Document of
The World Bank

Report No. 17586-VE

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$8.0 MILLION

TO THE

REPUBLIC OF VENEZUELA

FOR A

PUBLIC SECTOR MODERNIZATION AND DECENTRALIZATION PROJECT

APRIL 6, 1998

Poverty Reduction and Economic Management Sector Management Unit
Colombia, Ecuador and Venezuela Country Management Unit
Latin America and the Caribbean Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 30, 1998)
Currency Unit = Bolivar (B)
US$1.00 = B500
B1 = US$0.002

FISCAL YEAR

January 1 to December 31

ABBREVIATION AND ACRONYMS

BOT	-	Build Operate and Transfer
CAS	-	Country Assistance Strategy
IDB	-	Interamerican Development Bank
MOP	-	Memorandum of the President
MTC	-	Ministry of Transport and Communications
QAG	-	Quality Assessment Group
OED	-	Operations Evaluations Department
PCU	-	Project Coordinating Unit
PCR	-	Project Completion Report
SAR	-	Staff Appraisal Report
TAL-PIID	-	Technical Assistance Loan for Pre-Investment & Institutional Development

Vice President	S. J. Burki
Director	A. Solimano
Task Manager	A. Martín del Campo

VENEZUELA

PUBLIC SECTOR MODERNIZATION AND DECENTRALIZATION PROJECT

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Latin America and Caribbean Region
LCC4C

Project Appraisal Document

Venezuela
Public Sector Modernization and Decentralization Project

Date: March 23, 1998 [√] Draft [ ] Final
Task Manager: Antonio Martín del Campo
Country Manager: Andrés Solimano
Project ID: VE-PA-41807
Sector: Public and Private
Lending Instrument: TAL
PTI: [ ] Yes [√] No

Project Financing Data [√] **Loan** [ ] **Credit** [ ] **Guarantee** [ ] **Other [Specify]**

For Loans/Credits/Others:

Amount: USS 8.0 million
Proposed Terms: [ ] Multicurrency [√] Single currency
Grace period (years): 5 [ ] Standard Variable [ ] Fixed [√] LIBOR-based
Years to maturity: 17
Commitment fee: 0.75%

Financing plan (US$m):

Source	Local	Foreign	Total
National Government	1.8		1.8
State Governments	1.0		1.0
Cofinancier: IDB	4.0	4.0	8.0
IBRD	4.0	4.0	8.0
Other (TAL for PIID - Ln. 3225-VE)	0.8	0.2	1.0
Total	11.6	8.2	19.8

Borrower: Republic of Venezuela
Guarantor: N/A
Responsible agency(ies): State Governments of Aragua, Falcón, Mérida and one additional state to be selected, Ministry of Transport and Communications, and Cordiplan. The State Government of Sucre participated during preparation.

Estimated disbursements (Bank FY/US$M):	1999	2000	2001	2002
Annual	0.6	2.5	3.1	1.8
Cumulative	0.6	3.1	6.2	8.0

Expected effectiveness date: September 1, 1998 Closing date: March 31, 2002

Block 1: Project Description

Background. Since the first round of gubernatorial and municipal elections in 1989, Venezuela has been in the process of transferring responsibilities to the states. Already a large number of functions[1], including productive enterprises, is being administered by the State governments. Recent macroeconomic measures toward fiscal restraint as well as limited resources and capacity at the state level have prompted the state governments to seek innovative solutions to managing assets and services. Some of these initiatives mirror reforms at the national level to divest from operating functions and creating appropriate legal and regulatory frameworks. As a result the project strategy is to support: state governments efforts to privatize[2] productive assets within consistent national reform strategies, the adoption of normative/regulatory frameworks in the transport sector, and the organizational and functional restructuring and institutional strengthening activities of the Ministry of Transport and Communications (MTC). Substantial progress has been made during preparation in the States of Falcón (three private sector initiatives finalized in the areas of tourism, dams and road tolls) and Sucre (three large initiatives in salt mines, tourism and ports already completed and one ongoing in airports). The States of Aragua and Mérida, which came on board more recently, have outlined comprehensive privatization programs. MTC has outlined its institutional restructuring plan and initiated personnel audits to facilitate the process of rationalization. The project, which builds upon the experience of a Bank region-wide initiative to support subnational governments privatization programs, will make a substantial contribution to the wider Public Sector Reform program being implemented by the Government.

