors characterizing the middle class indicates that it was not able to withstand the income shock from 2013 to 2017.

Income distribution equality also deteriorated substantially. Income distribution improvements of previous years were reversed in recent years. In 2015, the Gini coefficient started to climb and has already reversed the gains of the last 20 years. As estimated by ENCOVI, by 2018 the Gini coefficient was 0.62, the highest in the region. According to calculations based on ENCOVI 2019/20, if Venezuela had maintained the same income distribution it had in 2015, there would be 18% less poverty.

The territorial distribution of poverty is markedly unequal. In 2019/20, the poverty rate in some of the country's regions was much higher than in other regions. With 2017 data, the poverty rate in the most neglected states was 18% higher than that of the Mérida state, which had the lowest rate of extreme poverty that year (Zambrano, Hernández and Traettino, 2018). Poverty also has a stronger grip on small towns and villages compared to large cities.

Graph 12
Venezuela: Extreme Poverty by Region
(% Population)



Source: ENCOVI.

Food insecurity reaches all households, regardless of income quintile. According to data compiled by ENCOVI 2019/2020, 56% of households report having gone without food in the last month for lack of money or resources, with the observed impact being 69% in the poorest quintile and 38% in the wealthiest quintile. In 33% of the households, some adult did not eat or ate only once a day due to lack of income, but this percentage increased to 47% for the poorest households, though it dropped to 19% for households in the wealthiest quintile. Spending on food accounts for 87% of average household spending, leaving little money for other ends. According to WFP estimates, 24% of the population is moderately food insecure, while 8% is severely food insecure[32]. This represents 9 million people. According to this study, the highest incidence of severe food insecurity is in Delta Amacuro (21%), Amazonas (15%), Falcon (13%), Zulia (11%), and Bolívar (11%).

The Venezuelan government centered its social policy on an ineffective and poorly transparent system of transfers. During the last decade, some 38 missions were created covering from food to health and housing. The coverage of the missions has increased, primarily with a focus on food. In 2014, some 8% of the population surveyed in the ENCOVI was receiving some kind of mission. This figure increased in the following years to reach 92% of the population in 2019/2020. A decrease in the number of beneficiaries of missions other than those of food has also been seen during those years.

32 - See the website https://reliefweb.int/report/venezuela-bolivarian-republic/wfp-venezuela-food-security-assessment-main-findings-data.

The capacity to deliver goods through the local supply and production committees (CLAPs) has fallen off due to the economic crisis. The number of families and frequency and content of CLAP boxes was reduced in 2019. The number of families fell from 3.3 million in January 2019 to 3 million in December, representing 40% of the program's target families. The number of products - and consequently the weight of the boxes - was tapered down. Although the regulatory weight of each box was 19 kg, the boxes weighed 15.6 kg in January 2019 and 11.2 kg in August of that same year. On average, the number of food items has fallen from 12 to 10 in this same period (Ciudadanía en Acción, 2019).

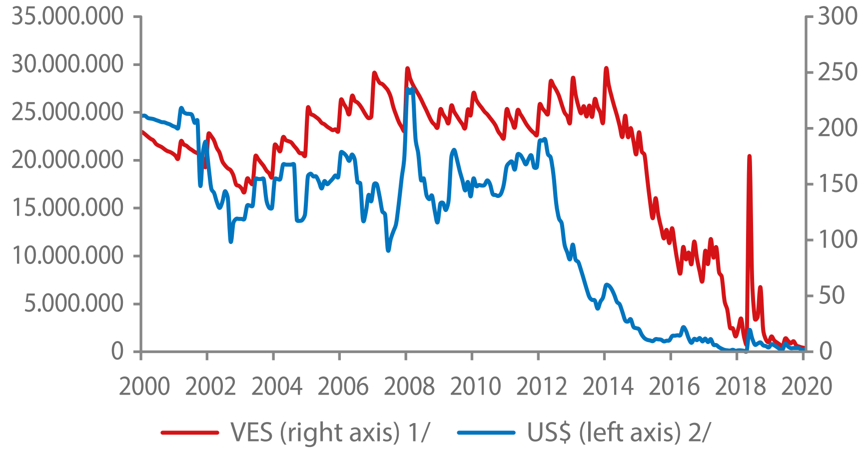
The labor market situation shows the results of the economic crisis. Labor participation in Venezuela is one of the lowest in the region - 59% of the population - while the regional share is 62%, with a lower rate for both men and women. Employment levels fell from 68% in 2014 to 56% in 2019 and the inactivity rate increased during that same period from 28% to 41%.

Job informality has intensified. A vast majority of workers are self-employed. According to ENCOVI 2019/20, around 44% of employed persons are self-employed workers, while 25% are public sector employees and 22% work in the private sector. The proportion of formal jobs also fell from 45% in 2015 to 28% in 2019. Robles (2020) estimates that most private employment is informal and that the wages of informal, independent workers are 55% to 69% higher than the public salary.

The youth inactivity rate is among the highest in the region. The percentage of youth between 13 and 17 years of age who neither work nor study nor are looking for jobs in Venezuela is 16%, one of the highest in the region, while this figure shoots up to 30% for youth between the ages of 18 and 24.

The minimum wage has lost purchasing power. Although the minimum wage has been (nominally) raised successively in recent years, the raises have not been enough to protect workers' purchasing power. According to estimates by Barrios (2019), the minimum wage does not stretch far enough to buy the food needed to cover the basic intake of 2,000 calories per day. In terms of parallel market dollars, the monthly comprehensive minimum wage was at around US $2.30 on May 1, 2020, half its dollar value in November 2019.

Graph 13
Venezuela: Minimum Wage and Food Bond



Sources: Ministry of Labor, Ecoanalítica and IDB calculations
1/ In sovereign bolivars at May 2020
2/ Calculated at the parallel exchange rate
Note: In September 2018 the minimum wage was raised by 100x but its purchasing power could not be maintained over time.

Labor market rigidities limit the development possibilities of both employers and employees. Rigidities in the labor market and its interaction with political patronage had an impact on the productive sector's productivity[33]. This continues to be the reality. Although hyperinflation has "liquidized" labor costs, the labor regime is still rigid. According to the WEF's Global Competitiveness Report 2017-18, Venezuela ranks 139 out of 140 countries in labor flexibility.

The social safety net in Venezuela is ineffective. Transfer programs, especially the CLAP program, lack sufficient funds for providing food transfers to households that need them. Moreover, the labor market doesn't provide sufficient income for families, given the high level of informality and meager wages. This situation is compounded by the pandemic, as discussed in section three of this document.

2.2. Health Sector

Reduced social spending has led to a significant deterioration of health indicators and the health system infrastructure. Maternal mortality is at 1960 levels, chronic malnutrition has increased substantially, and malaria cases have multiplied many times over. Additionally, public hospitals lack basic supplies and adequate infrastructure. At the same time, the population has difficulties in obtaining basic medicines.

Maternal mortality is at 1960 levels. The maternal mortality rate has risen from 91.7 deaths for every 100,000 live births in the 1990s to 112 in 2016, a 65% increase from the previous year[34], representing a return to 1960 levels[35]. The infant mortality rate started to climb after 2011, reaching 21.1 deaths for every 1,000 births in 2016, signaling a return to 1990 year-end levels. Although no specific causes could be identified, the lack of vaccination and increased incidence of infectious diseases were given as potential decisive factors behind this increased mortality (García, Correa and Rousset, 2019).

The food shortage has already impacted childhood nutrition. Chronic malnutrition in children under the age of five more than doubled from 2009 to 2019, reaching 30.4% of the children in this age range (Graph 14). In addition, the obesity rate was at 12% among children under the age of five. The chronic malnutrition rate places Venezuela among the countries with the highest incidence of this problem in the region.

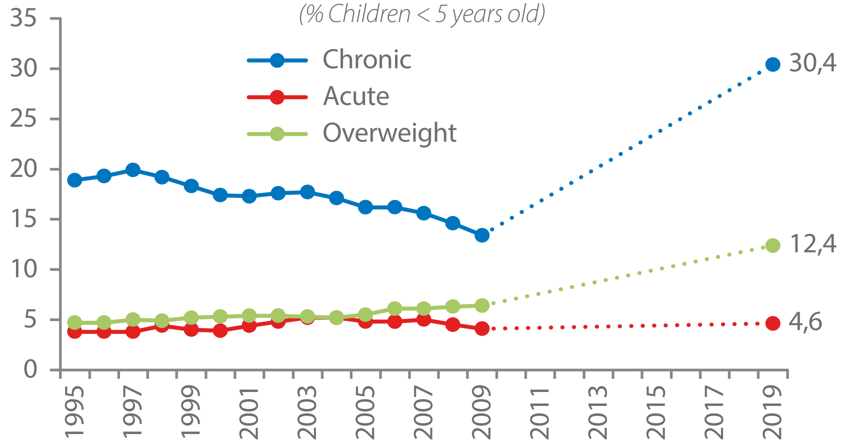
33 - See Bello and Bermúdez (2014).

34 - According to the Boletín Epidemiológico 2016. See https://www.ovsalud.org/descargas/publicaciones/documentos-oficiales/Boletin-Epidemiologico-2016.pdf.

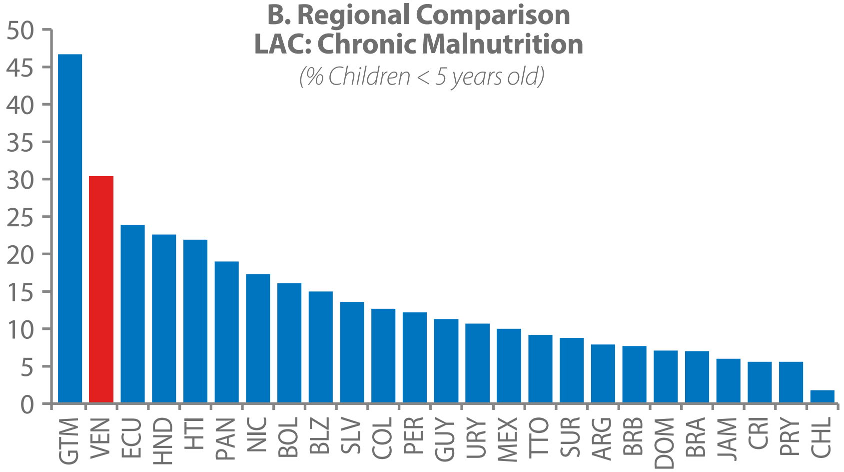
35 - Data from the epidemiological bulletins.

Graph 14

A. Trend
Venezuela: Child Malnutrition
(% Children < 5 years old)



B. Regional Comparison
LAC: Chronic Malnutrition
(% Children < 5 years old)



Source: ENCOVI.

Malaria is considered endemic to Venezuela. Malaria cases have multiplied nine fold in the last eight years. Unlike the regional downward trend of malaria cases, which in 2017 were 30% fewer than in 2010, the incidence of this infectious disease in Venezuela, in number of estimated cases by the World Health Organization (WHO), rose from 57,000 in 2010 to almost 541,000 in 2018. Deaths from this disease reached 680 cases in 2017 compared to 52 cases in 2010, differing markedly from the trend for all South American deaths, which decreased by 40% in the same period. This striking increase is the result of reduced mosquito control, a shortage of medicine for treating the disease, and illegal mining activity (Human Rights Watch, 2019)[36].

Hospital care is in total disarray. As of November 2019, some 85% of x-ray rooms were inoperative and 49% of emergency rooms were experiencing supply shortages. According to estimates from the 2019 National Hospital Survey, there were 2,602 avoidable deaths from cardiovascular causes and 2,256 from trauma, primarily due to a lack of medicines[37]. Added to this is the high level of migration of health professionals in recent years. Around 33% (22,000) of physicians and an unknown number of other healthcare workers are estimated to have left the country[38].

36 - See the link https://www.who.int/publications-detail/world-malaria-report-2019.

37 - See the website https://www.encuestanacionaldehospitales.com/2019

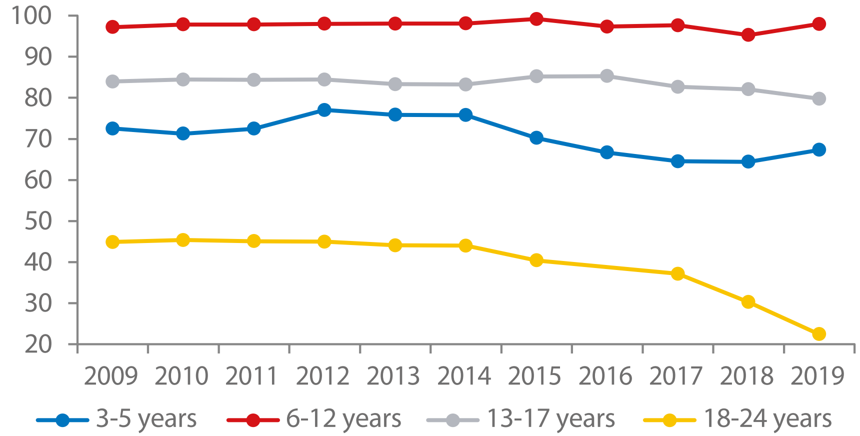
38 - See the link https://www.paho.org/hq/index.php?option=com_docman&view=download&category_slug=162-en-9841&alias=45491-ce162-inf-22-e-paho-tc-respond-491&Itemid=270&lang=en

2.3. Educational Sector

School attendance, primarily in pre-primary and secondary education, has fallen off. The school attendance rate for children between the ages of three and five dropped from 75.8% in 2014 to 67.3% in 2019. Likewise, the school attendance rate for youth between the ages of 13 and 17 fell from 85.3% to 79.8% from 2016 to 2019. Reduced school attendance was seen from 2015 to 2017 across all economic strata. School attendance dropped substantially, however, for 18-24 year-old youth from households in the fifth income distribution quintile (Freitez, 2017). As a result of the crisis, the demand for private schooling among the highest income strata has fallen, putting additional pressure on the public system[39]. According to ENCOVI 2019/20 calculations, severe educational lag (more than two years) reaches 9% of the student population[40]. According to ENCOVI data, educational lagging has increased considerably - especially slight lagging, which jumped from around 5-10% to almost 24% in 2019, affecting the poorest students disproportionately[41].

The deteriorating situation affects school attendance. According to ENCOVI 2019 estimates, 17% of students who regularly attend school miss class due to water shortages, 12% miss due to power outages, 12% miss due to lack of food at home, and 13% miss due to teacher absences. Due to the health crisis caused by COVID-19, all the country's schools have been closed since March 13, 2020, which may exacerbate declining school attendance even more. To ensure educational continuity, the authorities have implemented the "Every Family a School" program, which consists of activities that parents can do with their children at home. This has been published on the Ministry of Education's website.

Graph 15
Venezuela: School Attendance Rate by Age Group
(% Population)



Source: ENCOVI.

No recent information exists on student learning, though it is assumed to be low. The results of the Programme for International Student Assessment (PISA), applied in Miranda state in 2009 (the most recent assessment of student learning in Venezuela), shows that 83% of students are below the acceptable level for mathematics and 41% are below the acceptable level for language. In mathematics, the percentage is well above the Latin American average (61.5%), which is even more alarming since Miranda has the highest levels of access to education in the country.

39 - The proportion of fifth quintile households sending their children to public school increased from 45% to 57% from 2016 to 2017.

40 - Educational lag is measured as the difference between the grade the student should be in according to age and the grade the student is actually in.

41 - According to ENCOVI 2020, 27% of students from 12 to 17 years of age belonging to the poorest quintile had severe lag compared to 13% in the wealthiest quintile.

2.4. Provision of Basic Services

The crisis has also affected the provision of basic services in the country, impacting the population's quality of life. Even before the national power outages in March 2019, electricity supply quality had substantially deteriorated. According to ENCOVI, 26% of households suffered daily power outages in 2018 compared to 13% in 2015. The impact of the power outages goes beyond domestic inconveniences. For example, there were 79 deaths in hospitals due to the power interruptions, according to the National Hospital Survey[42]. There has also been a recent deterioration in the potable water supply. According to ENCOVI 2019, only 25% of households had regular water supply every day compared to 62% in 2015. Water quality is also an issue, in addition to the problem of supply frequency. With regard to garbage pickup, only 64% of households received this service, according to the Venezuelan Observatory of Public Services, and 44% of the households evaluated the quality of the service as deficient[43]. Added to this are the deterioration of the long-distance and urban transportation infrastructure, and the quality of public institutions.

Service provision problems affect the country's different regions unequally. Based on the Venezuelan Observatory of Public Services survey conducted by the Asociación Civil ESDA, both the number of power cuts and the quality of the water supply service varied among the different cities studied[44]. For example, almost 80% of Caracas households receive water irregularly and the service is considered poor, while in San Cristobal only 40% of the population fail to receive water regularly and 44% report that the service is good. As a result of the crumbling electricity infrastructure, after the 2019 power outages a rationing system was set up by geographical region that showed notable regional disparities.

Water

The provision of water has deteriorated rapidly in recent years. Most of the population has intermittent or no water supply. According to official data, coverage of access to the drinking water network in urban areas was 93% and coverage of the sewer network was 78%. Nevertheless, Venezuela's ENCOVI 2019/20 revealed that only 25% of the population received water every day. It also revealed that in many areas the population received fewer than two consecutive days of water per week, forcing people to recur to unsafe and unreliable water sources. Moreover, the 2019 National Hospital Survey found that 70% of hospitals received water irregularly (Médicos por la Salud, 2019). It is estimated that only 10% of existing health facilities in Caracas have a continuous water supply.

Water quality is an additional concern. Drinking water reservoirs have sedimentation and significant levels of eutrophication from erosion and disposal of untreated wastewater. Frequent water service cutoffs and pipeline leaks also contribute to water contamination. A recent study in Caracas indicated that 70% of the samples were contaminated with coliforms and other microorganisms, and that there were low levels of residual chlorine and high turbidity[45]. Chlorine, aluminum sulfate, and other chemicals used in water treatment are produced locally, mostly by companies that are out of service or that have been working intermittently for at least several years[46]. These water supply and sewer service shortcomings have contributed to the country's increase in waterborne diseases, with particular impact on children[47].

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42 - See the link https://docs.wixstatic.com/ugd/0f3ae5_fe95bf73e3bb4693994e883913d93854.pdf.

43 - See the website http://www.observatoriovsp.org/aseo-urbano/.

44 - See the link http://wordpress-176087-568269.cloudwaysapps.com/

45 - The study was conducted by the Experimental Water Treatment Plant Laboratory of the School of Civil Engineering, Universidad Central de Venezuela, from June 20 to July 8, 2019, at 40 collection points along the water supply network and from 14 sources that were not part of the network.

46 - El Tablazo has a net installed production capacity of 300,000 metric tonnes (MT) of chlorine and 300,000 MT of caustic soda, which could satisfy national demand. It is currently able to achieve production of no more than 5% of that capacity, however (Venezuelan Petroleum Chamber).

47 - From 2015 to 2016, the number of cases of diarrhea among children under the age of five increased to 194,300 (IANAS, 2019).

The infrastructure has rapidly deteriorated as a consequence of the crisis. Several reservoirs that supply drinking water are at risk. For example, the water in the Tuy reservoir, which supplies 25-30% of the population of Caracas, does not meet the environmental quality standards for drinking water use (Córdova, 2019). Only 1 of the country's 144 water treatment plants is working properly. Pumping stations are barely operable due to failures in their electromechanical systems - including the ones for Caracas, where most of the pumping infrastructure appears to be damaged (Grupo Orinoco, 2018). There are wastewater leakages from broken sewer pipes and almost no working wastewater treatment plants, leading to environmental damage and posing a serious threat to public health, as well as causing contamination of drinking water sources. The power outages have intensified the deteriorating water supply system, since many of the pumping systems require huge amounts of electricity for their operation.

Financing for the operation and maintenance of water and sewer services is insufficient. Rates were frozen in 2004 and the adjustment for inflation was eliminated, so fiscal transfers were needed to cover the deficits. In 2014, a new rate schedule was approved for Caracas (which covered 50% of operating expenses, on average), but since then inflation has eaten away the cost recovery percentage to almost zero. Government subsidies, combined with current rates, are not enough to cover operating and maintenance costs, much less finance capital investments.

A shortage of technicians has contributed to the steep drop in the performance of water supply services. Before the migratory phenomenon, technicians had been replaced by politically appointed personnel, leaving a knowledge gap regarding the operating features of the water supply distribution systems[49]. Moreover, the subcontracted companies that had been providing technical and construction services or critical inputs have disappeared or are operating at reduced capacity.

Electricity

Venezuela's electricity sector is at high risk of power shortage. In 2016, power plants had a total installed capacity of 32,279 MW, of which 16,285 MW were produced by hydroelectric power stations, 15,944 MW by thermoelectric plants, and 50 MW by wind plants[50]. Due to the lack of power plant maintenance, however, in March 2019 the effective capacity of thermal plants was estimated at no more than 3,000 MW[51], while that of hydraulic plants was at around 11,000 MW[52]. This has reduced electric power generation and left the grid without a reserve.

Infrastructure is in critical condition. The sector's infrastructure has deteriorated to the point where the government had to impose a national power rationing plan on April 1, 2019. The plan, which is still in force today with several variations, prioritizes power to the capital region at the cost of disconnecting other regions of the country, particularly the Zulia state. Miranda state is not included in the scheduled power cut scheme, while in the Zulia state the scheme is for six hours of power cut and six hours of power supply every day.

With transmission and distribution, there is also a generalized lack of maintenance, extreme saturation, and inoperability in certain areas due to lack of equipment and replacement parts. Insufficient maintenance has left insulators unreplaced, towers rusting out, power line roads overgrown with weeds, and fallen utility poles lying on the ground. Most of the substations are overloaded, and during the outages in March 2019 some of the most important ones (such as Malena and San Gerónimo) reported serious damage, while many others in urban areas exploded from power surges.

49 - At present, the total number of all operators is 16,200, representing approximately 5.5 employees for every 1,000 connections.

50 - Data from the Anuario Estadístico del Sector Eléctrico Venezolano 2015-2016.

51 - Estimates by the IDB Energy Division.

52 - Construction works such as the Tocoma Hydroelectric Power Station (2,160 MW) have not been completed. The Guri has 2,400 MW out of service. The refitting of Guri's units 1 through 6 (1,900 MW) is progressing at a snail's pace. The Macagua power station has 1,300 MW out of service from lack of maintenance and incomplete refitting.

The system has serious operational deficiencies. While the 765 kV transmission system recorded only one failure in 2002 that disconnected 1,190 MW, it failed seven times in 2008 with a total load disconnection of 21,763 MW, and seven times again in 2013, disconnecting 11,189 MW. In 2019, the country recorded four massive power outages. The operation of the entire electrical system depends on one dispatch center that appears functional but requires urgent recovery and modernization of monitoring, communications, management and control equipment.

The hydrocarbons and electricity sectors are closely interrelated, since the former provides the inputs for power generation but at the same time is a huge consumer of that power. Venezuela has tremendous installed thermal energy capacity. These plants depend on the supply of liquid fuels and natural gas from PDVSA. As PDVSA reduced its production capacity it left several thermal power plants without a fuel supply. In turn, the oil industry consumes extremely high amounts of electricity for its own extraction, refining, and transport processes.

The reduced demand for electricity due to the economic slowdown has made for less pronounced rationing. In 2016, the maximum demand for power was 18,129 MW, which, though slightly under the effective capacity, could not be met during the drought crisis of late 2015 and early 2016, so the country had to ration supply in April and June 2016 (four hours daily throughout the country except for Caracas). Furthermore, the crisis has led to a rapid loss of professionals at all levels, including highly trained executives and experts, which has also contributed to the loss of capacity for operating the electricity infrastructure.

Insufficient financing works against any attempt to recover operating capacity. The fragile financial situation of Corporación Eléctrica Nacional (CORPOELEC) stems from a combination of a high level of electricity losses and extremely low end user rates. Energy losses have surpassed 35% in the last four years, compared to the 17% average in Latin America and the Caribbean (LAC) and the 6% average among Organization for Economic Co-operation and Development (OECD) countries. The rate situation in Venezuela is considerably serious since rates have been frozen since 2002. An IDB study (Marchán, Espinasa and Yépez, 2017) indicates that the subsidies granted amounted to US $13.9 billion in 2013 (equivalent to 5.5% of the GDP) and US $11 billion in 2014 (equivalent to 4.3% of the GDP)[53]. Moreover, direct government transfers to CORPOELEC are not enough to cover operating and maintenance costs, contributing to the infrastructure deterioration.

The institutional framework is weak. The minister of electrical energy is also the president of CORPOELEC, which has not had a board of directors for several years now. Nor is there a regulatory or energy commission or an independent planning body, so essential planning and operating activities are not performed properly since they are embedded in a weak ministry.

Transportation

Transportation infrastructure has notoriously deteriorated after years of disinvestment and little maintenance. Venezuela ranks next-to-last among LAC countries and 135 globally out of a total of 140 countries in transportation infrastructure quality, according to the 2018 Global Competitiveness Index (GCI) of the World Economic Forum (WEF). Furthermore, it ranks last in LAC and 142 globally out of a total of 160 countries on the World Bank's Logistics Performance Index 2018, and its score on this index fell by 21% from 2014 to 2018[54]. The increasingly poor quality of roads and higher level of insecurity have also pushed up the country's cost of logistics. Foreign trade costs are 2.3 times greater than the LAC average[55]. Added to the impact on the economy in general is the impact on the population's quality of life since the shortage of transportation limits people's access to job and study centers.

53 - These values contrast significantly with the budget allocated to education and health. In 2015, for example, in accordance with the Budget Law, close to US $360 million was allocated to education and US $190 million to health (at an exchange rate of 198.7 VES/USD).

54 - Venezuela scored lower than the LAC average on all dimensions: customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness.

55 - US $1,250 for exports and between US $1,500 and $1,900 for imports for Venezuela, and US $529.80 for exports and US $647.20 for imports for the LAC average, according to the World Bank's Doing Business 2019.

Venezuela's earlier advantages in terms of logistics infrastructure have been lost. Venezuela has extensive paved road coverage, although the road conditions are alarming[56]. In the 1970s, the country had the region's most important airlines. Now the airline sector faces challenges in terms of infrastructure quality and connectivity, in addition to problems of operational safety[57]. Puerto Cabello, Venezuela's main port, ranked fifth in cargo throughput on the 1998 ranking by the Economic Commission for Latin America and the Caribbean (ECLAC), and today it receives only two or three ships a day. Port logistics activity has fallen off considerably due to the economic slowdown and deterioration of asset quality from lack of maintenance of the sector[58]. The score on the maritime competitiveness index fell from 23.47 in 2006 to 13.07 in 2019 (UNCTAD, 2019). Trade through land border crossings was extremely high, and the Cúcuta-San Antonio Urena border crossing, for example, was the fourth most important in South America in terms of cargo volume. However, imports from Colombia entering through this crossing in 2018 were at only 10% of 2013 values due to Venezuela's exit from the Andean Community and constant border closings.

Urban transportation is also in a state of collapse. Venezuela is a highly urban country where 88% of the population lives in urban areas and the urban transport system has traditionally operated informally and unregulated. Urban bus operations are fragmented, regulations are flexible, and enforcement is unsupervised. The transportation sector is the nation's second largest source of greenhouse gases. The main urban mobility challenges are linked to the reduced supply of transportation services and deteriorating quality of those services (García, 2019). Close to 50% of the vehicle fleet is idle due to a lack of repair parts and resources. The supply of public transport has dropped by 40% due to the shortage of parts and the high cost of repairs[59]. In addition, urban mass transit systems have maxed out their operational capacity[60]. The Caracas subway, designed to transport 700,000 users, mobilizes 2.5 million people every day along all its lines - half the population of Caracas - and needs maintenance for its fleet of 48 trains with six cars each[61]. The service has suffered constant delays from electricity outages.

Environment

The management of the environment in Venezuela has declined. The environmental performance index[62] places Venezuela in 59th place, being the eighth country in the region. However, when the components of the index are analyzed, it is observed that the country occupies position 133 in waste management, 115 in exposure to lead, and 133 in emission of polluting gases.

56 - Although some of the main highways are in relatively good condition, but key connection points such as bridges are at risk of collapse. According to the Venezuelan Professional Association of Engineers, maintenance and restoration work is needed for 80% of the country's road network, including 600-800 bridges requiring urgent attention in order to provide acceptable service levels (Lucena 2017).

57 - Passenger and cargo air traffic has fallen off substantially (passenger transportation decreased by 35% between 2010 and 2017), and there are only two cargo flights per day. In addition, there has been an increase in the number of air incidents, airport safety zone vulnerability, and poor condition airport infrastructure (runways, taxiways and terminals).

58 - At present, the port does not permit docking of greater than second- or third-generation vessels (Panamax type) with a maximum capacity of 1,600 and 3,000 TEU, respectively. In addition, the national port system is far from having the modern management practices and governance scheme that would enable private capital participation.

59 - Of the capital region's 45,000 units in existence in 2012, fewer than 4,500 are operative, and of the 3,500 long distance units that connected the country's capital cities a decade ago, only 800 are still in service, according to the Venezuelan Chamber of Interurban Transport Companies. (Materano, 2018).

60 - The volume of daily transfers between the mass transit systems and the Los Teques subway that provide service in the Las Adjuntas station is more than 25,000 trips.

61 - A phenomenon that is partly explained by fact that the system is free, another aspect that should be considered in the restructuring of the public mass transit system.

62 - See the website https://epi.yale.edu/epi-results/2020/country/ven

The environmental damage caused by the mining sector is substantial. In 2016 the national executive approved the creation by decree of the Orinoco Mining Arc (AMO) for mining exploitation. The project covers an area of 112,000 km2 that covers part of the Venezuelan Amazon, as well as 36 protected areas including national parks and monuments. The Military Corporation for the Mining, Oil and Gas Industries (CAMIMPEG) was assigned to its exploitation, but in practice illegal mining has proliferated[63]. Approximately 2,891 km2 of Amazon rainforest have been destroyed, of which 50% correspond to protected areas[64]. Additionally, the mercury used in excavation projects has contaminated freshwater sources in the region. This situation has also affected more than 30 indigenous communities that were never consulted.

SIDEBAR 4
Venezuelan firms: Partners in the Recovery

As mentioned in Chapter 1, for the last 20 years the private sector has been characterized by a high degree of state interventionism, putting a damper on incentives for investing in Venezuela. Buttressed by the oil bonanza, the government made inroads on implementing an interventionist economic model through price and currency and labor market control policies.

Private activity is at an all-time low in a country that already had growth difficulties[65]. Private initiative accounted for 63% of the GDP in 2006, but its share is estimated to have dropped to 43% in 2019. Use of the manufacturing sector's installed capacity was at 22% in 2019 compared to 76% in 2010. The result in terms of private investment - the main driver of growth - is a drop from 15.9% of the GDP in 1998 to an estimated 2.1% in 2018.

65 - For more details on Venezuela's economic situation prior to 1998, see Hausmann and Rodríguez (2014).

Given this debacle and faced with the potential start of a transition and recovery, the country needs an essential partner: the private sector. The question here is, what is the current situation of the Venezuelan business sector? To answer this, in the second half of 2019 and early 2020 the IDB conducted an Enterprise Survey[66]. This survey shows the characteristics of the survivors - the companies that will make Venezuela's reconversion possible - and reports what they need and what could be done to achieve this reconversion.

Notable among the survey's many results[67], as evidence of the contraction of the economy in general and of the private sector in particular, was the reduced universe of companies operating in the country, which shrank from close to 10,000 companies in 2006 to 1,916 in 2020[68].

66 - Developed by the World Bank in partnership with IDB and other multilateral stakeholders, this is a company-level survey of a representative sample of an economy's private sector. The surveys cover a broad range of business environment topics, including access to finance, corruption, infrastructure, crime, competition, and performance measures. One of its primary advantages is that it has a standard methodology applicable to all countries, making for easy comparison of the microfoundations of growth between countries and helping policymakers identify, prioritize, and implement policy reforms and institutions to efficiently boost private economic activity. To date, more than 164,000 interviews have been conducted in 144 countries. For more information, see https://www.enterprisesurveys.org/

67 - For a detailed analysis, see: Saboin (2020b), unpublished.

68 - From a universe of companies registered in the country's different chambers of commerce and industry.

63 - See the website https://www.csis.org/analysis/illegal-mining-venezuela-death-and-devastation-amazonas-and-orinoco-regions

64 - See the link https://www.foreign.senate.gov/imo/media/doc/120519_Filipetti_Testimony.pdf

The companies' main obstacle is the lack of macroeconomic and political stability. Some 45% of the firms feel the main obstacle is the macroeconomic environment, 21% feel it is the political instability, and 12% feel it is the lack of electrical energy. Ten years ago, the main obstacle for most Venezuelan firms was crime (32%), followed by power cuts (16%) and political instability (14%). These figures contrast with those of comparator countries[70], where 20% see the main obstacle as informal sector practices (contrasting highly with Venezuela, where only 45% reported they were competing with informal companies versus 70% in comparator countries), 11% see it as access to credit, and 9% see it as taxation.

The infrastructure of basic services is precarious and impacts company productivity. As described throughout this document with regard to the situation of basic services, a representative firm in Venezuela suffers eleven Internet cuts per month, ten power cuts, six water shutoffs, and six dropped cell phone calls per month. Each of these cuts represents some 10% of sales. Companies have been able to independently resolve some of these services, such as, for instance, in the case of electrical power, where from 2010 to 2020, the percentage of interviewed companies that report having an electricity generator jumped from 15% to 47% (70% in large companies and manufacturers), or in the case of water, where many firms report having drilled their own wells. In other cases, such as Internet connection, the solution may be more difficult, causing problems for producing and selling, especially in this digital age.

There is dependence on imported inputs and a rebound in exports. Some 63% of sales reported by the firms have imported materials, compared to 43% in similar countries. This shows the impact of the runaway importation: local value chains are almost nonexistent. Export-wise, hand in hand with the shrinking local market due to the crisis and hyperinflation, direct exports now represent 8% of a representative firm's sales (0.1% in 2010), twice that of its regional and income peers. The percentage of firms that directly export 10% or more of their sales is 10% in Venezuela (0.2% in 2010), while for similar countries the average figure is 7%.

Insecurity and corruption are major stumbling blocks. While only 50% of Venezuelan companies paid for security in 2006, currently 80% now do so (versus 65% in comparator countries). These costs represent 12% of Venezuela's annual sales, while they only account for 3% in comparator countries. Despite this, some 52% of the firms (versus 22% in 2006) report having suffered losses from theft and vandalism, while the regional percentage is 23%. The bribery index for Venezuela was 35% in 2019 (up from 3.8% in 2006), far higher than the 8% average of its peers[71]. The bribery depth index rose from 3% in 2006 to 53% today, substantially higher than the 6% average of Venezuela's peers[72].

70 - Comparators by per capita income: Honduras, El Salvador, Nicaragua and Bolivia.

71 - This index measures the percentage of firms that have experienced at least one request for payment of a bribe.

72 - This index measures the percentage of public transactions where a gift or bribe is expected.

Venezuelan firms have not thrown in the towel, however. The results reveal that the representative Venezuela company has aged (going from an average age of 13 years to 37 years) and is older than the comparators. This implies that the number of startups has significantly dropped but, on the other hand, that Venezuelan companies continue to struggle on. Along with this, some 27% of Venezuelan firms have an internationally recognized quality certification, well above the 14% recorded for its Andean peers and the 8% recorded for its income peers. Also, 71% of the firms have their financial statements audited by external auditors, a figure that far exceeds that of comparator countries (58%). Another characteristic of the Venezuelan company is that there is more foreign ownership (from 7% in 2006 to 28% today), while in comparator countries only 10% of the companies have foreign ownership[73].