1. Project development objectives (see Annex 1 for key performance indicators):

- Increase efficiency in the delivery of public services and management of state productive enterprises and infrastructure, and improve the fiscal and financial situation of participating state governments, by promoting private sector participation.
- Strengthen the national regulatory framework in some transport subsectors, and rationalize existing institutional structures in the national government.

2. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

Component	Category	Cost Incl. Contingencies (US$M)	% of Total
I. Privatization at the State Level would support four pilot state governments tailor and execute a customized strategy for privatizing productive activities and concessioning the construction, operations and maintenance of transport infrastructure to the private sector. The component would finance specific privatization initiatives. The *Private Sector Development Consulting Team* would provide technical assistance across the participating states for strategy development and implementation.	Private Sector Development	11.5 (new IBRD 5.5)	59
II. Reform and Decentralization at the National Government would support reforms in the Ministry of Transport and Communications to restructure its organization and staff, strengthen supervisory functions, and develop regulatory and competition frameworks in the transport subsectors (e.g., airports and ports). The component would also finance restructuring studies to support the wider Public Sector Modernization Program of the government.	Public Sector Mod. and Private Sector Development	4.6 (new IBRD 1.5)	23
III. Project Coordination would be the responsibility of Cordiplan with oversight provided by an Executive Committee. The Project Coordinating Unit would be supported by two technical groups: a *Private Sector Development Consulting Team* and a *Public Sector Modernization Team.* State- and MTC-specific *Coordinating Units* would be responsible for implementation of their respective components.	Project Coordination	3.5 (new IBRD 1.0)	18
	Total	19.8	100

[1] "Exclusive" responsibilities, such as roads, ports, airports and mines, have been assumed by a large proportion of States. "Shared" responsibilities (such as health, attention to the minor, attention to the aged, sports, education, nutrition, housing, and culture) are also being transferred although at a slower pace.

[2] Within the context of this project, "privatization " should be understood to include any activity that increases private sector, or community-based and other non-governmental organizations' participation in service delivery, from introduction of commercial practices, to sub-contracting of non-core assets and activities, to management contracts and co-management agreements, to concessions, and from partial to full equity privatization.

3. Benefits and target population:

Benefits:

Transferring productive enterprises and transport infrastructure to the private sector, at the state level, will:

- Transfer investment responsibility to the private sector (i.e. BOT agreements) which will lead to lower public transfers to public enterprises and stimulate private investment.
- Increase state governments' sources of revenue (recurrent concession fees on private exploitation of public resources (mines) and infrastructure (airports and ports) or one-time privatization/sale proceeds of e.g. hotels).
- Improve fiscal outlook of the state budgets and relieve their financial pressures onto the national government.
- Allow governments to focus on priority public sector activities.
- Widen stock ownership through worker and civil participation privatization schemes.

New competition and regulatory frameworks in airports and ports will:

- Provide the adequate environment for private sector participation.
- Comply with international norms and regulations.

Target population: State governments, local private sector, transport and other public services users.

4. Institutional and implementation arrangements:

Implementation period: 3 Years

Executing agencies: State Governments of Aragua, Falcón, and Mérida, Ministry of Communications & Transport and Cordiplan. The State Government of Sucre which is completing its program during preparation will be replaced by an additional state, appropriately selected.

Project coordination: Cordiplan (see Annex 2 for details)

Project oversight (policy guidance, etc.): Executive Committee of the Ministers of Planning and Transport & Communications and the Governors of the pilot states.

Transfer of Funds to the States: The National Government will enter into subsidiary agreements with each of the participating State governments to transfer to such States part of the funds of the loan from IDB and IBRD's (the Banks) under terms and conditions to be agreed between the National Government and such States, and will grant them executing authority over the implementation of their respective components.