The firms continue to invest, but they do it with their own means. Although some 50% of the firms reported investing in working capital during the last year, some 35% did so in fixed assets. Nevertheless, in the last decade the percentage of fixed-asset acquisition and bank-financed working capital has fallen from 14% to 6% (18% in similar countries) and from 23% to 4% (28% in similar countries), respectively. Some 40% of the investment made by the average company is done through retained earnings or internal funds and 8% is through supplier credits and/or advances. The financial system contraction has affected the investment process of Venezuelan firms: at present only 5% of the firms reported having used a banking institution for financing their investments - compared to 35% in 2010 and 41% in similar countries. Also worthy of note is that only 18% of the firms reported having a loan or line of credit, while in similar countries this figure is up to 54%. A high incidence of firms was also seen with rejected applications: while Venezuela reported 12%, its peers reported 4%.

Inventiveness is still alive and has even grown stronger. Despite such a long period of hostile business environment, it is encouraging to see that close to 50% of the surveyed firms invested in research and development (versus 23% in 2010), compared to 20% in similar countries. Moreover, 76% of the firms declared they had introduced a process innovation (versus 41% in 2010), a figure that is substantially higher than that of their comparators (some 40%). These results suggest that Venezuelan companies have innovative management - to be expected if you want to survive in the midst of so many hurdles. Additionally, when we look at creation indicators, such as the introduction of a new product or service, we see that 51% of the companies (versus 33% in 2010) reported having done so, contrasting marginally with 56% in comparator countries. This also shows the efforts Venezuelan firms have made to continue to compete and deepen their markets.

73 - This is related to two phenomena: (i) a number of transnational firms are allowed to continue operating in Venezuela under certain operational modalities, and (ii) many firms that used to be domiciled in Venezuela have changed their domicile.

Migration and labor laws have affected the technical capacity of the labor factor, posing a major long-term challenge. Some 38% of the companies felt that emigration was the main reason for the shortage of specialized personnel, while 13% attributed this shortage to rigid labor laws. The local market structure has also been affected, since 11% reported that local professionals are not qualified and 9% reported that the quality of local education is low. For the country to recover, the latent problems of today need to be solved: infrastructure, institutions, and financing, among other things. The shortage of human capital, exacerbated by migration, will be one of the biggest challenges for company growth in the future.

Institutions and Governance

The weakening of public institutions in Venezuela has been substantial. Beyond the sectoral deficiencies mentioned in the preceding sections, Venezuela's public institutions have been weakened substantially over the last 20 years in terms of governance, procurement, oversight bodies, and identity registration systems, etc.

The effectiveness of Venezuelan public administration has substantially deteriorated, falling far from the regional average according to World Bank governance indicators. The indicators confirm the deteriorated quality of public services, poor technical capacity, and political independence of public officials - exacerbated by the migration that has reduced human capital - and reduced government capacity and credibility for implementing policies. These weaknesses also reflect the almost nonexistent capacity to promote policies and regulations that can drive private sector development, details identified by the aforementioned indicators.

The country is in the bottom 10% of transparency indicators. Institutional weaknesses are reflected in the country's inability in the 80s and 90s to not only recover but also manage adverse shocks to the terms of trade, which blocked a reallocation of funds within the economy in the face of those shocks. In addition, Venezuela also has the worst regulatory quality indicator in all LAC.

Public procurement involves a high risk of corruption. Public funds are frequently perceived as being diverted to individuals and companies due to corruption and favoritism. Most public procurement is reported as being subject to emergency policies and therefore exempt from open bidding. Venezuela comes in close to last on the Transparency International's CPI ranking (18 out of 100, 100 being very transparent, with the regional average being 44) and in the "Control of Corruption" dimension of the World Bank's Worldwide Governance Indicators (score of 7 out of 100).

Graph 16
Venezuela: Worldwide Governance Indicators
[Percentile, 0 (lowest) 100 (highest)]

Source: Worldwide Governance Indicators database (2017)

The country's fiscal institutions have also deteriorated over the last 20 years. Decentralized agencies have proliferated and extrabudgetary funds and social missions have been introduced, along with excessive use of additional credits, all of which have contributed to the lack of transparency and control of spending. The structure and management of the budget have been seriously undermined and the Organic Law for Public Sector Financial Management (LOAFSP) of 2000 has been circumvented in many aspects. There are no Assembly-approved budgets, limits to the public debt or the single Treasury account (CUT), or comprehensive and reliable financial reporting systems.

Public financial management has deteriorated. According to a 2016 *Transparencia Venezuela* report, enforcement of the regulation contained in the LOASF has been deflected by the 16 amendments made to it since its enactment in 2000 (mostly by decrees), violating the Venezuelan Constitution and expanding the discretionary management and opaqueness of public funds. No multiannual budget framework or public debt or spending limits have been established or met. No draft national budget is sent to the National Assembly, and there are no fiscal statistics.

The weakness of official identification and civil records has also affected the state's capacity to provide services (by limiting the availability of creditable information on potential beneficiaries of public programs). This may have been exacerbated by the use of new, unofficial identity documents created for accessing public services[74]. Of 28.4 million Venezuelans, close to 125,000 children under the age of five (5% of the population in that age range) have no birth certificate and 1.2 million individuals over the age of eight (5% of the population) have no identification card, according to ENCOVI 2019/20 estimates.

74 - *According to Transparencia Venezuela, a document entitled "Homeland Card" is used to give citizens access to state programs that provide food, medicine, medical care and other social benefits and to prove identity for access to career jobs in the public administration, matriculation in state universities, and administrative and public bank paperwork. See https://transparencia.org.ve/wp-content/uploads/2018/03/Carnet-de-la-patria-2018-TV.pdf.*

Finally, the problems of security affecting the business climate and the population's quality of life cannot be overlooked. Venezuela's level of crime and violence places it among the most violent countries in the world. The number of homicides reached 28,479 cases in 2016, a rate of 91 homicides for every 100,000 inhabitants in that year. In 2017 and 2018, the number of homicides fell to 23,047, with a homicide rate of 81 for every 100,000 inhabitants. In 2018, this was the highest rate in the region[75].

SIDEBAR 5
Migration

Prior to the COVID-19 pandemic, Venezuela migration was already posing an unprecedented challenge for the region's countries. The outflow of migrants, who have mostly remained in the region, reached 4.7 million people in 2019, a figure that compares to the 5.5 million Syrian refugees since 2011, constituting the largest migrant flow in times of peace[a]. The causes of this migration include the deteriorated public services, lack of economic opportunities, and high levels of violence and persecution in the country of origin (Ucab, 2019). This migratory flow impacts Venezuela's growth potential, given the numbers involved and the relatively high level of human capital that has emigrated.

a - See https://data2.unhcr.org/en/situations/syria#_ga=2.69496021.496245112.1581456570-122433343.1581456570.

The distribution of the migration in LAC shows Colombia as the primary destination, followed by Peru, Chile, Ecuador, Brazil, Argentina, Panama, and other countries in the region.

Venezuelan migrants are relatively young and single[b], most of them being between the ages of 18 and 40. Their level of education is generally better than that of the local population in the host countries. Some 38% of the Venezuela migrants in Peru have university studies, according to INEI (2019); 55% of the migrants in Chile and 13% of the migrants in Ecuador reported to have completed a university degree.

Venezuelan migration to the region is recent, with most migrants entering the host countries in the last few years. In Colombia, 74% of the migrants arrived in 2018 and 2019. In Peru, until 2018, some 76% of the migrants had arrived that same year. This limits, in comparison with other international migratory flows, the possibility of having safety nets in the destination country to help migrants find new sources of income.

A significant percentage of migrants have no access to appropriate housing or are on the streets[c]. In most of the countries the migrants are concentrated in the major cities.

b - In the case of Ecuador, 61% of the migrants reported being single (IOM 2019), with this percentage reaching 40% in the case of Peru (INEI 2019). By way of comparison, this percentage was down to 36% for Central American migrants living in the United States (Abuelafia, et al., 2019).

c - In Colombia, 32% of the migrants have no access to housing, in Ecuador, 16% are living on the street, and in Peru, 57% are living in crowded quarters.

75 - See the Informe Anual de la Violencia 2018, Observatorio Venezolano de la Violencia.

Work is generally informal in the destination countries[d], and even before the economic crisis caused by the pandemic, they already had lower wages than local workers[e].

Jobs in the host countries are concentrated in specific sectors. Some 47% of Venezuelan migrants in Colombia, 57% of the migrants in Costa Rica, 55% of the migrants in Panama, and 57% of the migrants in Peru work in services and commerce.

Although commendable efforts have been made to regularize the migration flow to the region, some 1.5 million Venezuelan migrants have an irregular migratory status, which limits their possibility to access basic services for themselves and their families. One of difficulties posed in this process is the lack of migrant identification instruments, since many migrants reach the host country with expired or no documents.

d - 90% of the migrants working in Colombia do not pay into social security, and the same occurs with 18% of the migrants in Chile. 92% of the migrants in Ecuador have no employment contracts, and 88% of the migrants in Peru are in the same situation.

e 64% of recent migrants in Colombia earn less than the minimum wage, and in Costa Rica the migrants earn 11% less than the minimum wage. In Ecuador, 86% receive wages below the minimum wage. In Panama, 62% of migrants earn less than US $500 a month. In Peru, 18% of the Venezuelan migrant population is poor, compared to 12% of the total population.

A substantial number of migrants reported having family still in Venezuela and in many cases they are sending back money in the form of remittances. According to data compiled by the BCV, remittances reached US $3,000 million in 2019.

As will be discussed below, the process of recovering quality of life for the population will take several years, given the existing deterioration. From the migratory standpoint, both expulsion and attraction factors exist. The former includes the shortage of job opportunities in the country of origin, insecurity, and quality of public services, etc.; the latter includes the poor economic situation of the destination country and pressures to reunite with the family. Abuelafia (2020) estimates that even if the political transition and reconstruction process were to start this year, some million more Venezuelan citizens could be expected to emigrate to the region.

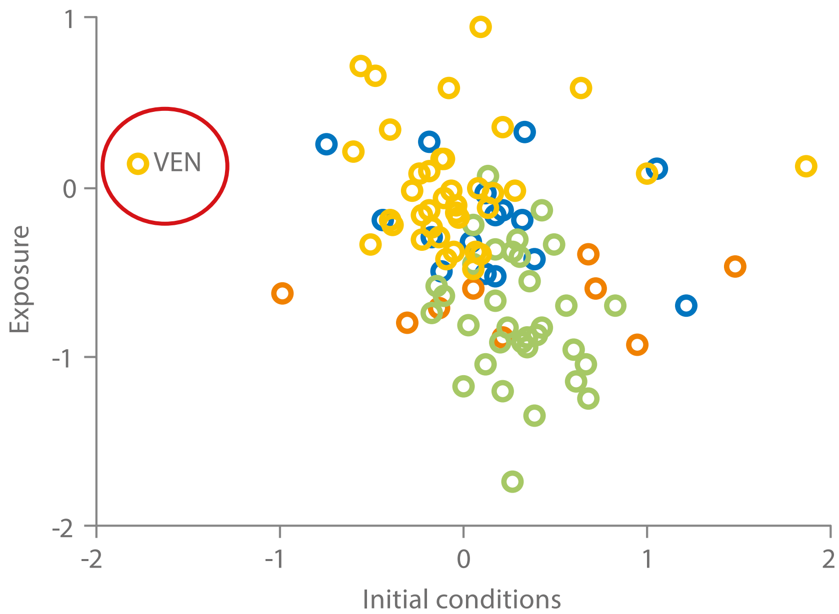
3. THE IMPACT OF THE PANDEMIC AND EMERGENCE OF NEW RISKS

As mentioned earlier, the **COVID-19 pandemic has hit the country in the midst of an unprecedented political, social, and economic crisis. The political transition is at a standstill, and the macroeconomic situation will be battered by the pandemic's effects at local and international levels.**

Venezuela is the country most vulnerable to the COVID-19 crisis. For a sample of 96 emerging and developing countries, taking into account each country's external vulnerabilities (such as integration into international trade, capital markets, etc.), health vulnerabilities (such as number of beds, health staff, etc.), and internal vulnerabilities (such as poverty level, informality, etc.), Manzano and Saboin (2020) argue that Venezuela is in the most vulnerable group of countries, together with its regional peers of Bolivia and Ecuador, as well as other developing countries. Although the countries in this group have less exposure to the global economic shock, they have high health and internal exposure. At the same time, they are receiving the COVID-19 pandemic in extremely precarious external, health and internal situations. Graph 17 shows how Venezuela is in a much more complicated situation than its Andean peers: it has higher exposure to the COVID-19 shock and at the same time the worst initial conditions, in this case not only in the region but also in the sample of 96 emerging economies. Thus, **Venezuela is challenged on all fronts. However, public policy emphasis should be on attacking internal and health vulnerabilities, since these are what aggravate the economic crisis.**

The pandemic will have impacts on both the macroeconomy and the population's quality of life. The impact of Venezuela's pandemic crisis on the macroeconomic situation is channeled through the

Graph 17
Emerging economies: relationship between exposure to COVID-19 and initial conditions



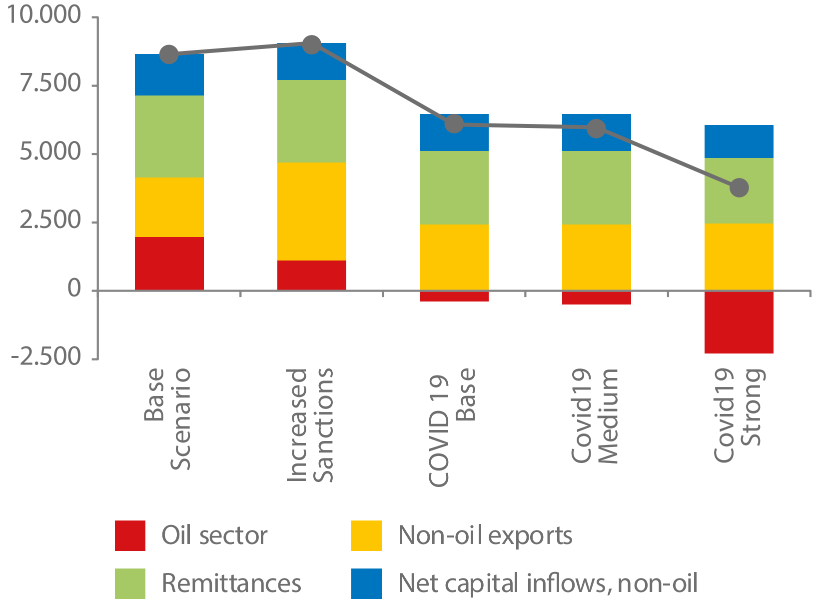
Source: Manzano and Saboin (2020).

oil sector (due to the economic slowdown and reduced foreign currency inflows) and its analog in the country's fiscal situation. Compounding this is the impact on economic activity in general due to the nationally imposed quarantine. Added to this is the impact on households due to lack of income and the government's impossibility of providing food or funds for purchasing food.

3.1. Macroeconomic Impacts

The impact is primarily due to falling global demand and the consequent drop in oil prices on international markets. To complicate matters, sanctions have made it difficult to place domestic production, leading to a decline in oil production[76]. Depending on the price and production scenarios, available funds for the economy could decrease by almost 50%. Venezuela's total available foreign exchange, including remittances, could fall from US $9 billion to almost US $5 billion in the strongest price drop scenario.

Graph 18
Venezuela: Available Foreign Exchange
(Millions of dollars)



Source: Author's compilation.

Activity in the non-oil economic sector will also be hit hard by the pandemic. International Monetary Fund (IMF) estimates in April 2020 predict a 15% shrinkage of the Venezuelan economy, including both non-oil and oil activity. According to our estimates, non-oil activity could slow by 9% to 42% in 2020 due to the impact of the quarantine and mobility restrictions, especially on services and commerce.

The economic slowdown, especially in the oil industry, is matched by a reduction in tax revenue. Oil sector revenue accounts for more than 80% of all government tax revenue. The oil sector's contribution to the Treasury will be drastically reduced by the fall in prices and production. Oil production value would fall from US$ 11 billion in the base scenario to US$ 2.9 billion in the strong scenario, implying a reduction by more than 70% of the government's potential tax revenue.

The pressure for more public spending has increased with the pandemic. At the start of the quarantine, Nicolás Maduro's administration announced a series of measures to cushion the quarantine's impact on households and the resulting blow to the economy. Additionally, household income has assumedly dropped due to reduced economic activity, so stronger pressure can be expected for spending, especially on transfers and/or food.

The fiscal situation is weakening even more with the crisis. The combination of less tax revenue and more pressure on spending will further weaken the fiscal situation. Venezuela lacks a source of external financing, and local banks are in no position to provide funds at the scale they are needed. In previous years, the Maduro administration has financed the fiscal deficit by issuing money. This has led to a hyperinflationary process, which by standard definitions is still occurring.

76 - As previously analyzed, the drop in oil production began before the imposition of sanctions by the international community.

The drop in available foreign exchange and tax revenue brings heightened risks. To compound this, the shortage of foreign exchange will circumscribe the government's ability to import goods, especially food and fuel, which could increase the constraints on economic activity and limit the scope and content of the CLAP boxes (CLAP, as has already been described, is the main social program in operation in the country). The government recently announced a multiple sale scheme for gasoline that was mostly imported from Iran[77]. The scheme lends itself to arbitrage, since homeland card holders can buy gasoline at controlled prices while in other service stations the price was announced at US $0.50. In addition to the difficulties of financing imports of consumer goods, the low price of oil places Venezuelan oil production at the lower limits of profitability and, in some scenarios, in the red. This could step up disinvestment in the oil sector, reducing current production and affecting the likelihood of the sector's recovery in the medium term.

3.2. Impact on the Population's Quality of Life

Given the country's situation, the COVID-19 pandemic and the economic crisis deriving from this pandemic are expected to substantially impact the population's quality of life.

Household vulnerability has increased. According to information compiled by the World Food Programme, prior to the pandemic 32% of households had some level of food insecurity, but now some 59% of households report having insufficient income for buying food and six out of every ten families have spent their savings to this end. Moreover, according to media reports the school lunch program is quite significant, but with schools closed on account of the pandemic this assistance is extremely limited[78].