Accounting, financial reporting and auditing arrangements: The national PCU will be responsible for maintaining the accounts of the overall project, while each state PCU will maintain separate accounts for their respective component and report back to the national PCU on a regular basis. In terms of the specific financial arrangements, the government undertook a study and action plan to develop institutional and legal alternatives that would improve access to Banks' financing, including locations and procedures for the special account, subaccounting mechanisms, etc.. On the financial management system, an assessment was undertaken in December 1997 for the TAL for PIID (Ln. 3225-VE) and specific recommendations produced to make the system consistent with Bank Guidelines. The Government agreed to hire a specialized consultancy to establish a sound financial management system by effectiveness of the proposed loan. Project accounts, financial statements, the Special Account and the SOEs would be audited annually by independent auditors satisfactory to the Bank. Audits would be submitted to the Bank no later than six months after the end of each fiscal year. To improve management capacity in the areas of implementation, contracting, disbursements and financial administration, the Banks will organize a workshop for both state and national level executing agencies of the project.

Monitoring and evaluation arrangements: The final Borrower Implementation Plan including action plans for each part of the project were agreed during negotiations. Success will be judged on the basis of clear quantitative (whenever possible) and qualitative performance/output indicators (number of awarded concession contracts, PEs privatized, approval of competition and regulatory framework, adoption of institutional framework, etc.). The action plans will be updated annually to better meet project objectives. Special emphasis was given to first year activities.

Block 2: Project Rationale

5. CAS objective(s) supported by the project

Document number and date of latest CAS discussion:
Report No. 16471-VE, April 8, 1997

- Promote the development of the private sector outside the oil industry and expand private sector participation in the oil industry. Project contribution: infrastructure privatizations at state level, and regulatory framework for the airport and port sectors.
- Improve the efficiency and effectiveness of the public sector. Project contribution: strengthen state government's supervisory capacity, implement the rationalization strategy of the Ministry of Transport and Communications, and strengthen its regulatory capacity.

6. Main sector issues and Government strategy:

At the subnational government level:

- Wide-spread public ownership of productive activities. The States of Falcón and Sucre have engaged in privatization programs, awarded concessions of salt mines, ports and roads, and sold tourism facilities. Other states have announced similar programs.
- Scarce financial, human and technical resources of the State governments to deliver public services of better quality, wider coverage, and with greater efficiency. State governments will use their privatization program to reallocate resources towards priority public services and promote partnership with the private sector for their delivery.
- Lack of State own sources of revenues. The Association of Governors has been lobbying the national government for legally establishing a State tax base. Otherwise, Governors are establishing a revenue base through concession and user fees.
- Sustainability of the decentralization effort.

At the national government level:

- Lag of employment rationalization with respect to transfer and decentralization of functions.
- National airport system not in compliance with FAA standards and regulations. While the Ministry of Transport and Communications has developed comprehensive strategy for private sector participation in the sector, implementation may have to await the next administrative cycle.

7. Sector issues to be addressed by the project and strategic choices:

At the subnational government level:

- Transfer productive enterprises, services, and transport infrastructure to the private sector.
- Increase States' own sources of revenues through concessioning fees and sale of assets.
- Improve sustainability of the decentralization effort by strengthening State governments' ability to monitor and evaluate contracts.

At the national government level:

- Support development of regulatory framework in transport subsectors and strengthen regulatory capacity.
- Help functional rationalization efforts in MTC: design and implementation of institutional restructuring plans, area studies, targeted personnel audits, etc.
- Finance studies to support the wider Public Sector Modernization program of the Government.

8. Project alternatives considered and reasons for rejection:

- Separating components into two separate projects: components are complementary, privatization at the state level need regulatory support at the national level.
- Restructure existing portfolio rather than initiating new lending: no mechanism exists to support the state governments directly. Rather than increasing the number of objectives, components and level of complexity, existing projects or components that are underperforming should be canceled.
- Performance-based human resources management modernization: lack of sufficient commitment from the government for in-depth legal and institutional reform.

- Support for continuing the modernization of financial management (phase II of the Integrated Financial Management and Control System (SIGECOF)): the Government requested a new operation to finance the extension of SIGECOF to all national public institutions. An existing IDB operation is financing the development of financial management at the subnational level.
- Comprehensive public sector reform at national level: lack of sufficient implementation capacity and commitment, existence of other Bank projects, need to stimulate decentralization bottom-up.

9. Lessons learned and reflected in the project design:

General:

- Political and economic opposition can be reduced if large sectors of the public understand the program and the need for reform (PCR, Rep. No. 15239). State governors in pilot states have engaged in wide-spreading information campaigns.
- To promote a structural reform program, some benefits for the public should exist from the beginning. Program design should take this into account and implement measures which produce early results. (PCR, Report No. 15239) Initial privatizations have already held some benefits in terms of increased employment and microenterprise creation.
- Define reasonable, attainable project objectives (QAG Review of PE Reform and Privatization Operations). The project would be considered a success if it resulted in at least 2 privatization/concession contracts awarded in each of the four pilot states (which is attainable as the State of Sucre has shown), and a regulatory framework implemented at national level.
- Present detailed and rigorous assessment of risks (QAG Review of PE Reform and Privatization Operations). See para. 21.

On private sector development:

- Government commitment is the most important factor affecting performance (Annual Review of Evaluation Results 1993, OED, Report No. 13794). Strong commitment from State Governors (see para. 11)
- Review prior in-country experience with PE reform/privatization loans (QAG Review of PE Reform and Privatization Operations). Experience at the national level was reviewed (Public Sector Enterprise Reform (Ln.3223-VE) and TAL for PIID). The experience stresses the need for sector rather than enterprise reform. This is addressed in the main sector of activity (i.e. transport). Assessment performed on the program in the State of Sucre, completed during preparation.
- In the design and implementation of public enterprise reforms, the issue of sector reform should be addressed. At the same time privatization rather than restructuring should be emphasized (PCR, Report No. 15239) The project combined privatization at the state level with regulatory reform at the national level, and stresses transfer of activities to the private sector.
- Where privatization is not feasible, alternatives such as leases or management contracts need to be actively explored. (Lessons & Practices No. 2, OED) See footnote 2 on page2.

On institutional arrangements:

- Draw on specific but adaptable action plans and annual work programs for each component that focus on outputs, define evaluation criteria and performance indicators to judge project progress (MOP, Report No. P-6740-HO) See para. 4 and Annex 1..
- Give implementation support for establishing sound criteria and a solid institutional basis for the administration of the project, especially with regard to procurement (MOP, Report No. P-6740-HO).
- Emphasize counterpart responsibilities of the beneficiary agencies and the staffing of key positions (MOP, Rep. No. P-6740-HO).

On decentralization:

- Agreements between the central government and states are important to confirm commitment of all parties involved (SAR, Report No. 13474-VE). In the project, subsidiary agreements between the states and the national government are conditions for disbursement for the respective state component.

10. Indications of borrower commitment and ownership:

- The State of Aragua, already advanced in its private sector participation strategy, developed a program to continue effort in this direction including private sector participation in the airport sector, subcontracting management of specific social and health institutions, industrial sector participation in technical schools and community management of irrigation systems. Agreed to assume responsibility for implementation and sharing financial responsibility.

- The State of Falcón: developed its privatization program with the active participation of the Bank, public enterprises and the national government (workshops and seminars); established technical unit for coordinating the state privatization program; organized privatization training which gathered a large group of State employees involved in the reform; sold two hotels, is preparing to sell two more, entered one toll-road agreement, concessioned a dam, and is preparing the concession of the ports and of the marble and salt mines. It agreed to assume responsibility for implementation and debt repayment.
- The State of Mérida: developed a far-reaching and well-focused privatization program with the active participation of all entities involved. The program encompasses transport (two highways, one port, two airports, one railway BOT, and the mass transport system for the city of Mérida), productive activities (convention center, telepheric, wholesale market, and free zone) in addition to other specific activities such as prison administration, rural aqueducts, etc. Agreed to assume responsibility for implementation and debt repayment.
- State of Sucre: successfully implemented its privatization program during project preparation including the Araya salt mines, the International Fishing Port of Güiria, ten tourism facilities, established a Superintendency of Privatization to monitor private sector performance and supervise concession contracts, and contracted the technical and financial advisors for implementing the strategy in the airport sector (ongoing).
- National Government: established Presidential Commission to Coordinate and Monitor the Restructuring of the Public Administration; established the Public Sector Reform Executing Unit in Cordiplan, allocated funds from the TAL for PIID for the preparation of the program, and developed comprehensive strategy for public sector restructuring and simplification (presented to the Council of Ministers on June 11, 1996). Strong commitment voiced by Minister Petkoff. The Ministry of Transport and Communications agreed on action plan to restructuring the Ministry and developing regulatory framework. This, however, is the weakest link in the project in terms of commitment and implementation capacity, and was scaled down accordingly.