If we compound this pre-quarantine situation with the impossibility of generating income and the state's inability to provide money for buying food, the situation of families is desperate. Household spending was already prioritizing food purchases, and since most people in the labor market are self-employed, they are the most affected by the impossibility of bringing in money due to the quarantine.

The scale of remittances is insufficient to fulfill their role of consumption stabilizer. According to Robles (2020), 9% of households receive remittances in Venezuela, with the wealthiest households receiving a larger share (15%) than the poorest ones (2%). In terms of household income, remittances account for around 1.5% of income, less than the averages for the region's countries with high levels of migration.

Remittances are expected to dwindle due to the crisis in the region's countries. Remittances are typically used by receiving families for buying food and basic goods. According to estimates by Abuelafia (2020), remittances from Colombia could be expected to fall off by around 30% due to this country's economic crisis.

The health system is not prepared to combat the pandemic. The pandemic could be expected to have a strong impact on the population due to the inoperable health system and lack of resources for testing and caring for infected patients. As demonstrated by the resurgence and expansion of previously eradicated infectious diseases, the system is incapable of combating this type of health problem. Added to this is the shortage of resources for testing and caring for sick patients. As described in the preceding section, the hospital infrastructure is decimated, lacking basic resources such as water, face masks, gloves, and alcohol[79].

77 - See https://prodavinci.com/anuncian-aumento-de-la-gasolina-a-050-dolares-por-litro-en-200-estaciones-y-esquema-de-subsidios/.

78 - See https://www.nytimes.com/2019/11/30/world/americas/venezuela-students-hunger.html.

79 - See the link https://presidenciave.com/coronavirus/.

Migration could generate new risks. There is no clear answer as to what the impact of the pandemic crisis could be on short- and medium-term migration flows. On the one hand, according to Abuelafia (2020) the condition of migrants in host countries is expected to deteriorate due to the impact of the crisis in those countries, which would lead to substantial job and income loss and add to incentives to return to the country of origin. According to estimates by Abuelafia (2020), some 330,000 Venezuelan migrants currently living in Colombia could return to Venezuela due to the crisis in that country. According to data reported by Colombia's Migration Office, as of August 20, around 95,000 Venezuelans had returned to their country from Colombia, mainly through the department of Norte de Santander[80]. This would pose an epidemiological risk for the host countries, since the movement of such a large number of people during the pandemic could turn them into infection vectors, as well as for Venezuela, which would need to care for this population and try to ensure their testing and treatment. On the other hand, as has already been mentioned, Venezuelan living conditions are not expected to improve in the short term, so the incentives for emigrating to the region, at least for the moment, appear to be the same or could even intensify with the crisis. At the same time, the situation has led to intensified border controls among both transit and host countries. This could generate smuggling and human trafficking networks to facilitate irregular crossings.

4. A LOOK TO THE FUTURE: SHORT- AND MEDIUM-TERM ACTIONS FOR ADDRESSING THE EMERGENCY AND RESTARTING GROWTH IN VENEZUELA

This section identifies the key interventions aimed at addressing the crisis as well as redirecting the country on the path of sustained and inclusive economic growth. The proposed interventions are the result of work carried out in close coordination with the representatives of the Interim Government and in collaboration with other international organizations. The actions include specific interventions to improve the income and nutrition of the population, access to health and education, and also the adoption of reforms that allow the return of private investment and the revitalization of the economy. The estimates of the costs associated with the interventions are subject to great uncertainty and are included in an indicative manner, without implications on the source of financing.

An orderly transition in Venezuela would make it possible to take the necessary measures to forcefully tackle the identified challenges. It would permit improvement of the population's quality of life and recovery of the economy after years of mismanagement and inaction. Given the magnitude of the challenges, however, the sequence of interventions needs to be planned to first attack the emergency and restore the institutional framework needed for later, after the country has been stabilized, when headway can be made on reforms and consolidation of the population's improved quality of life.

80 - See the link https://www.migracioncolombia.gov.co/noticias/para-finales-del-mes-de-mayo-el-3-del-total-de-venezolanos-que-se-encontraban-en-colombia-al-comienzo-de-la-pandemia-habia-regresado-a-su-pais-y-un-2-mas-estaria-a-la-espera-de-poder-hacerlo

The proposed interventions presuppose the accompaniment of a broad-scale macroeconomic stabilization program. The feasibility of implementing the proposed measures hinges largely on having a macroeconomic stabilization program, prepared by the Venezuelan government with the support of the international community, that can introduce the necessary reforms to stabilize the economy and provide a framework for the country's reconstruction[81].

SHORT- AND MEDIUM-TERM INTERVENTIONS

The IDB has advanced on the conceptualization, design, and costing or short- and medium-term interventions aimed at addressing the population's urgent needs, restoring basic services, and rechanneling the country on the path to sustainable and inclusive growth. This section includes a summary of the proposed actions within each of the sectors, specifying the activities to be carried out in a preliminary phase to address the emergency in each sector and then transitioning to a medium-term approach that could serve as a foundation for Venezuela's long-term recovery. The specifics of the proposed interventions can be found in the appendix to this document. It is important to re-emphasize that the estimated costs of these interventions are highly uncertain, so they are subject to change and do not assume any explicit sources of financing.

Addressing the Population's Urgent Needs

Given the social situation, the priority is an intervention that can ensure income and access to food for the population, especially those most vulnerable. Additionally, the population's minimum health conditions should be restored, and actions are needed in the educational sector to mitigate the impact of the crisis on future human capital.

Income and Support for Consumption

The pressing living situation of Venezuelan households makes interventions necessary to help them access food and basic necessities. Households are allocating almost all their income to buying food, and it is not enough to meet their needs. The child malnutrition rate is the highest in the region, and a high percentage of adults have not been able to obtain the money needed to buy food.

First, a national program of unconditional transfers is suggested, with quasi-universal coverage. The goal of this intervention is to cover the most number of people in the shortest possible time, so we propose taking advantage of the Venezuelan public's high level of bankarization and making transfers to bank accounts whose holders are women over the age of 18. This would make it possible to quickly reach a greater number of beneficiaries[82]. At the same time, campaigns would be launched to extend the coverage to potential beneficiaries who are not bankarized. One of the features of the program, which are explained in greater detail in the appendix, is that the benefit amounts would be adjusted as the macroeconomic situation evolves. Food would be directly delivered in specific geographical areas where there are insufficient markets to provide food to the population. The school lunch system would be strengthened, and there would be specific interventions for small farmers.

81 - Some of the components of this program are contemplated within the proposed interventions, while others go beyond the scope of this paper. Among the short-term measures can be found the following: i) measures for unifying the exchange rate with a framework in line with the monetary policy instruments to be applied; ii) elimination of the monetary financing of the deficit in order to reduce inflation; iii) restoration of market mechanisms and reduction of existing distortions such as price and dividend control, import restrictions, etc.; iv) rationalization and gradual removal of public service subsidies; and v) stimulation of oil sector investment through legal, regulatory and contractual reforms.

82 - According to IDB estimates, 95% of the families have one women 18 years or older, and approximately 70-75% of these had a bank account in 2018. The gender focus is justified by the literature on conditioned monetary transfers, which shows that women prioritize spending on food and children.

The challenges of implementing this first stage are linked to access to bank databases and the inclusion of nonbankarized individuals and ineligible households. For implementation of the program, access would be needed to the database of the Office of the Superintendent of Banking Institutions (SUDEBAN) to set up the initial register of beneficiaries. A second challenge is the inclusion of non-bankarized individuals and vulnerable households without eligible women. The bankarization rate of the most vulnerable quintiles is around 85%, so strategies to actively search for new beneficiaries are planned. These would include bankarization days, community mechanisms to locate this population, and online application mechanisms, as well as alternative non-banking payment mechanisms and ways to process new additions to the register.

In the medium term, efforts would be expected to focus on mitigating poverty and supporting consumption among the most vulnerable population[83]. This would be done through an initially unconditioned Program of Focalized Transfers (PFT) (with progressive transition to conditions that would reflect social policy priorities). Transfers under this program would be made to households. Transfer amounts would depend on the structure of the household and would be based on the poverty or extreme poverty gap, considering fiscal constraints as well. The target population would be households trapped in structural poverty. The strategy would involve setting up a focalization mechanism.

The main operative challenge in the second stage is access to household information and implementation of the beneficiary selection system. The creation of this system requires the design and use of social fact sheets to capture household information, possibly through a census sweep. The fact that there are unregistered children poses a hurdle, however. Because of the pandemic, an online application system is needed, but there is still the challenge of verifying household applications.

The estimated cost of the quasi-universal transfer program and transfers in kind for the first year would be US $2.8 billion. For the second year, the total amount would be US $2.9 billion, where the focalized transfers would account for more than 50% of total expenditure. For the third year, the cost has been estimated at US $2.3 billion.

Health

The deteriorated health sector is impacting the country's basic health indicators. Malaria and tuberculosis cases have been increasing in recent years and maternal mortality is at 1960 levels. The hospital infrastructure has collapsed, and the impact of the COVID-19 pandemic highlights the sector's situation even more. The public health system is under heavy pressure during this period and it lacks the basic inputs for protecting health professionals and sufficient positions for caring for patients.

Health sector interventions planned for the short term would focus during the emergency stage on restoring the provision of priority interventions and treatment of acute diseases, restoring critical hospital services and equipment, and containing and mitigating the impact of the COVID-19 pandemic. The activities would include, in addition to buying and distributing medicines and medical equipment to restore basic health services for the population, supplying personal protection equipment and pandemic monitoring and patient care capacity. Activities would also be aimed at improving health programs for non-infectious diseases, expanding vaccination programs, and restoring the capacity of certain hospitals.

The primary challenge in this first stage is the logistics for both purchase and distribution of inputs to the prioritized health establishments. Given the deteriorated infrastructure, work will be needed on strengthening the cold chains throughout the country.

83 - Progress from the first stage to the second would be signaled by economic stabilization, implementation of a focalization mechanism, and a regular supply of products nationwide.

In the second stage, the foundations for restoring a functional basic health system and making headway on establishing universal health coverage would be consolidated through interventions and actions geared to the following: i) expanding the provision of essential health interventions beyond acute, vitally urgent situations; ii) restoring the full operating capacity of prioritized public hospitals and primary health care centers; iii) building human resource capacity; and iv) planning the necessary reforms for financing and restructuring the health services system towards providing universal health coverage[84].

The primary challenge in this phase is the institutional capacity to carry through with contracting for the investment in infrastructure and equipment and the availability of specialized contractors who can adequately participate in the bidding, taking into account the extensive geographical coverage involved. Another aspect that poses a problem is the lack of information on the diaspora of health professionals and the uncertainty as the actual ability to recover these professionals in prioritized specialized areas. In addition, wage and incentive policies are subject to budget constraints and would require discussion and consensus with other sectors.

The fiscal cost of the proposed interventions for the first year would be US $1.9 billion, excluding specific actions for the COVID-19 pandemic, which would cost approximately US $170 million. The amounts are similar for the following years.

Education

School attendance has declined considerably in recent years, especially in the first and last years of schooling, impacting the country's potential growth in the medium term. The school system served as a social protection tool since it also provided meal plan coverage. The consequences of the COVID-19 crisis and prolonged school closings will be the corrosion of already low learning levels, high dropout rates, and poor promotion rates, as well as nutrition levels with the limiting of meal distribution in schools.

The challenge of maintaining schooling during the pandemic is enormous, particularly in an atmosphere where limited access to digital media and widespread lack of resources makes distance education extremely difficult, especially for public school students. This could push the already declining school enrollment rate to a new low in post-pandemic Venezuela. The recent experience of other countries in the region that lack the conditions to ensure educational continuity through digital means shows the importance of developing multi-channel educational strategies such as using radio, TV, and distributable printed materials to reach most of the population (Alvarez et al. 2020). Ways need to be found to maintain the scope of school cafeterias, possibly including distribution of basic foods to the households of the most vulnerable students to replace the school cafeteria service[85].

84 - The transition to the second phase would require both recovery and organization of the service offer - infrastructure and health human resources (HHR) - and enactment of a health law establishing the guidelines for the sector's reform.

85 - A general protocol for the distribution of foods in public schools due to the suspension of classes as a result of the national COVID-19 emergency can be found here: https://www.mep.go.cr/sites/default/files/blog/ajduntos/protocolo-general-distribucion-alimentos-centros-educativos-publicos-suspension-lecciones-raiz-emerg.pdf

When classes can be resumed, the proposed interventions are aimed at eliminating access barriers - due to the crisis - for students and teachers and improving the quality of educational services to ensure students build the skills and capacities needed for their individual development and incorporation into the productive apparatus. To achieve this, short-term actions would seek to ameliorate the emergency arising from the lack of food and basic learning materials in prioritized municipalities and would include distributing school kits that would guarantee access to the school and the minimum conditions for learning[86]. With regard to quality, actions would focus on implementing a program of reading, writing, and mathematics and remedial and reintegration programs in the educational system for students outside the system or with major educational lags, and collecting relevant data for decision-making.

During this second, medium-term period (from two to five years), the foundations would be consolidated for restoring educational quality and efficiency through interventions and actions aimed at the following: i) designing and implementing a school infrastructure recovery plan; ii) revising the early childhood development curricula offer for children from the ages of zero to five and improving children's services; iii) improving the quality of learning at all educational levels through a plan for competency-based curriculum reform; iv) strengthening initial and in-service teacher training and reforming the teaching profession; and v) implementing an educational management and information system such that information on the system is available for reforming the school financing law to ensure equitable distribution of funds[87].

The challenges in this second stage revolve around the need to reach a consensus in the educational community for putting together a plan for reforming curricula as well as the teaching profession. Reform topics must be defined in the first two years to keep certain temporary measures from becoming permanent. Data on learning measurement and school infrastructure are also crucial for decision-making and especially for focalizing of access policies.

Restoring Access to Basic Services

Deteriorating infrastructure problems will require long-term actions and substantial amounts of money, but minimum electricity, water, and transportation services must be ensured so that citizens can prepare meals and get to work and school, as well as other things. Once basic services have been provided to the population, medium-term interventions are proposed to improve their quality and permit the country's economic growth.

Electricity

Electric power outages directly impact people's quality of life but also the country's competitiveness and growth. Venezuelan companies report that power outages represent an important part of their sales (12% for an average firm) and some 50% of companies have had to buy their own generators to solve the problems of the national electrical power grid.

86 - Actions would first focus on 80 prioritized municipalities, concentrating meal and materials programs first on public schools located in areas with the highest poverty rates, so that 30% of the public school students would be covered (or another criterion to be defined by the government).

87 - The milestones for transitioning from the first to the second stage are related to the availability of data for implementing medium- and long-term reforms, particularly data on teachers, learning levels, and school infrastructure.

First-year interventions would focus on restoring thermal generation capacity and critical backup generation, paying special attention to the Zulia region, where the power supply has deteriorated the most. There would also be interventions to renovate the distribution and transmission grid and recover the national dispatch center. Efforts would include technical auditing of the thermal and hydroelectric plants and main high-voltage substations, purchasing and installing replacement parts and equipment for repairing critical assets, diagnosing the infrastructure for supplying liquid fuels and natural gas for generation, preparing a fuel supply plan, and preparing plans for reinforcing the infrastructure and building the institutional capacity of the ministry and CORPOLEC, the national dispatch center being a core part of the system. Given the scale of the interventions, we propose setting up a project manager to support their implementation and a financing fund to manage the funds earmarked for the sector from different sources.

In the medium term, interventions would aim at improving the institutional framework and the system's sustainability. Actions aimed at ensuring sustainable medium- and long-term service would include the following: i) building institutional and management capacity of the governing entities; ii) restructuring the electricity sector to permit private sector participation, promote competition, reduce service costs, and improve sector efficiency; iii) creating planning, regulatory, and supervisory bodies for the sector; iv) recovering system reliability and reinforcing existing infrastructure; v) increasing energy efficiency, including a plan to cut down on sector losses to reduce the needs of current and future generations; vi) improving service quality; and vii) starting a gradual rate transition that reflects efficient service provision costs.

Given the relevance of the sector and its degree of exposure, communications and expectations should be carefully managed, reporting openly on the condition of the infrastructure and short- and medium-term expectations, stating short-term electricity supply goals clearly, informing the public of specific goals, and instituting transparent governance for implementing the recovery plan.

The estimated cost for the 5-year period is approximately US $7.1 billion, including activities for improving generation, transmission, and distribution. The minimum funds required for the first year would be US $217 million[88].

Water

The water supply service has deteriorated in recent years. Only 25% of Venezuelan households receive water continuously every day, and the quality of the water is extremely poor. Compounding this are problems of infrastructure, shortages of the necessary treatment chemicals, and lack of wastewater treatment.

The goal of emergency water interventions is to ensure the supply of water to hospitals and other strategic facilities, aiming at a supply of 50 liters of water per day per person and helping the country's water companies to restructure. Specifically, the expected emergency activities in this sector would include the following: i) implementing an emergency support system for water service operators; ii) providing emergency water supply in key facilities and installing water distribution points in critical areas and hospitals by restoring emergency wells; iii) ensuring a minimum supply of 50 liters of water per capita per day; and iv) carrying out detailed infrastructure diagnostics and developing planning tools for the sector.

88 - This is the minimum that should be invested in the first year, but this could be increased to US $1 billion if funding becomes available.

The goal in this second stage is to ensure a supply of 200 liters per capita per day for an estimated population of 30 million people. The activities to be carried out during this stage would be a continuation of the first year's activities, as well as the following: (i) restoring of critical wastewater treatment infrastructure; and (ii) drafting of watershed management plans for proper use of water resources. Additionally, work would be done on drafting a scheme to manage human resources and formulating a rate schedule that fosters the sector's sustainability.

The minimum cost of the interventions in this sector is estimated at US $675 million for the first year, while for the next four years the estimated total cost would be US $3.8 billion.

Transportation

Venezuela's deteriorated transportation infrastructure affects its competitiveness and potential for recovery as well as the population's quality of life. The country ranks near the bottom on transportation infrastructure quality indicators and places among the last on logistics performance indicators, while the cost of transportation is rising due to security issues. Urban transportation is also in a state of collapse.