Block 3: Summary Project Assessments (Detailed assessments are in the project file. See Annex 8)

11. Economic Assessment (see Annex 4):	N/A	Cost-Benefit Analysis : NPV=US$ million; ERR= %	N/A	Cost Effectiveness Analysis:	N/A	Other [Specify]

Fiscal impact (for all projects):

The project is expected to have a positive fiscal impact at the state level of government. Privatization and concessioning of public infrastructure will: i) secure revenue streams from the concession fees, or a one-time revenue from privatization; ii) eliminate subsidies to insolvent public enterprises; and iii) transfer responsibility for investment to the private sector.

Privatization experiences already implemented suggest that substantial gains can be attained both in terms of state revenues and economic activity. In Sucre, the 25 year concession of the Araya salt mines brought an initial payment of $14 million dollars in revenues to the state government (in addition to yearly flows equal to five percent of revenues for the length of the concession, increased salt production of the state many folds, and stimulated the creation of 24 microenterprises servicing and subcontracting with the concessionaire (study available upon request)). In the case of airport infrastructure, given the low levels of traffic in the regions, gains are mostly expected on the side of increased management efficiency. In ports, the experience in the International Fishing Port of Güiria (Sucre), which resulted in a $3.6 million transaction and 8 to 12% of revenue yearly flows to the State Government, suggests sizable fiscal and economic gains. In addition, the sale of small assets, e.g. hotels and beach resorts, although modest in fiscal terms, may have important implications for the local economy.

12. Financial Assessment (see Annex 5) NPV=US$ million; FRR= %
N/A

13. Technical Assessment:
N/A

14. Institutional Assessment:

a. Executing agencies: The states display very high commitment levels to the objectives of the reforms, but uneven implementing capacity. Governors' awareness of this capacity shortage has made them very willing to incorporate outside expertise as a key element of their strategy. This should increase consultants' effectiveness in reaching objectives, but may affect long-term monitoring capacity of the states. It will be addressed within the context of the project by promoting inde-

pendent sources of revenue for state monitoring agencies possibly through the use of recurrent concession fees. Particular attention will be given to the State of Falcón.

The Ministry of Transport and Communications has limited implementation capacity. For this reason preparation of the institutional and regulatory frameworks should be contracted in packages to international/national legal consortia.

b. Project management: Project implementation capacity of Cordiplan is being addressed within the context of the Portfolio Improvement Plan agreed with the Government. All PCUs at the state and national levels will benefit from intensive training on implementation management, procurement, and financial administration.

15. Social Assessment:

The project is expected to have a positive net social impact. Previous privatizations/concessions at state level have shown an increase in direct (within the firm) and indirect (servicing the industry) employment, due to increased economic activity and investment. Wide-ownership programs envisioned in the project would spread capital ownership and returns to workers and local private sector. Transport infrastructure privatization is expected to have spill-over effects on local tourism activity.

16. Environmental Assessment: Environmental Category: [ ] A [ ] B [√] C

The project is financing consulting services for general support to privatization programs and regulatory framework development. The IDB has financed a study to identify environmental assessment requirements associated with specific initiatives. During the implementation of the project, it will be required that any privatization initiative thought to affect the environment be accompanied by a thorough environmental assessment.

17. Participatory Approach:

	Identification/Preparation	Implementation	Operation
Beneficiaries/community groups	Local Private Sector (CON)	Local Private Sector (COL)	Local Private Sector (COL)
Intermediary NGOs			
Academic institutions			
Local government	Governments of Aragua, Falcón, Mérida and Sucre (COL)	Governments of Aragua, Falcón, Mérida and additional state (COL)	Governments of Aragua, Falcón, Mérida and additional state (COL)
Other donors	IDB (COL), UNDP (IS)	IDB (COL), UNDP (IS)	
Labor		Workers in public entities (CON)	Workers (Stock ownership)
Local Community		Community in selected states (IS)	Community in selected states (Stock ownership)

information sharing (IS); consultation (CON); and collaboration(COL)

18. Sustainability:

At the subnational government level:

- Clearly defined privatization projects that have an inherent irreversibility quality to them
- Strong participatory approach to project design and implementation to increase the prospect for sustainable development of services and maintenance of facilities
- Early involvement of relevant actors is meant to respond to local necessities at the design stage, and develop a lasting partnership that will carry through the implementation stage and beyond
- Explicit effort to include local private sector, workers and civil society as minority partners to main investors will ensure long-term social support of privatization policy
- Efforts to increase local capacity, and fiscal independence at the State and municipal government levels are designed to improve solvency and sustainability of public services' delivery

At the national government level:

- Establishing legislative and regulatory frameworks and strengthening supervisory and evaluation capacity will improve sustainability of reforms.

19. Critical Risks (see fourth column of Annex 1):

Risk	Risk Rating	Risk Minimization Measure
Project outputs to development objectives		
Underlying National Government support to states, continued commitment to its stated priorities, and wider public sector reform and decentralization program	Moderate	Signing of at least one subsidiary agreement between the national and the state governments as condition for effectiveness, to award executing responsibility to the states. Technical assistance for National Government efforts. Continued policy dialogue.
Willingness to confer independence to regulatory bodies	Low	Prepare adequate legal framework
Responsiveness of the Legislature (both national and state) to support reform efforts	Moderate	Organize seminars for representatives in Congress/Senate and in the states' Legislative Assemblies. Engage a wide political spectrum at the state level.
Transparency and accountability of privatization efforts as it affects results and willingness to pursue initiatives	Low to Moderate	Bank's financial and supervisory support, strict adherence to Bank guidelines, clear review process
Project components to outputs		
Institutional instability in the Central Government	Substantial	The project is weighted toward the States and will rely on fixed-term elected officials rather than appointed officials. There are few focused activities in the National Government.
Weak implementation capacity	Substantial	The government has been implementing its Portfolio Improvement Plan agreed with the Bank, and addressing endemic implementation problems. In this project, great attention has been placed to: i) develop workable institutional arrangements, ii) support the establishment and strengthening of technical executing units and the use of long-term consultants, iii) develop focused training seminars on key issues (i.e. privatization best practices, procurement), iv) provide direct technical assistance, v) define clear and focused objectives and outputs, and vi) diversify executing agencies. In the pilot states, the Governors have been using their best resources on the privatization programs due to the fact that benefits (fiscal) will occur directly to them (not spread across other entities as in the case of the national government).
Availability of Funds	Moderate	State government counterpart funds do not suffer from the budgetary problems of the National Government and weight of the project may limit problems in this area. In both cases, counterpart funds are imputed from items in the participating entities' normal budget. Furthermore, the project has already been included in the 1997 Budget Law.
Lag between approval and effectiveness of the loan	Substantial	The problem is moderated by the fact that the Congress already approved this project within the framework of both the Budget and Public Credit Law for 1997. On the Bank side, minimize conditions for effectiveness, moving most requirements to the stage of negotiations.
Willingness of the private sector to participate	Low	Develop transparent international competitive bidding procedures and appropriate regulatory framework, increase access to information
Overall project risk rating:	Moderate	

20. Possible Controversial Aspects:

- Consistency and timing of national and state reforms. Dialogue should be maintained to ensure coordination, and general objectives agreed to with all levels of government.
- Labor issues in privatization. Wide-ownership privatization programs will include workers stock-ownership compo-

nents. Project will also support the development of microenterprise strategies for non-core or vertically unbundled functions of the privatized entities as well as for public services.

- Public acceptance. Develop wide-ownership programs, investment funds, information campaigns.

Block 4: Main Loan Conditions

21. Effectiveness Conditions

- Signing of the subsidiary agreement (para. 4) between the national government and at least one among the selected states (Aragua, Falcón or Mérida).
- Establishment of a sound project financial management system.