Interventions in the transportation sector would focus on recovering its operability and role in the country's production structure. They would include the restoration and maintenance of critical interurban transportation infrastructure, renewal and repair of the cargo and passenger transportation fleet, and recovery of port and airport operability. In addition, given the importance in the emergency of trade with neighboring countries, the idea would be to improve border crossing efficiency. In urban areas, the support of operators would be sought to improve the operational capacity of public transportation systems.

In the medium term, interventions would aim at building institutional capacity, including design of a road safety plan, improvement of the legal framework, including concession laws, and separation of the duties of planning, building, operating, regulating, and maintaining the infrastructure and services.

Generate the institutional framework needed for reconstruction

The corrosion of the country's institutions needs to be addressed with short- and medium-term interventions to restore them, get the market economy working again, and attract investment and trade. This section looks at proposed short- and long-term measures for restoring a market economy and the role of the financial sector, facilitating trade and foreign investment, rebuilding the state's capacity to formulate and implement public policies, and developing a competitive and sustainable oil industry.

Restoring a Market Economy

The public sector has played a dominant role in Venezuela's economy, discouraging private investment and economic growth. Reforms (or a return to earlier institutional structures) are needed in the short term to eliminate excessive or unnecessary controls over business activity and restore a favorable framework for the resurgence of private activity. For example, foreign exchange restrictions and price regulation and control should be eliminated for international trade as well as food and agricultural production and commerce. Labor market rigidities should also be removed, and a regulatory framework should be restored for competition. Schemes should be set up for protecting private investment and the operations of regulatory agencies, the idea being to close down government offices that control economic activity. Moreover, a national competitiveness council needs to be set up and running to facilitate the public-private dialogue, and an agency should be set up for promoting productive development, innovation, and entrepreneurship.

Restoring the Role of the Financial Sector

Venezuela's financial sector plays an extremely limited role in the economy. Private sector credit is minimal; companies use their own funds to finance their investments and the sector's main role is merely transactional. Moreover, the sector lacks the capacity to provide financing on the scale needed for the country's reactivation and requires extensive recapitalization.

The domestic financial sector's functions first need to be reinforced for their role in the anticipated monetary transfer program as well as for their role in trade and investment financing. Reforms should be made to the regulatory framework to restore prudential rules, transparency, and AML/CTF. Specifically, the proposed activities would include the following: i) expanding the payment system so it can fulfill its role in the transfer system, such as enabling simplified account opening and diagnosing its operational and technical capacities; ii) encouraging the financing of international trade, including a scheme for financial entities to overcome limitations due to the sanctions imposed on the country and access international payment systems, in addition to a system of bonds and guarantees for international letters of credit issued by local entities; iii) building institutional capacity and improving coordination between the Venezuelan financial system supervisory bodies; and iv) introducing reforms (or a return to earlier laws) to improve the financial system's operation, among other actions.

Medium-term measures would strengthen each of the reforms indicated as immediate. Strengthening the financial system would require furthering regulatory and institutional measures to improve governance of the financial system. Activities contemplated during this stage would include designing a plan for capitalizing the system, especially public banks; introducing measures for restoring credit by revising regulations; developing a financing plan for SMEs; long-term financing and establishing of a credit risk assessment system; and improving the deposit guarantee system, stock exchange and securities market.

Facilitation of Trade and Investment

The country's reconstruction effort will need a speedy and safe international trade system for bringing in help and inputs to set the recovery process in motion. A trade facilitation scheme would be created in the short term, after which progress could be made on modernizing customs, reinstating trade agreements, and updating regimes designed to attract investment.

In the short term, specifically, a contingency plan should be worked up for the emergency to ensure that imports and donations can enter the country safely and securely. The plan should include issuing regulations for the treatment of imports and donations, drafting a list of eligible goods, and designating points of entry. Specific short-term measures should be taken to facilitate private sector recovery and economic reactivation, such as suspending the current customs regime, requesting unilateral restoration of preferential tariffs with the main trading partners, restoring the investment regime, and supporting the agricultural sector's recovery with measures tailored to this sector.

Medium-term actions would be aimed at facilitating trade, such as modernizing the customs authority, and instituting improvements to reduce trade costs and increase the security of trade operations, such as coordinating border management and developing the one-stop trade shop, among other measures. Also suggested would be the design of investment attraction schemes and modernization of the country's investment regime to provide legal protections for potential investors.

Rebuilding of State Capacity

Implementing the programs and projects would require a transparent and efficient management system along with information to guide decision-making, and a specific office to support the limited institutional capacities the government would have at the beginning. In the short term, the state needs to restore its tax collection capacity and have a framework in place for budgeting and budget execution. Other necessary activities include Finance Ministry capacity-building and reforming of the procurement and public bidding processes.

To implement policies with the urgency required by the emergency and economic recovery, a center of government should be created with capacity for the following: prioritizing of programs that contribute to priority policies; planning and multisectoral coordination of said programs to facilitate and carry them out; monitoring of their implementation with reliable data so that obstacles can be rapidly surmounted; and communicating so that citizens can be informed and their expectations can be managed.

An essential short-term activity would be to strengthen the capacity to generate statistical and managerial data, since this is a basic input for policy and program decision-making. Another necessary short-term issue that needs work would be the management of public enterprises, from the collection of basic data to the protection of their assets and their potential divestment.

Medium-term actions should be considered for deepening the processes started in the first stage, including actions for improving state-owned enterprise management and their regulatory framework. During this period, there should be a steady, gradual reduction of the country's existing subsidies and drafting of a scheme for generating more tax revenue. From the expenditure standpoint, the center of government should continue to be reinforced. Actions should also be taken to strengthen the national statistics system, simplify administration, and create a modern, reliable, and transparent citizen identity system.

Developing a Competitive and Sustainable Extractive Sector

The oil sector will continue to be the economy's main driver for some time, so institutional capacity is going to be needed to attract both knowledge and capital to the sector once again. Institutions would need to be created in the mining sector to organize and take advantage of its potential for contributing to the economy. Obviously, because of the oil industry's collapse (as described in earlier sections) private investment would be needed to start its recovery process. In the short term, the government's role would be to rebuild institutional capacity and create the conditions for stabilizing production and attracting private investment, in addition to providing the domestic market with refined products. Specific activities would include doing a rapid assessment of the sector's infrastructure and an audit of PDVSA's operational and financial aspects, connecting up drilled but still unconnected wells to stabilize production, regularize the supply of oil derivatives to the domestic market, and coordinate better use of the products with the electricity sector. Additionally, the institutional framework should be strengthened through the design and launch of a Venezuelan hydrocarbons agency.

In the medium term, progress should be made on substantial changes to the regulatory framework and key reforms to PDVSA's role in the sector, the company's restructuring should be started, and environmental performance should be improved. Changes should specifically be made to the regulatory framework to attract domestic and international investment in the sector and permit the restructuring of PDVSA as a competitive public enterprise.

Sectoral Policies

In addition to the general policies described in this document, there are some sectors other than oil that would make the economy more dynamic, help create jobs, and bring in foreign exchange. As we have seen in earlier sections, although the oil sector will continue to drive the economy in the medium term, its growth would only permit recovery of what was lost in more than a decade.

Tourism Sector

Given the potential of tourism for the economic development of the country, special attention is paid to the reactivation process of the sector. In the short term, it seeks to activate the international tourist movement as soon as possible, so the relaunch of Isla Margarita is proposed, with a renewed image linked to an experiential sun and beach product, as well as an ecotourism and nature product. Due to the situation generated by COVID-19, the insularity of this destination is an asset when it comes to positioning Isla Margarita as a safe destination and with advantages to control the volume of tourist arrivals, pointing to a low tourist density, without crowds nor massive tourist developments. Reactivating tourist activity will have the advantage of generating employment and the entry of foreign currency, which will complement the resources derived from the oil sector.

Agricultural Sector

In addition to the short-term measures identified for the food and international trade sectors, medium-term investments should prioritize public agricultural assets, including the following: (i) generation of updated agricultural data; (ii) rebuilding and modernization of the rural infrastructure (mainly rural road and irrigation systems); (iii) land restoration, clean up, and deeding through the creation of a multipurpose cadaster; and (iv) reinforcement of agricultural health, including vaccination campaigns and integrated crop management activities.

Synergies

The preparation of a comprehensive recovery strategy for the country, such as the process that led to the results described here, has the advantage that synergies and basic areas of collaboration can be identified for the success of the proposed interventions. Some areas where coordination and synergy of efforts would be essential for the interventions' effectiveness include the following:

System of payments and conditioned transfers. The program of monetary transfers is based on the working hypothesis that Venezuela's payment system is capable of channeling transfers to beneficiaries and that beneficiaries are capable of using the transfers for buying goods. For this to happen, the payment system should function in such a way as to permit massive numbers of transactions.

International trade, transportation, and food availability. Monetary transfers would provide partial relief to households lacking the money for basic necessities. However, given the cutback in imports and scarcity of goods in the domestic market, a trade facilitation plan should be implemented for swift importing of finished goods and inputs to meet the demand generated by the transfers. Additionally, due to the transport fleet's deterioration, a scheme should be worked up for allowing the use of carriers from other countries to provide the necessary logistics and ensure the effectiveness of the trade facilitation measures.

Identity and social protection programs. Many of the initiatives proposed in the social sector for both the short (COVID-19 response) and medium terms would require an identification system for effective and efficient implementation. In particular, differentiated allocations and/or programs requiring follow-up over time would benefit from a robust and reliable identity system.

Hydrocarbons and electricity. Given the country's numerous gas reserves, this fuel could play a crucial role in restoring a reliable power supply by replacing the more polluting liquid fuels. To reduce gas flaring and improve its supply to electrical power plants, an investment of US $4-6 million would be needed for gas collection, processing, and transportation. An essential step towards the sector's reform would be the establishment of a rational price-setting regime for gas as well as liquid fuels.

Challenges and Risks

Scale of the interventions and source of financing. The preliminary estimates of finance needs outstrip the country's capacity to generate its own funds for meeting these expenses. There is also an overriding need to limit monetary financing of the deficit as a way to reduce inflationary pressures. This means that financial support for implementing the measures identified here must come from the international community. Still to be defined is the magnitude of this involvement, given the uncertainty over the country's transition. Added to this is the impact of the COVID-19 pandemic, which has led to additional demands for international aid and potentially reduced the funds available for this type of support. This makes a high degree of coordination imperative between the different stakeholders interested in supporting the country's reconstruction process.

Necessity of maintaining public support during the process. Substantive changes in the quality of life of the population should be sought in the short term while the necessary scaffolding for the country's recovery and rebuilding is put in place. After the specific milestones have been reached in the respective sectors, work would be expected to continue in each. The proposed reforms are not immune to inflicting costs on specific groups or the population in general, and it may take time for the public to perceive improvements in their quality of life from the reforms, so a communication campaign would need to be mounted to explain the difficulties involved and manage public expectations. Public support for the recovery program would also depend on the stabilization program's success and the scale of the social programs for mitigating its negative impacts on the population.

The interventions were proposed in a highly uncertain environment. Although the IDB has been working to generate key information for designing the interventions, the degree of uncertainty over the environment in which they would ultimately be implemented is extremely high, so they could undergo substantial changes in amounts or coverage when being adapted to the reality at that time. The country's situation continues to disintegrate, both economically and socially. Oil production has fallen off substantially in recent months and the extent of the COVID-19 pandemic's impact on the population's quality of life is still uncertain.

The political transition would affect the possibilities of going ahead with the necessary reforms. Venezuela's transition is unquestionably uncertain, and one of the issues that will affect its dynamics in the medium term is the new administration's ability to introduce substantive reforms at the onset. The possibility that the new administration might be a transitional one and that a call for elections would be made within a specific period of time would considerably limit its ability to make reforms, unless they are framed within a national accord where the proposed short-term policies are outlined in advance. It is necessary to pay attention to strengthening the institutions in charge of ensuring the integrity and transparency of electoral acts, as well as implementing actions that allow the broad participation of society in electoral processes, including the national identification system.

The deterioration of institutional capacity and the lack of specialized human capital limits the possibility of effective implementation. The possibility of executing the programs and projects listed here depends on having technical teams capable of carrying out these activities in an efficient and transparent manner. The institutional capacity within the public sector in Venezuela has deteriorated substantially, to which must be added migration of specialized human capital due to the political and economic crisis. For this reason, it is important to work now on the creation of technical cadres and the strengthening of civil society organizations (CSOs) so that they can channel part of the projects.

Sequencing. The order and occasion for carrying out policy reforms and implementing the proposed programs is extremely important. Some reforms, such as a policy to eliminate subsidies, could undermine support for the transition process if they are not implemented in conjunction with a scheme for mitigating their impact on families. It is also important to keep in mind the impact of decisions made at the start of the process on future conditions.

Security. The presence of irregular armed groups in Venezuela poses a significant risk for implementation and supervision of the proposed activities. The security risk would be moderate to high, since these criminal organizations would try to maintain control over the territory, and this would pose a significant risk for implementation.

Environment. Stopping the damage to the environment caused by the lack of risk management and irregular mining activity is an imperative action in the transition and is highly related to the recovery of control over the territory.

Migration. Migration is expected to continue in the medium term. Although living conditions might improve in the short run, family and economic incentives would still make migration a viable option, with its consequent impact on the country's human capital and recovery potential.

5. DIALOGUES ON VENEZUELA

Because of the prevailing situation in Venezuela, we must act together if we are to be ready when conditions permit the involvement of multilateral credit institutions in the country's reconstruction efforts. In 2019 and 2020, IDB engaged in a series of internal dialogues with our Venezuelan interim government counterparts, as well as private sector, civil society, and international community representatives interested in supporting the reconstruction process, with the goal of diagnosing the situation and the nature and scale of interventions needed to address the emergency and rechanneling the country along a growth path in the medium term.

This section includes a summary of IDB's activities along various fronts, the results of which have nurtured both the diagnostic and the proposed interventions outlined in the preceding section.

Meetings with Interim Government Counterparts

The main challenges the Bank has faced for outlining actions for Venezuela's reconstruction are a lack of information for sectoral diagnostics and the restoration of policy dialogue with Venezuelan authorities. Given the complexity of the topics, work meetings were organized with the counterparts assigned by the interim government to agree jointly on the sectoral diagnostic and start identifying potential interventions needed to improve the population's quality of life and reactivate the country's growth.

The following were the thematic areas around which the meetings were organized: social protection, health, basic infrastructure (energy, water and transportation), agricultural sector, production and finance sectors, state reform, fiscal and macroeconomic policy, and extractive industries. Meeting agendas were agreed between the Bank specialists and the Venezuelan government representatives. The dynamics of these meetings consisted generally of a presentation of the sectoral diagnostic by the expert followed by an analysis of potential interventions aimed at solving the identified problems. The main conclusions of these work meetings were used as inputs for conceptualizing and designing the proposed interventions.

Meetings with Cooperant Partners

In view of the fact that many IDB member countries expressed interest in joining efforts to help Venezuela overcome the social and economic crisis, the Bank took advantage of this opportunity to create a platform to help establish and outline areas of cooperation. To this end, as a preliminary approach to the subject the IDB invited the agencies corresponding to its 48 member countries to share the diagnostic of the Venezuelan situation and define common areas of cooperation along the path to recovery[89].

During this event, IDB gave a presentation on the macroeconomic diagnostic and development challenges. The audience was then divided into two parallel sessions to go into greater depth on sectoral social and infrastructure topics, where IDB experts presented the sectoral diagnostics that served to frame the meeting topics. The importance of the session for sharing IDB's information was highlighted during the event, since this information is a public asset and shows the magnitude of the problem, which is of a severity never before seen in the region. The meeting was a preliminary approach to identify who the partners in this challenge would be and to map the status of the situation and identify comparative advantages, knowledge, and experiences that could be replicated during implementation.

In addition to this plenary meeting, the senior Bank management, with the support of Bank specialists, have held meetings with representatives from member countries and the international community to discuss in greater depth the diagnostic, proposed interventions, necessary funds, and potential synergies of interventions aimed at addressing the emergency and the country's reconstruction. These meetings have provided an opportunity for a more detailed analysis of the diagnostic, proposed interventions, and cooperation possibilities.

Meetings with the Private Sector

IDB made an effort to include the local and international private sector in its dissemination of the diagnostics and recovery needs. IDB top executives held meetings with different Venezuelan private sector representatives and economic groups interested in the country's reconstruction. The involvement of these stakeholders is essential for increasing the country's recovery potential.

Meetings with Venezuelan Staff Working in the IDB Group

To create a participatory workspace for exploring and orienting the IDB Group's support for Venezuelan reconstruction, a call was sent out to the Bank's Venezuelan staff members to participate in a series of thematic round tables for hearing, sharing, and contributing reconstruction ideas.

89 - The executive directors and counselors of IDB member countries and IDB Group specialists likewise participated.

Nine sectoral round tables were organized with a participatory methodology so that members could discuss in depth the challenges, propose and debate ideas, and openly contribute to potential solutions. A total of **238** members participated from the entire IDB Group in the headquarters and country offices. The meetings (2 ½ hr each) were structured into four parts, as follows: i) diagnostic of the sector's current situation by the division chief (see sectoral presentations at the following link); ii) participants' comments and questions; iii) exchanging ideas and proposing solutions; and finally iv) sharing the ideas and hearing the reactions of the division chiefs and specialists. In all cases, the division chiefs and sectoral specialists joined the working groups and provided technical advisory in each group's discussion. Each sectoral round table had a report with the proposed actions according to the short-, medium- and long-term phases established in the country plan. The details of all the round tables can be found at the following link.[90,91].

Venezuela Day

The Vice Presidency of Countries conducted "Venezuela Day", the first milestone in the preparation of the Country Strategy. During this work event, the VPC gave a presentation summarizing the macroeconomic and fiscal framework in which the Strategy would be implemented. Afterwards, the VPS sectoral specialists presented the sectoral diagnostic and proposed interventions. Given the country's situation, emphasis was placed on potential synergies between sectors and an analysis of the implementation mechanisms.