22. Other:

Condition for disbursement to any selected state:

- Signing the subsidiary agreement between that state and the national government. (para. 4)

Midterm review:

- The Borrower will undertake a mid-term review of the progress of the Project in the eighteenth month after the date of the Loan Agreement.

Progress Report:

- The Borrower will furnish to the Bank six-month project progress reports.

Block 5: Compliance with Bank Policies

[√] This project complies with all applicable Bank policies.

[ ] [The following exceptions to Bank policies are recommended for approval: . The project complies with all other applicable Bank policies.]

Task Manager: Antonio Martín del Campo

Country Manager: Andrés Solimano

Annex 1

Project Design Summary

Narrative Summary	Key Performance Indicators[3]	Monitoring and Supervision	Critical Assumptions and Risks
CAS Objectives			*(CAS Objective to Bank Mission)*
1. Promote private sector development.	1.1 Transfer productive activities and regional transport infrastructure to the private sector 1.2 Adopt new airport sector regulatory framework consistent with international standards		Continued improvement in portfolio implementation
2. Modernizing the public sector.	2.1 Establish privatization and supervision/evaluation units in the state governments 2.2 Restructure the Ministry of Transport &Communications		
Project Development Objectives		*Sources of data:*	*(Development Objectives to CAS Objective)*
1.1 Increase efficiency in the delivery of public services and management of state productive enterprises, public services and infrastructure and promote private sector participation.	1.1.1 Increased private investment in concessioned/ privatized activities	1.1.1 Monitoring unit reports 1.1.2 Firm/concessionaire yearly reports	Government's willingness to pursue private sector development initiatives
1.2 Improve the fiscal and financial situation of pilot state governments	1.2.1 Initial concession fees received and recurrent user fees and/or rents established 1.2.2 Main responsibility for investment in concessioned/privatized activities transferred to the private sector 1.2.3 Fiscal transfers/subsidies to concessioned/privatized activities eliminated	1.2.1 State's financial records and budget 1.2.3 Concession contracts 1.2.4 States' executed budget	Government commitment to a wider public sector modernization strategy to rationalize role, size and institutional structures Government's continued commitment to the decentralization process
2.1 Strengthen the national normative and regulatory framework in transport subsectors	2.1 Adopted regulatory and competition frameworks for the airport sector and possibly other transport subsectors	2.1 Legal and regulatory framework(s) as approved by the legislature	
2.2 Rationalize institutional structures	2.2 Restructuring plan agreed and structure adopted within 8 months of effectiveness	2.2 Consultants' reports	

[3] Baseline and targeted values should be shown, with the latter divided into values expected at mid-term, end of project and full impact.

Narrative Summary	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions and Risks
Project Outputs			*(Outputs to Dev. Objectives)*
1. Privatization program adopted in pilot states	1.1 Privatization/concession plan for state infrastructure and productive activities prepared by 6/97 (done).	1.1 Privatization program, personnel and individual consultants in place	Private sector participation Transparency and accountability Underlying national government support (legal, financial, institutional, etc.)
	1.2 Bidding documents for first major transaction in Falcón prepared by 3/98, and in Aragua and Mérida prepared by 12/98	1.2.1 TORs, contract for hiring of consultants, investment banks, specialized and legal firms, consultants reports 1.2.2 Transaction-specific environmental/social impact assessments	
	1.3 First major transaction implemented in Falcón by 12/98, and in Aragua and Mérida by 6/99.	1.3 Bidding packages, wide-ownership stock plans, concession contracts	
	1.4 Three transactions completed in Aragua, Falcón and Mérida by 12/01.	1.4 Signed contracts	
2. State governments' capacity to pursue a private sector participation strategy, and to monitor and follow-up contracts established	2.1 Training of key personnel on privatization practices by 12/98. 2.2 Coordinating units in place by 12/97 2.3 Monitoring units in place by 12/98	2.1 Training schedules 2.2 Consultant reports, equipment purchased and operating 2.3 Monitoring and evaluation system, consultant reports	Sustainability of monitoring capacity
3. Local private sector, workers and civil society's participation strengthened and ownership of productive activities expanded in the pilot states	3.1 Local population owning portion of privatized activities 3.2 New local micro and small enterprises established in some of the sectors under reform	3.1 Wide-ownership plan, contractual clauses, and ownership structure of privatized entities 3.2 Number of new microenterprises created	Poor national share-holder protection legislation
4. New Bank Client relationship established with the state governments via the National Government		4.1 Loan subsidiary agreements 4.2 Disbursement records	
5. New regulatory and competition frameworks in the airport sector adopted	5. Institutional, legal and regulatory framework for the airport sector adopted by 6/99	5.1 TORs, short list and contract for hiring legal firms specialized in regulatory frameworks. 5.2 Draft competitive, institutional and regulatory frameworks	Responsiveness of the Legislature to the Executive priorities. Willingness to confer independence (including financial) to regulatory bodies.
6. New regulatory entity for the airport sector	6. New regulatory entity in place with sufficient budget and autonomy	6. Legislative approval	
7. Redundant institutional structures and personnel rationalized in MTC and possibly other affected entities	7. Number of units consolidated and personnel retrenched	7. Consultants and PCU reports	
8. Action plans for Public Sector Modernization initiatives of the government in priority sectors.		8. Action plans and studies.	