Launch of the Challenge: Better Together

The Venezuelan exodus has had a growing social and economic impact on the region's countries, including tensions in urban and social services, labor markets, and community relationships. The host countries, acting with generosity and solidarity, have made a major effort to receive and integrate Venezuelans, but the magnitude of **the problem requires a search for new solutions** solutions that can be contributed by innovators and entrepreneurs the world over to convert the huge challenge of migration to an opportunity for inclusive development. With this vision, the IDB Group, under the leadership of the IDB Lab and in partnership with the United States Agency for International Development (USAID), launched in October 2019 the Better Together initiative: a global challenge that seeks to identify, fund, and scale innovative solutions from anywhere in the world that can support and improve the lives of Venezuelans, both within and outside their country, and their host communities across Latin America and the Caribbean.

This initiative, open to the public, is aimed at entrepreneurs, startups, private companies, civil society organizations or legally registered foundations anywhere in the world that promote innovative and sustainable solutions focusing on people and their relations with the community, access to services (urban or social), improvement of productivity, promotion of entrepreneurship, access to jobs, and financial inclusion solutions for facilitating access to capital or remittances. The awards may be grants, loans, and/or venture capital. Beyond financial support, awardees can qualify for other benefits, including technical assistance, access to support networks and publicity.

90 - The organized round tables covered the topics of education, energy, social protection and health, fiscal management, water and sanitation, transportation, housing and urban development, innovation and citizen services, connectivity, and markets and finance.

91 - Each sectoral round table had a report with the proposed actions according to the short-, medium- and long-term phases established in the country plan. The details of all the round tables can be found at the following link.

As of July 2020, the initiative has received more than 2,000 concept notes under preparation through its online platform, of which close to 600 have been completed and sent for evaluation by a multisectoral team that has included more than 160 evaluators from the entire IDB Group and USAID professionals.

From its launch, the Together Better initiative has actively involved civil society, organizing to date nine activities and informative sessions: two physical meetings (one in Washington DC and another in Panama City) and seven virtual sessions (webinars). The webinars included four sessions providing general information on the Challenge to civil society organizations throughout the region, two sessions specifically for Colombian civil society, with the support of the Colombian Presidential Agency for Social Action and International Cooperation (APC), and one session in Portuguese organized in partnership with USAID Brazil, IDB Brazil, and Fundación Avina.

The Challenge is currently announcing its awards for innovative projects to be implemented in one of the ten focus countries (Argentina, Brazil, Chile, Colombia, Ecuador, Guyana, Panama, Peru, Trinidad and Tobago, and Venezuela) (*with USAID funds only). Additionally, and due to the huge volume and quality of the proposals it has received, the Better Together initiative has sparked the interest of outside partners and donors hoping to leverage additional funding, such as Global Affairs Canada, the Colombian Presidential Agency for Social Action and International Cooperation (APC), and CITGO's Simon Bolivar Foundation, as well as other kinds of support from the 27 initial Challenge partners.

Dialogue Support through Technical Cooperation and Analytical Work

In the framework of its efforts to conceptualize and design the interventions in Venezuela, IDB has earmarked technical cooperation grants to make headway in this process[92]. The main products financed with these and administrative resources include the following:

i. *Living Conditions Survey*. In 2019, IDB increased its support for the Living Conditions Survey to reach almost 10,000 subnationally representative households. This survey collects essential socioeconomic and demographic data for designing interventions, including for the first time detailed information on household spending and the country's migratory process.

ii. *Enterprise Survey*. In collaboration with business associations and internationally prestigious research centers, IDB has financed data collection on companies of different sizes operating in Venezuela. This information, comparable with other regionally available surveys, includes information on obstacles to their development, financing sources, degree of innovation, and business management practices. This gives a diagnostic of the main problems facing local companies and provides key information on actions that should be prioritized in the medium term.

iii. *COVID-19 Observatory*. In order to have a knowledge of the incidence and prevalence of COVID-19 in the country, an epidemiological observatory has been funded since March 16 that has collected information on the number of reported cases -cases confirmed with PCR and suspected cases- , allowing to know the epidemiological evolution of the disease and make projections of estimates. Likewise, information has been collected on the sector's response capacity to the disease (ICU beds and available respirators, percentage of ICU occupancy, availability of protection elements for health personnel, etc.)

92 - See the link https://www.iadb.org/en/projects-search?query%5Bcountry%5D=VE&query%5Bsector%5D=&query%5Bstatus%5D=Implementation&query%5Bquery%5D=

iv. *Sister Companies Initiative*. Restoration of the country's water and sanitation services is a task that, beyond financial requirements, has a huge component of specific knowledge for both restoration of the water production and distribution systems and restoration of the management capacity of service providers. IDB has structure a network of sister companies to bring the region's water operators together with individual companies in Venezuela to provide support in the sector's recovery.

6. FINAL CONSIDERATIONS

Venezuela is in the midst of a perfect storm. The country's institutional and economic crisis has already caused its GDP to fall by 86% since the start of the crisis in the first quarter of 2020. Compounding this is the impact of the COVID-19 pandemic. The number of infections has risen steadily in the country, and the impact on economic activity and the population's living conditions is expected to be considerable. The country's economy is expected to shrink from 15% to 30% this year.

The economic crisis is matched by a deterioration in the population's living conditions. Malnutrition rates among children under the age of five are among the highest in the region, and households lack enough money to buy food. Health indicators have retrogressed by more than 40 years and more than five million Venezuelans have decided to emigrate, taking with them a pool of human capital that would be essential for the country's reconstruction.

The IDB Group has been working closely with the interim government [check how they should be called] to conceptualize, design, and cost the necessary interventions for addressing the humanitarian emergency ravaging the country and for making the investments needed to get the country back on the path to inclusive and sustained growth. As part of this effort, numerous working meetings were held along with meetings with potential cooperating partners and NGO and private sector representatives interested in supporting the reconstruction process.

Rebuilding Venezuela is going to be hard work and it will take a long time. The financing needs for the first years exceed the capacities of individual institutions, which requires coordination between all cooperating partners interested in this process. Likewise, the recovery of the country will take more than a decade, so a long-term commitment to the recovery of the country is essential for this.

The country's reconstruction process is also an opportunity for Venezuela to take a transformational leap to a modern and sustainable growth model. It is an opportunity for Venezuela to not only recover its lost wellbeing but also adapt its growth model to a future global environment different from the one that enabled Venezuela to become one of the region's most developed countries.

The IDB Group is ready to work with the Venezuelan people on the country's reconstruction whenever the institutional and political situation allows it to do so.

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APPENDIX

Income and Food: Transfers' Program

The main features of the unconditioned program of transfers are as follows:

Coverage. Bank transfers to accounts whose holders are women over the age of 18, without a specific pay scheme.

Amount:

- The benefit amounts would be adjusted as the macroeconomic situation evolves.
- A technical committee would be set up to define and update the transfer amount and frequency, based on the evolution of fiscal variables and inflation.
- The proposed transfer of US $5 weekly for women over the age of 18 would equal approximately US $30 per month per household, which almost covers 20% of the cost of a basic consumer basket for a family of four.
- The real value of the universal transfers would be reduced to progressively lose importance as other sources of income increase.

Additional activities to extend coverage:

- **Direct food delivery in specific geographical areas where there are not enough markets to provide food to the population.** This program would cover some 60 vulnerable communities, where 12% of the population lives, that historically suffer from a limited supply of affordable basic items and poor capillary penetration of bank accounts and access to means of electronic payment. Contemplated in the analysis of alternatives is the possibility of a first stage of mass delivery of food to the entire population, given the gravity of the country's food situation. This option was discarded, however, due to the pandemic and questions of efficiency, since public gatherings could become a focus of contagion.
- **School cafeterias.** In addition to monetary transfers and food deliveries, the school meal scheme would be reinforced to provide macro- and micronutrients primarily to poor schools in the country's urban areas.
- **Direct subsidies to small agricultural producers.** Efforts need to be directed at helping small farmers in order to increase food availability and access by restoring national production. A temporary direct subsidy for purchasing inputs and basic technologies is proposed to this end. This mechanism would work by giving out vouchers or bonds that can be directly exchanged with suppliers so that market activity is maintained[93]. These measures should be accompanied by technical assistance and encouragement of associations for fomenting productivity and marketing. These measures should also take into consideration the impacts of climate change on the suitability of the land for specific crops and promote nutrition-sensitive agriculture[94].

For focalized transfers, the main characteristics would be as follows:

Target population. Households living in structural poverty.

Amount. Transfer amounts would depend on the structure of the household and would be based on the value of the poverty or extreme poverty gap, depending on fiscal constraints.

93 - This mechanism has the advantage that it: i) permits rapid reactivation of the productive system; ii) integrates suppliers of inputs and technologies and does not lead to market distortions; iii) empowers farmers to decide on the inputs and technologies needed and the appropriate timing in accordance with the crop cycle; and iv) generates conditions for a gradual weaning of rural families from dependence on cash transfers in the long term.

94 - Home gardens and identification of biofortified crops, for the dual purpose of restoring production and improving nutrition.

Focalization mechanism. Included in the focalization would be the establishment of geographical quotas (with the size of the roll based on the incidence of poverty in each region) and an individual focalization mechanism (proxy means test with deep learning). Exclusion criteria would also be established by cross-referencing information against administrative databases.

Transition milestones. Actions needed for implementing a program of focalized transfers would start in the second semester of the first year and be consolidated as of the second year.

- **Focalization mechanism.** Implementation of a focalization mechanism would be needed to direct the support to the households most in need. The mechanism should include generation of household information.
- **Economic stabilization.** This would enable the frequency of payments to diminish.
- **Product supply.** To be able to dismantle the transfers in kind, the supply of products would need to stabilize, thereby making it possible to discontinue the food supply support.

Preliminary activities.

- Drafting of a supply plan.
- Development of operational regulations for the program of transfers and the procedures for making the transfer payments to beneficiaries through the national financial system.
- Identification of appropriate options to digital payments for non-bankarized beneficiaries.
- Evaluation of the payment system's capacity to process the transactions originated by the transfers, for both payment processors and the BCV's electronic clearinghouse.

Health

The specific short-term activities would include the following:

COVID-19 containment and impact mitigation. The interventions would focus on: i) infection prevention and control through ensured availability of personal protection equipment, disinfectants, access to water, and communication campaigns; ii) supervisory and laboratory capacity-building to ensure coronavirus testing; and iii) patient management, the goal being to provide oxygen and monitoring equipment and the investment required to increase the number of intensive care units fivefold.

Restoration of the supply of medicines, basic inputs, and vaccines at both the primary level and in hospitals and primary health care centers. Based on preliminary needs assessments, different mechanisms would be used to purchase and distribute individual medicines as well as the packages or "pre-packed" kits of different international agencies, which include medicines, inputs, medical devices, and guidelines for managing different health needs in emergency situations. Each kit is designed for use with a specific care level (community, ambulatory, basic hospital, or specialized care) and a specific number of people.

Reproductive, maternal and newborn health. The number of annual births is estimated at 600,000, most of which occur in hospitals where the lack of inputs for both prenatal care and care during and after childbirth has factored heavily in the skyrocketing rate of maternal and neonatal mortality. Additionally, at the community level, contraceptives and treatments for sexually transmitted diseases need to be made available. To address these needs, the Inter-Agency Reproductive Health Kits (IARHKs) provided by the UNFPA would be purchased and distributed.

Emergency and malaria care. The health system's shortfalls have kept it from properly attending life-threatening medical emergencies. To ameliorate this situation, 255 Interagency Emergency Health Kits (IEHK2017) will be purchased and distributed to 66 prioritized hospitals to cover life-threatening emergencies (analgesia; infections;, acute cardiovascular, endocrine, neurological, respiratory, and electrolyte disorders; and HIV prophylaxis). For treating malaria, in particular, an IEHK2017 malaria module will be purchased along with additional antimalarial medicines available through IDA International and other UN agencies as well as the PAHO revolving fund.

Immunization (vaccines). The following is proposed in this area: i) investment and logistics support for implementing a measles and diphtheria containment campaign to reach 22 million people; and ii) support for reinstatement of the Expanded Immunization Program (PAI) for vaccinating 600,000 children during the first year[95]. This would also entail ensuring an adequate cold chain through the purchase of refrigerators and backup generators for hospitals and health centers.

Acute malnutrition care. Ready-to-use Therapeutic Food (RUTF), used for both outpatient and hospital rehabilitation treatment, is available to manage uncomplicated severe acute malnutrition in children from 6 to 59 months of age. For children over the age of six months, Ready-to-Use Supplementary Food (RUSF) is available to prevent and treat moderate acute malnutrition. At present there is no updated national representative data on the nutritional status of Venezuela, so while this is being updated, RUTF will be provided and the need for RUSF will be assessed. Both are provided by UNICEF

Health care for common chronic diseases. As with emergency care, the general shortage of medicines in the system prevents chronically ill persons from treating and controlling their pathologies. Given the prevalence of cardiovascular disease[96], diabetes[97], and asthma/COPD[98], these will be covered by direct purchase through the PAHO/WHO Strategic Fund of the medicines included in the Venezuelan care protocols. Furthermore, 600 Non-Communicable Disease Kits (NCDKs) will be purchased[99].

Restoration of critical services in prioritized hospitals and primary care centers. Five types of interventions would be made to ensure the operation of health establishments: i) investments to assure the supply of water and electricity through the operational startup of 65 [check data with WSA] existing wells at the centers themselves and the purchase of 24 high-caliber generators for the prioritized hospitals, along with additional work to guarantee the availability and quality of these basic services; ii) investment in infrastructure and equipment for 20 prioritized hospitals and their health networks (type IV hospitals); iii) equipment updates in the 391 urban outpatient clinics (10 policlinics, 37 type III outpatient clinics, and 344 type II outpatient clinics); iv) provision of basic equipment for approximately four thousand primary care facilities with supplementary IEHKs; and v) the launching of mobile teams for the repair and maintenance of both medical and non-medical equipment.

95 - This includes 13-valent pneumococcus, rotavirus (two doses), pentavalent (three doses), MMR (two doses), BCG, hepatitis B, polio (three doses), and DT vaccines.

96 - The medicines to be purchased include lisinopril, losartan, HCT, amlodipine, carvedilol and spironolactone.

97 - The medicines to be purchased include NPH insuline and analogs.

98 - The medicines to be purchased include salbutamol.

99 - The purchase will be made through IDA International or another international agency.

The second phase of interventions in the health sector would focus on the following:

Expanding the provision of essential health interventions. Once available supplies and operating health facilities have been stabilized and better information is available on health needs and gaps, support would be given to designing a strategy for determining a portfolio of services and/or their respective costs (similar, for instance, to the package of prioritized health services designed by the Disease Control Priorities (DCP) strategy). To respond to the global challenge of malaria, interventions would be included to interrupt the transmission of the parasite among humans through the diagnosis, treatment, investigation and response (DTI-R) sequence in endemic areas, using the approach of identifying and classifying malaria foci[100]. Focalized vector control activities in endemic areas would complement this approach. In addition, within the context of the COVID-19 pandemic the epidemiological surveillance system should be reinforced and financing provided for the respective vaccination program, particularly among the most vulnerable populations.

Investment in infrastructure and equipment. Interventions would be made in the remaining type-IV hospitals and 40 type-III hospitals with investment in facilities as well as medical and health care equipment. Moreover, equipment updating would continue in urban and rural ambulatory clinics in their respective networks.

Recovery of the health workforce (HHR). Based on the HHR gap study, new hiring and pay policies would be implemented to retain existing HHR and encourage the return of emigrated professionals.

Sector reform. A plan would be implemented to reform the sector, covering such areas as the following: definition of coverage; financing model; payment mechanisms; health human resources; health service provision model for strengthening primary care; governance structures; information systems; accountability; and mechanisms for setting priorities. The end result would be a draft health law for discussion and approval. The proposal would also leverage operational experience in several of these reform areas, including many projects that support the configuration of comprehensive care networks, development of results-based funding mechanisms (SM2015), and knowledge products in the fields of prioritization systems (Red Criteria) and efficient public spending (DIA 2018).

Preliminary actions:

- Reinforce the Ministry of Health team's capacity to prepare action plans for the five prioritized areas and for restoring operability to health facilities, as well as for the respective procurement and distribution required for implementing those plans.
- Development of strategies for the following: i) implementing essential health programs in non-communicable diseases (NCDs) for providing regular, standardized services and medicines for patients with NCDs (high blood pressure and diabetes, initially); ii) restoring the capacity of the extended immunization program to move on from campaigns to regular vaccination; and iii) restoring the epidemiological control and surveillance system.

Education

In the short term, when access to schools is permitted, the following should be expected:

Priority attention. The focus should be on the emergency related to the lack of food and teaching materials in certain prioritized municipalities based on poverty indicators.

100 - These are the recommendations of the Global Technical Strategy for Malaria 2016-2030 of the World Health Organization (WHO) and Pan American Health Organization (PAHO). The traditional approach to malaria has focused primarily on vector (mosquito) control. With this approach, though the incidence of the disease has been significantly reduced in the region it has not been eliminated.

Quality. Implementation of a reading, writing, and mathematics curriculum and remedial and reintegration curricula in the educational system for students outside the system or with major educational lags.

Information generation. Within the areas where information would be generated for policy decisions, progress should be made on the following:

- Implementation of a census of school infrastructure, basic educational materials, basic school services, and equipment;
- Implementation of a national teacher census to capture their profiles, experience, training, and positions; and
- Skill measurement and development using a reading and mathematics baseline for children in the first, third, and sixth grades of primary school and third year of middle school in a sample of students.

Improved management. A diagnostic of educational management and current information systems is needed, along with the design of an improvement plan.

In the medium term, interventions would be planned in the following areas:

School infrastructure. An investment plan would be needed to recover the now deteriorated school infrastructure (including kitchens), focusing on primary schools, and to expand the school infrastructure, prioritizing preschool and secondary schools - the two educational levels where coverage needs to be expanded.

Early childhood. Early childhood development curricula for children from the ages of zero to five need to be revised, and a quality assurance system should be created for childhood services based on the quality and access gap analyses performed at the start of phase II.

Teacher policy. With in-service training, support would be given for the design and implementation of a continuing education plan for teachers, starting with reading and math in the early grades (mentoring, training and professional networking) and focusing on teachers who started teaching without the necessary qualifications. A plan would also be designed for a new teaching profession to attract and train top candidates and promote professionals with the most academic merit. Mechanisms would be included to attract teachers who have emigrated. For initial training, work would be done on a plan to strengthen and improve teacher training institutes and university schools of education.

Skill development. A plan would be designed for a comprehensive curriculum reform for basic and social and emotional skills, citizenship and civic values, and the creation of a new student learning system for the educational system where student competencies can be monitored.

Educational system funding and management. The Venezuelan educational system is highly centralized, as provided by the 2009 Organic Law for Education[101], and there are no budget allocation criteria based on beneficiaries or quality or efficiency indicators. Actions should therefore be supported that lead to a reform of the educational funding system and improve school management, such as implementing an educational management improvement plan that can generate enough information to draft a reform of the school funding law and ensure equitable allocation of resources.

Activities prior to the transition:

- Definition of an operational handbook for priority actions that would face major operational challenges such as school kit distribution and materials and processed food distribution in vulnerable areas.

101 - Rodriguez (2012) documented that ever since the 2009 Organic Law for Education went into effect "a process of re-centralization of the school system's management has been produced, in both the legal bases and the way the system is oriented and directed."

- Design of a skills assessment for collecting information or identifying existing tests or instruments for the identified ages.
- Design of the basis for the reading, writing, and mathematics curriculum.

Electricity Sector

In the short term, headway should be made in the following areas:

Technical diagnostic. Several tasks teams are proposed for undertaking these interventions. They would be responsible for auditing each plant's current status and preparing lists of the equipment and parts needed along with their technical specifications. In addition, as the country's situation permits, they should start inspecting the main high-voltage substations and power lines, prioritizing the Guri station and Malena and San Gerónimo substation switchyards.

Regularization of the fuel supply. To complement renovation of the thermal plant, a diagnosis should be made from day one of the status of the infrastructure for supplying liquid fuels and natural gas for generation. The plan for supplying these fuels would need to be prepared with PDVSA's help and should take into consideration the required volumes, amounts to be imported or produced domestically, facilities for transportation and delivery, and costs. This plan would serve as a basis for prioritizing repairs to the main thermal plants.

Estimating demand. Studies for estimating short- and medium-term demand for electricity are essential for designing and prioritizing specific interventions. Given today's uncertainty as to the current status of domestic demand (by sector and region), it is of essence to start an assessment of the supply and demand balance from day one and prepare very short-term (first six months), short-term (first year), medium term (three years), and long-term (seven years) scenarios. These supply and demand projections would make it possible to evaluate weekly whether the estimated plant recovery is going to be sufficient for meeting the growing demand or if plans should be made to purchase new thermal plants in the short term.

Creation of a project manager position. The considerable funds needed for refitting the sector and the high degree of technical specificity pose various implementation challenges. To overcome them, we propose creating the following: i) a financing fund that would administer all money allocated to the sector's recovery to facilitate the procurement of goods and services; and ii) a project manager that would have a specialized engineering firm to help prepare the technical specifications of the equipment and tools to be procured and prepare purchase orders, etc., and a procurement team exclusively dedicated to the procurement of goods and services, to speed up the paperwork for purchases and contracts.

In the medium term, progress should be made on the sector's structural reform, which would include the following:

- *Vertical disintegration of CORPOELEC.* Generation, transmission, and distribution activities should be separated into autonomous companies, maintaining CORPOELEC as a holding company in the first phase. In this phase the companies created with CORPOELEC assets would be provided with independent management boards and a clear assignment of responsibilities, goals and performance indicators. In a second phase, distribution could be reorganized by dividing the market among several companies whose demand would ensure their financial sustainability. In a third phase, depending on the progress made on regulations and rates, the private sector could be involved in the provision of distribution and generation services.

- *Private sector participation.* Although it may be convenient in the first phase for the state to maintain ownership of existing strategic assets, private investment could speed up the expansion of generation and transmission systems and the recovery of the distribution systems. Private sector participation in the newly created companies could move ahead later.

- *Generation of the competitive market framework.* The new model should permit the participation of many energy generation agents, so a market should be created for short- and long-term contracts as well as daily transactions between generators and distributors.

- *Establishment of the national dispatch center's independence.* The new market's operation would require a modern, autonomous and independent national dispatch center (CND) with strong professional capacity.

- *Creation of a regulatory commission.* An electricity regulatory commission would be needed to set technical rates that ensure the system's sustainability and to define technical regulations that permit the diversification of generation sources, promote efficiency, and encourage private participation.

Progress should also be made on implementing measures to ensure the sectors financial sustainability, such as the following:

- *Design and implementation of a plan for reducing technical and non-technical losses.* A strategy would need to be defined for enabling CORPOELEC to make decisions on investments for recovering the most amount of energy in the shortest possible time. In the short term, then, a plan should be designed for energy loss reduction that takes into consideration aspects such as the most appropriate management scheme, classification of losses, focalization and prioritization of actions by geographical area or user type, estimation of indicative costs of the necessary investments, and quantification of the energy recovery benefits. Implementation of the plan should be one of the top priorities given the benefits of higher revenues and deferment of investments for expanding generation.

- *Rate transition.* A rate schedule that recognizes efficient service provision costs would be essential for the proper operation of companies in the electricity market. There would therefore be an urgent need to start the process of updating and implementing rates that incorporate current and planned investments for the next five years; administrative, operating and maintenance expenses; a rate of return in line with assigned risks; factors that recognize the sector's productivity; indices for updating for inflation; and even a focalized subsidy scheme. Given the current rate schedule, a rate transition period would have to be defined to achieve rates that reflect efficient costs, clearly signaling the dismantling of current subsidies and prioritizing their implementation in industry and commerce and residential users with higher purchasing power.

Water

The short-term activities for this sector would include the following:

Implementation of an emergency support scheme for water operators. Assistance will be given to the operators to cover the costs of the following: (i) local staff; (ii) energy; (iii) imports of water treatment chemicals while efforts are undertaken to restore their domestic production; and (iv) formation of an international task team to provide technical and managerial support for implementing the proposed investment program.

Emergency investments for supplying water to key facilities and installing water distribution points in critical areas. The goal of this would be to ensure a supply of 20 liters of water per capita per day38 to approximately 5 million inhabitants in the country's most critical areas (without access to water networks or with ongoing supply interruptions). The emergency services would be provided through emergency wells and compact treatment plants located strategically along water sources and distribution routes, using key facilities (schools and government buildings) as water distribution points. Priority would also be given to approximately 100 hospitals currently lacking water services, for which emergency wells would be restored.

Investment in the water infrastructure to supply a minimum of 50 liters of water per capita per day. The goal here would be to ensure a supply of 50 liters per capita per day for an estimated population of 25 million people. Actions would include the following: (i) purchasing tools and machinery; (ii) restoring key water storage facilities (dams), pipeline and pumping infrastructure; (iii) restoring water treatment plants; and (iv) restoring secondary water supply networks.

Preparation of detailed infrastructure diagnostics and development of planning tools for the sector. These efforts would be geared to helping design a financial recovery plan for the water services (rate schedules and subsidies) and formulating master water plans for the most populated cities. In addition, support would be provided for modernizing and strengthening the administration and marketing of water services.

The goal of second stage interventions would be to ensure a supply of 200 liters per capita per day for an estimated population of 30 million people. In addition to the actions described for the earlier phase, progress would be made on the following: (i) restoration of the critical infrastructure for wastewater treatment; and (ii) preparation of the watershed management plans for proper use of water resources.

Institutional reforms that should be introduced in the second stage would include the following:

Changing the management of human resources. Changing the service would entail several actions, such as designing a staffing plan with the composition, size and structure of skilled personnel it requires. New technologies should also be considered within the staffing plan. Water companies should implement pay schemes that can attract and retain outstanding employees.

Setting sustainable rates. As water supply services improve, a sustainable rate schedule should be set up. Water services must become more efficient as their rates gradually go up. Operators should start to cover at least part of their operating and maintenance expenses through their rates, the goal being to recover the total cost over the long run. It should be made sure that rates are based on economic reasoning and efficiency, encouraging rational water use, and that they are combined with transparent subsidy mechanisms to ensure affordable access for all inhabitants. To implement these mechanisms, the operators' commercial areas would need to be modernized in such aspects as cadaster, micro-measurement, commercial and management systems, customer claim handling, etc. A key aspect would be user acceptance, for which a communication plan would need to be implemented for raising awareness of use and payment for the service, restoring a culture of payment.

Actions prior to the transition:

- Detailed diagnostics of the sector's main infrastructure;
- Drafting of a recovery plan for the management and staffing of water supply services;
- Preparation of a strategy for procurement and execution of the construction work; and
- Definition of a strategy for setting up a supply chain (with public or private sector suppliers) and importing materials and equipment.

Transportation

The following short-term actions are proposed for the transportation sector:

Improvement of critical infrastructure. The repair and maintenance needs of the country's interurban transportation infrastructure must be identified, prioritizing the main airports and seaports, domestic and foreign trade corridors, border passes, critical points and strategic logistics chains. A timely diagnostic and preparation of engineering designs should be made, followed by contracting and starting of the prioritized work. We also recommend that a transportation information system be created to centralize the data of all affiliated and related entities and operators and provide key input for planning and decision-making. The possibility of using emergency procurement mechanisms to address critical points should be considered.

Improvement of cargo and passenger transportation. A fleet renewal and repair program needs to be implemented that includes finance incentives such as guarantees, fee compensation, and financial sector rediscount mechanisms, among other things. The possibility could be considered of operating temporarily with a cargo fleet from neighboring countries while the country's existing units are restored.

Support for port reactivation and logistics. The minimum required investment for equipment, infrastructure, storage, dredging, etc. would need to be calculated. Agreements should be reached with international port operators to maintain and improve the existing port infrastructure, new equipment should be purchased, and standards should be set for adequate port operation and inspection. In the short term, priority should be given to the country's two main ports: Puerto Cabello and Puerto La Guaira.

Ensured airport operability and safety. An analysis should be made of the operability and safety of the country's main airports, especially the Maiquetía airport, to set proper airport operation and aeronautical standards and determine investment needs for new equipment and maintenance.

Strengthened integration with bordering countries, especially Colombia. Border processes need to become more efficient. Paperwork needs to be simplified and standardized, the physical infrastructure needs to be adapted, and procedures need to be systematized simultaneously by the respective authorities of the two countries converging at the border pass. It would be vitally important to regulate cross-border transportation as a separate modality from international transportation and seek the most benefit for all stakeholders involved in the transportation productive chain.

Ensured operability of public transportation. To ensure its operability, interventions and investment should be defined in the short term in the country's main population centers: Caracas, Valencia, and Maracaibo. Through binational agreements, support should be sought from public subway operators who could bolster the respective ministry by identifying the needs of these cities' subway systems and helping with their operation. In addition, to achieve adequate public mobility, the respective ministry should analyze the restructuring of public transportation using a transit-oriented development (TOD) approach where the subway is the backbone and other modes of public transportation complement it, offering greater coverage and quality[102].

In addition to the measures suggested for short-term interventions, work would be done in the medium term on the following dimensions:

Building institutional capacity. The sector's institutions should be reviewed and adjusted as necessary for the creation or merger of government agencies, clearly identifying their national, state, and municipal competencies and separating the duties of planning, building, operating, regulating, and maintaining infrastructure and services[103]. In addition, policies and strategies should be created to increase the participation of women in transportation and the gender approach should be mainstreamed in transportation planning and operation. Talent recovery is also germane; it generates gains with regard to the implementation of good practices and innovation-associated benefits.

Promotion of non-motorized means of transportation. Non-motorized modes of transport need to be promoted. This fundamental component of the vision of sustainable urban transportation could be encouraged through the development of infrastructure such as sidewalks, exclusive pedestrian walkways, and exclusive bicycle lanes.

Design and implementation of a national road safety plan. An opportunity exists to help the government conceive and design a general strategy that follows international policies and measures for reducing accidents on the main interurban and urban roads.

Legal framework improvements. The legal and regulatory framework needs to be developed (there are port and concessions laws but regulations are currently nonexistent). This should be combined with improved foreign trade procedures (including the creation and consolidation of a single foreign trade window) and improved customs procedures to reduce wait times and increase merchandise transit efficiency, thus contributing to the country's economic recovery.

Restoring a Market Economy

This action line would seek, in the first place, to eliminate excessive or unnecessary regulations of business activity through removal of the following policies:

a) generalized price and profit margin controls;

b) state monopolies or reservations in different economic sectors;

c) obstacles and roadblocks for private investment in different sectors;

d) permits for moving merchandise between states;

e) extreme labor market rigidities[104];

f) production quotas predestined by mandate to the government;

g) constraints on hiring foreign staff; and

h) subsidies or distortionary taxes on companies or sectors and the payroll.

102 - This analysis, which could draw on information provided by cell phone companies and other sources, should include demand studies, transportation route structuring, and payment systems. The analysis should cover the different transportation modes, including suburban trains, informal transportation, and the possibility of partnerships or agreements with transportation network companies (TNCs), and should include business status formalization, taking into account the situation of public transportation providers. A transition scheme will need to be designed for service provision until a long-term scheme is consolidated.

103 - Note on the Venezuelan Transport Sector. IDB, 2013. For example, the Caracas metropolitan region lacks a single transportation authority. Control is exercised by national, state, and municipal transportation authorities.

104 - The unlimited number of worker protections need to be removed. All bans on firing should be eliminated and social security, minimum wage, and other laws should be reformed. The Organic Law for Work and Workers could be revoked and the 1997 Organic Labor Law restored in its stead. This latter is less restrictive and imposes fewer costs on the hiring of workers.

Secondly, the idea would be to *improve the regulatory environment* through the following:

a) simplification of procedures for the production, marketing, and distribution of goods, including elimination of ex ante controls;

b) improvement of institutions and processes for registering, starting up and shutting down companies;

d) encouragement of free competition in the markets for goods, services and productive factors, returning first to the 1992 Competition Law;

d) environmental and social regulations;

e) intellectual property rights and copyrights;

f) a national quality system (with particular reference to food and medicine quality);

g) import and export processes and facilities; and

h) reduction and simplification of paperwork for the operation and functioning of private companies.

From the institutional standpoint, we recommend closing government offices that exercise unnecessary controls over economic activity and creating and launching a national competitiveness council to institutionalize a forum for dialogue between the government and the productive sector and monitor the measures being implemented, as well as an agency to promote productive development, innovation, and entrepreneurship in order to implement policies for the recovery and diversification of private economic activity.

Financial Sector

Short-term actions for restoring the financial sector's role in the Venezuela economy would include the following:

Actions for expanding the payment system. Reforms to expand and strengthen the system of transfers to handle new short-term transaction inflows are needed for the financial sector's role in the transfer system. Actions should include implementing a regulation for simplified account opening, revising the regulations for non-banking payment providers, and analyzing the payment system infrastructure's operational and technological capacity to determine the medium-term actions to be taken. The private sector's participation is also needed to overhaul the existing critical technological infrastructure and expand supply using new technological solutions.

Facilitation of foreign trade and productive financing. From the standpoint of the sector's role as provider of financing for trade and investment, two types of interventions should be prioritized: those for financing imports and exports, and those for channeling remittances. With respect to international payments, the BCV's sanctions must first be resolved so that legal certainty is restored and unsanctioned financial institutions can access the international payment system. A program should be set up to give financial entities and importers access to reserves and enable them to do business abroad. Given the lack of legal certainty, a complementary program of endorsements or re-guarantees should be set up to secure the international letters of credit issued by Venezuelan financial institutions and importers in order to provide confidence and security to trade transactions made by Venezuelan entities. Additionally, support could be given to banks to meet integrity requirements, especially in the fight against money laundering and terrorism financing, to ensure compliance with international requirements and best practice as well as correspondent bank requirements.

Strengthening of the institutional framework. Measures aimed at improving regulation and prudential rules would include coordination of the system. The financial sector's regulatory and oversight framework could benefit from the setting up of a financial system coordinator to execute the framework agenda of regulatory and restructuring actions and analyze and monitor financial stability. This financial coordination council could consist of members from the Ministry of Economy and Finance, the Central Bank, SUDEBAN, and FOGADE.

Restoration of the regulatory and oversight framework. The entire regulatory and oversight framework will need to be overhauled. Priority reforms for the system's functioning will be needed. These could be achieved through the restoration of earlier laws or specific amendments to laws and lower-level rules and regulations. Areas needing action include excessive over-regulation, scattered and occasionally contradictory regulations, and irregular compliance with financial entity oversight. The many taxes, contributions and payments burdening financial institutions also need to be rationalized so that banks can participate freely in the foreign exchange market. As for prudential regulation, a revision is needed of the indicator measurement method and provisions policy - bringing it into line with international standards - so that they serve their function of sounding a preventive alert and provide an objective, reliable, and regularly updated risk reporting system.

Strengthening of financial system regulatory and oversight entities. Measures should include implementing a plan for institutional capacity-building of the Central Bank, SUDEBAN, and other supervisory and regulatory entities. This should include a review of the organizational charts, information technology systems, and staff hiring and training plans.

Strengthening of monetary policy instruments. The Central Bank's monetary policy instruments need to be revised and expanded to improve the financial system's treasury management and permit speedy and stable interbank market transactions, ensuring a stable payment system in a competitive environment where public banks are not given privileged access to funds[106]. The regulation of interest rates, fees, and rates also needs to be revised so that they incentivize lending and reduce the current rate and term mismatch.

Detailed diagnostic of the capital market and banking system's financial situation. These studies and audits would include an analysis of the banking system and systemic entities' equity situation, identifying toxic assets and specifying the sector's restructuring needs. It would also evaluate existing regulations on the capitalization and access to financing of financial institutions when the banks' current equity becomes insufficient to cover credit demand during the recovery and alternative channels for financing and capitalization are needed.

Evaluation of the equity situation and institutional capacity of public banks and other state financial agents. This would involve a detailed audit of the situation of public banks, including an asset valuation and assessment of recapitalization and rehabilitation needs. A public bank restructuring and consolidation plan would then be proposed, taking into account restructuring needs and relocation of public employees. The plan should reinforce viable entities, specifying their functions (development or specialized banking), and center on market areas that private banks are unable to efficiently address, such as MSME financing, financial inclusion, and/or long-term infrastructure and investment credit.

106 - Some recommended measures would include developing a framework for open market transactions (OMT), opening discount windows, strengthening the interbank market (overcoming the shortage of public funds used as security), and reducing the use of the legal reserve as a monetary control instrument. The regulation of interest rates, fees, and rates also needs to be revised so that they can incentivize lending and reduce the current rate and term mismatch.

Actions contemplated for the medium term would include the following:

Recapitalization of the system. A plan should be set up to evaluate funding sources for recapitalizing the financial system, particularly public banks. Financial system recapitalization, whether with private funds or helped along by public funds, would have the additional challenge of finding a profitable purpose for the capital sources - whether in public debt, central bank instruments, or the extension of credit to meet the economy's needs - which could be produced more slowly than expected.

Credit restoration. Actions to this end would include: i) restoring productive credit, which would be a priority in the medium term for restructuring the productive and service sectors. Credit promotion programs should be reviewed in the context of and in tandem with the plans for restructuring public banks; ii) revising the program of mandatory portfolios; iii) setting up access to financing for SMEs. Developing financing schemes under market conditions, including second-floor facilities and guarantees, would be essential for the sector's recovery; iv) assuring long-term infrastructure financing, for which there should be dedicated funding and specific instruments (bonds, insurance, and specialized financing) for financing long-term projects and infrastructure; and v) assessing credit risk, since the country lacks public and private risk assessment systems.

Strengthening the Deposit Guarantee Fund for Financial Institutions (FODADE). The current deposit guarantee system and the BCV's role as lender of last resort should be reevaluated. Part of this reform should be the converting of FOGADE into an autonomous and independent body.

Supporting the development of capital markets. A local public debt market should be created for the benchmarking of terms and returns, building a yield curve, and creating initial references for later development of a private capital market. Stock exchanges should also be permitted to transact public debt to increase the depth, liquidity, and scope of the measures.

Introducing reforms in the insurance sector. A plan should be considered for modernizing the capacity of the Office of the Superintendent of Insurance (SUDEASEG), the administrative body charged with regulating and overseeing the insurance activity. The Insurance Activity Law and its subsequent regulation would need to be updated, reestablishing the concept of insurance contract, updating the regulation of policies and rates, and eliminating the general and standard nature of current products, except in the case of mandatory insurance. The regulations should also be updated with regard to margins, technical reserves, and methods of measuring solvency and equity indicators.

Facilitation of Trade and Investment

Contingency Plan for the Emergency

Goal: Ensure that imports and international donations of emergency goods can enter the country quickly and safely and be distributed efficiently.

Required actions would include the following:

- Issuing regulations for the treatment of imports and donations under a declared state of emergency, using models developed by the UN and the IRC;
- Designating a stakeholder responsible for the design, implementation, and monitoring of the emergency response and coordination of domestic and international stakeholders;

- Preparing a list of eligible goods and emergency items that are subject to special tax-exempt treatment; and
- Designating sea, air, and land entry points, collection centers, and distribution routes, keeping in mind the need to prioritize the populations most in need and ensuring security.

Short-term Policy Measures

Goal: Facilitate private sector recovery and reactivation of the economy.

Required actions would include the following:

- Suspending the current customs regime and replacing it with simple procedures and a fixed tariff rate at a level within the binding WTO commitments undertaken by Venezuela;
- Requesting unilateral restoration of CAN, G3, Mercosur, U.S. and Canada preferential tariffs; and
- Revoking the current (2017) investment regime and restore the 1997 investment promotion regime with revisions such as elimination of the preference for domestic investment.

Goal: Support the recovery of the food and agriculture sector.

Required actions would include the following:

- Identifying, revising and implementing speedy import mechanisms for genetic materials, inputs, and machinery; and
- Identifying phytosanitary and technical agreements and required logistical arrangements.

Trade Facilitation

Goal: Improve trade institutions, take advantage of international treaties, reduce trade frictions, and support efforts to attract investment.

Actions would include the following:

- Strengthening and modernizing the customs authority and the Ministry of Foreign Trade and its agencies (Pro-Venezuela) so that Venezuela can reposition itself in global trade, charge appropriate tariffs, and contribute to the perception of legal certainty in the country;
- Implementing a trade facilitation policy to increase the Venezuelan economy's competitiveness through actions aimed at reducing trade costs and increasing the security of trade transactions, including the following:
  - coordinated border management;
  - development of a one-stop trade shop;
  - authorized economic operator programs;
  - integrated risk management systems;
  - improved port and airport infrastructure; and
  - creation of a national trade facilitation committee;
- Restoring and deepening trade relations through free trade agreements with strategic partners; and
- Reinforcing the technical knowledge of public officials for conducting trade talks.

Investment Attraction

Goal: Increase foreign investment in the country's non-oil sectors. Required actions would include the following:

- Modernizing the country's investment regime to provide legal protections for potential investors;
- Revising, updating and signing new bilateral investment treaties and double taxation agreements;
- Designing a strategy for special economic zones and other regimes to encourage investment, taking into consideration the potential for positive spillovers from FDI; and
- Strengthening the investment attraction agency and developing a sectoral strategy and country brand that communicates the visio of a new Venezuela.

Rebuilding of State Capacity

Specific short-term measures for this would include the following:

Restoring a budget and a public finance management legal framework. The legal framework for public finance management should be restored in the short term under the principles of efficiency, soundness, transparency, responsibility, and fiscal balance, pursuant to Article 311 of the Venezuelan Constitution, by reinstating the 2000 public finance management law (LOAFSP) and eliminating by presidential decree the separate funds created in violation of the Constitution and the LOAFSP to restore the principle of the unity of the treasury. Additionally, a national emergency budget needs to be approved in the National Assembly.

Restoring tax collection capacity. The tax and customs authority (SENIAT), along with its capacity to estimate and design strategies for increasing revenue in the short term, needs to be strengthened.

Moving ahead with the preparation of fiscal statistics. In the short term, the country needs a fiscal situation evaluation that would include the overall central government, PDVSA, IVSS, BANDES, and the most important non-oil public enterprises, in order to obtain a meaningful approximation of the non-financial consolidated public sector's fiscal statistics.

Modernizing procurement and public bidding processes. An evaluation should be made in the short term of the regulatory, institutional, operational, and accountability framework of the procurement and public bidding system.

Improving the management of public companies. A temporary ban should first be imposed on the sale of assets. This should be followed by an inventory of the companies, including their employees, assets, liabilities and financing needs, and measures should be taken to protect the assets and ensure operational continuity of companies that are essential to the provision of public services. A strategy and action plan should be prepared for privatization or other modalities for optimizing the state's presence. The plan should include the process governance model, privatizations, general and specific criteria and strategies, and a communication narrative to spark stronger investor support and interest, with terms for privatization of selected companies and gradual elimination of economically unfeasible companies[107].

107 - The strategy and action plan should include a governance model, strategies, and criteria for privatization, labor participation, stakeholder cooperation, communication narrative, and external auditing of financial statements.

Developing a scheme for managing public sector assets and liabilities. Beyond privatization, an inventory and evaluation are needed of state assets and liabilities and a strategy is needed for evaluating their legal, physical, economic and financial status. Modalities would have to be established for their recovery, disposal, and return, among other possibilities[108]. In addition, the system should permit signaling the state's willingness to reestablish market rules of the game.

Establishing a center of government. The goal is to lay the foundations for the center of government (CoG) in the Venezuelan Presidency to establish a preliminary basis for progressively improving its prioritizing, planning, coordinating and communicating of public policy with the aim of facilitating the implementation of key government priorities (KGPs). The center of government would: (i) prioritize implementation of public programs that contribute to government priorities, coordinate the necessary actions with the tax authorities to ensure their funding, and push for review and reallocation of non-priority programs; (ii) set up compliance mechanisms and multisectoral coordination routines to facilitate and ensure the implementation of programs requiring the intervention of various sectors; (iii) put program monitoring mechanisms in place based on reliable statistics and management data, so that obstacles to the programs' implementation can be detected and corrected; and (iv) set up communication mechanisms to keep the public informed of the prioritized public policies and their progress. Due to the special features of the Venezuelan public administration restructuring process, the center of government will also: (v) establish a program for revising and assigning functions to the ministries and entities responsible for implementing the KGPs[109]; (vi) foster the establishment of a project management office (PMO) to standardize procurement, finance and monitoring for the government's priority projects; (vii) define strategies for controlling strategic assets, abuse of power, and corruption; and (viii) set up a mechanism for managing and coordinating international aid funds.

Addressing statistical institutions and data management. Key short-term actions would include: i) creation of a basic demographic profile (sex and age) in the smallest possible geographical area with available data; ii) a functional revision of the National Institute of Statistics (INE); and iii) generation of a georeferenced territorial information system for infrastructure investment management and planning that combines spatial variables and analyzes diagnostic data using maps, tables and graphs.

Generating a citizen identity system. Key actions would include: (i) audits of identity data systems and databases to close data security and quality gaps; (ii) implementation of protocols for protecting personal data; (iii) diagnostic and strengthening of the organization and operation of the responsible agencies, SAIME and the Civil Registry and Identity Commission; and (iv) a strategy to close the low birth registration gap.

Increasing the transparency of spending and public companies. The principles of economy, efficiency, transparency, competition, and integrity in public procurement should be restored in the emergency legislation, which requires a reform agenda. Reforms to the public procurement framework should facilitate the country's reconstruction for mass purchases and imports of critical supplies such as food and medicine. These reforms should be accompanied by technology that centralizes the different entities' calls for bids, allows for better management and control of the supplier registry (in terms of conflict of interest, for instance, and noncompliance sanctions), and facilitates process traceability, at least in the first stage of reforms.

108 - The strategy should propose implementation of at least the following policy aspects: i) an asset inventory; ii) valuation models; iii) inclusion in the national accounting; and iv) proposals for revitalizing said assets to optimize their fiscal performance.

109 - Including functional revisions of the ministries/agencies with the most responsibility for complying with KGPs. The functional revisions would prioritize ministry/agency functions to align them with the KGPs, restructure the ministries/agencies, propose the required human resource compositions, and define which programs and projects would continue and which would be cancelled.

In the medium term, headway should be made in the following areas:

Improving the management of public companies. A more detailed inventory would be prepared and other measures would be specified. The following parallel measures should be taken: (i) compiling a more detailed inventory of public companies and their assets and liabilities; (ii) designing a centralized entity to supervise strategic state-owned companies that could remain state-owned; and (iii) designing a body to lead privatizations or other revitalization modalities such as joint ventures, corporatization, management or operating contracts, or operator concessions (including investment and maintenance programs, conversion to a limited liability company, et al.). The new councils and boards of directors should be appointed on the basis of professional and transparent selection criteria under rules that regulate conflicts of interest and discourage client politics.

*Designing and implementing regulatory frameworks by sector.*Beyond privatization itself, regulatory frameworks should be issued and independent regulatory agencies should be created in the medium and long term to foster efficient operation of public and private companies. In addition, competition should be promoted and anti-monopoly policies should be implemented with several institutional actions, such as considering the restoring of the competition agency (Procompetencia) and the telecommunications regulator (Conatel), creating new agencies, or strengthening others such as the National Council for Investment Promotion (CONAPRI).

Reforming the subsidy scheme. The idea would be to gradually eliminate subsidies, prioritizing fossil fuel and transportation subsidies and considering a portfolio of compensatory measures, as well.

Gradually rebuilding tax revenue. The tax system should be simplified, eliminating distortionary taxes such as taxes on large financial transactions and large estates and temporarily reducing parafiscal contributions. Several of the provisions introduced during the hyperinflationary period, such as many pecuniary sanctions, should be eliminated to maintain the coffers, and prepayment of the value-added and income taxes should be eliminated.

Simplifying the tax system. Simplified taxation would also entail a review of the value-added and income taxes to bring them into line with the country's economic reality. For the medium term, a plan should be prepared for modernizing the SENIAT and purging and reinforcing the RIF (tax information registry).

Strengthening the center of government. In the medium term, actions would include the following: (i) identification of central management points (PGC) and responsible agencies; (ii) creation of a CoG delivery unit that would lead implementation of the delivery management model (delivery strategies, routes, and coordination routines that public agencies should follow to ensure the implementation of programs and projects contributing to the PGC; (iii) implementation of protocols to ensure that ministries and PGC agencies produce and report information to feed into PGC performance indicators; and (iv) design and piloting of a dashboard for monitoring PGC performance indicators, implementing the recommendations made in the first stage functional reviews, including measures for improving the organizations, processes and human resource composition of these ministries and agencies.

Modernizing the civil service. This reform would consist of preparing a strategy for strengthening human resource management to attract, retain, and mobilize personnel with the skills and abilities needed for the public positions prioritized for each ministry or agency in the functional reviews. It would also include the design and progressive implementation of a senior executive service regime to ensure professionalized senior managers of public servants.

Simplifying administration. This medium-term priority would cover the design and implementation of administrative simplification plans, which would include potential digitalization and one-stop shops for administrative procedures in key areas such as social protection, health, education, identity and business, et al.

Strengthening statistics institutes. The medium-term goals would be INE's institutional strengthening and the taking of a population and housing census.

Building a modern, reliable and transparent citizen identity system. The goal would be to close the set of identity, registry and database gaps to make the leap to digital government on the basis of an identification system that includes identity maturity models, a legal framework and governance, the identity ecosystem, and a unique password and digital signature systems.

Developing a Competitive and Sustainable Extractive Sector

The following short-term actions are proposed for this sector:

Doing a rapid assessment. Given the extreme lack of transparency in the sector's operations that has been going on for decades, a rapid assessment of the status of the hydrocarbon production, transportation, refining, and distribution infrastructure is essential. This would make it possible to define immediate interventions to help meet both challenges sequentially.

Taking measures to stabilize production. Oil could be added to the production volume from drilled but as-yet-unconnected wells, primarily in the Orinoco Oil Belt, thus increasing production by approximately 100,000 b/d during the first year. This would help meet the challenge of providing derivatives to the domestic market, since a greater volume would be going into the refineries.

Regularizing supply in the domestic market. To ensure immediate supply of oil derivatives (gasoline, diesel, propane, etc.) to the domestic market, short-term derivative import agreements with trading partners will be essential. Refineries must also be retrofitted to produce more light products such as gasolines and fewer heavy products such as heavy fuel oil (HFO).

Improving coordination with the electricity sector. The strong ties between the hydrocarbons and electricity sectors are currently untapped. Thermal plants depend on the supply of oil derivatives and natural gas from PDVSA, while in turn the oil industry uses extremely high amounts of electricity for its own extraction, transport and refining processes. Today, however, the gas produced for generating electricity is not being used. This is an intervention being proposed for the electricity sector.

Auditing PDVSA. The rapid assessment should be followed by an audit of PDVSA's finances and operations using company data reviewed by auditors and accountants. Additionally, an in-depth audit should be made of the production stock, transport and refining infrastructure. With these audits, more information would be collected for diagnosing the sector's situation, providing a baseline for more long-term planning.

Strengthening the institutional framework. A Venezuelan hydrocarbons agency (AVH) should be designed and launched. This task would entail laying the groundwork for the AVH and ensuring its independent funding, appropriately qualified staffing, and the capital needed for its operation[110].

Evaluating fiscal management. Given the emergency situation, the fiscal management of oil revenue must be reviewed. A fiscal environment should be created that maximizes oil production earnings - not only for the companies but also for the citizens and state. Additionally, the best strategies for managing oil tax revenue should be evaluated.

See Lares, Pacheco and Sucre (2019), "Un Modelo de Agencia Reguladora Independiente de Hidrocarburos". IDB-TN-01747. Washington, DC: Inter-American Development Bank.

Medium-term measures could include the following:

Reforming the regulatory framework. The regulatory framework would need substantive changes in the medium term. Progress should be made on drafting a new hydrocarbons law to replace the Organic Law for Hydrocarbons in effect since 2006. With regard to the upstream, the program's key pillars would be the following: i) maintaining state ownership over hydrocarbon reserves; ii) attracting domestic and foreign investment to the sector; iii) restructuring PDVSA as a competitive public oil company; and iv) creating an independent regulator for the sector (Venezuelan Hydrocarbons Agency, or AVH).

A more extensive role in hydrocarbons exploration and production needs to be permitted for private sector participation due to the massive investment that would be required to revive the sector. According to estimates by the PDVSA's ad hoc Board of Directors,52 the capital Investment needed to increase oil production to 3 million b/d is US $120 million during the first eight years, with operating costs estimated at US $68 billion during this period.

Reformulating PDVSA's role in the sector. PDVSA no longer has the financial, technical and administrative capacity to implement an investment program of this magnitude. The following key reforms would be essential for attracting private investment to the gas and oil sector: i) eliminating the legal requirement for PDVSA to have a majority share in all fields; ii) transferring control of procurement and financial management to private partners; iii) granting partners the right to market their oil portions; iv) introducing enough flexibility to fiscal terms - royalties and taxes - when necessary to reach economic thresholds; and v) including investor protection provisions such as international arbitration and liability limitations for earlier environmental damage.

Initiating the restructuring of PDVSA. Although PDVSA would still be a state company, it should pass its regulatory role over to the AVH and start operating on a level playing field with other companies in the sector. PDVSA would be restructured as a commercial enterprise, shedding its non-sectoral business lines, dropping its quasi-government role of providing social services, and terminating preferential oil supply agreements. Its corporate governance should be improved, with management and board members selected on the basis of merit and measured with key performance indicators.

Improving the oil sector's environmental and safety performance is critical for its long-term stability. PDVSA's environmental and safety record is miserable and a deep reform of the sector should include effective environmental and safety regulations and financing for environmental remediation tasks, which the PDVSA ad hoc Board of Directors has estimated would cost around US $400 million per year. Added to this should be the issue of gas flaring and venting. Venezuela is estimated to be burning almost 8.2 billion cubic meters of gas at present.