Form _____

Narrative Summary	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions and Risks
cont. *Outputs*			
Project Components [See Annex 2 for a detailed description.] 1. Privatization at State Level (Pilot States: Aragua, Falcón, Mérida and one additional state. Sucre institutional only) 1.1 Transactions' design and implementation (develop privatization programs, sales strategies, and wide stock-ownership privatization schemes, organize auctions, prepare information sheets, bidding documents and contracts, and assist sale closures) 1.2 Strengthening the sub-national governments' capacity to design and implement transactions, monitor contracts, evaluate performance, and create the supervisory and institutional frameworks that would ensure the sustainability of the initiatives.	*Inputs* 1. Privatization at State level US$ 11.7 million including: Training for adopting transparent and accountable privatization practices Long-term consultants to help design and manage the privatization program, and short-term specialists for support in specific sectors Investment banks and sector specialized firms to develop privatization or concession strategies and organize/manage international bidding process National and International Legal Firms to draft concession contracts. Consultants, training and equipment to strengthen monitoring function	1.1.1 TORs and short lists for proposed consultants, investment banks, and legal firms. 1.1.2 Transaction bidding documents and contracts. 1.1.3 Consultant reports and design proposals 1.2.1 Training schedules 1.2.2 Equipment 1.2.3 Consultant reports	*(Components to Outputs)* Risks: Weak implementation capacity Lag between approval and effectiveness Willingness of the private sector to participate Assumptions: Develop efficient disbursement mechanism to the States International private sector perception of political stability and the rule of law (property rights and contract law) sufficient to enter the market

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Narrative Summary	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions and Risks
cont. *Components*			
2. Reform and Decentralization of the National Government. (Targeted beneficiary: Ministry of Transport & Communications, Cordiplan)	2. Reform and Decentralization of the National Government US$4.6 million including:		Risks: Institutional instability Weak institutional capacity Lack of counterpart funds
2.1.1 Institutional strengthening of supervisory, regulatory and evaluation functions and project management	National and International Legal Firm to draft the airport sector regulatory and institutional frameworks.	2.1.1 Consultants reports, training records	
2.1.2 Developing regulatory frameworks in airports and ports	Consultant services, equipment, and training to strengthen supervisory, regulatory and evaluation functions and project management	2.1.2.1 TORs, short list and contract for Legal firms 2.1.2.2 Draft regulatory framework	
2.1.3 Studies and personnel audits associated with institutional restructuring and streamlining of operative functions in targeted entities.	Consultant and auditing services to carry out studies and personnel audits and determine retrenchment needs and costs of institutional restructuring and streamlining of operative functions	2.1.3 Personnel studies and audits	
2.2 Institutional restructuring studies to support the Public Sector Modernization Program of the Government		2.2 Action plan for institutional restructuring and strengthening, and specific performance targets established therein.	
3. Project Coordination and Implementation Assistance	3. Project Coordination and Implementation Assistance US$ 3.5 million		
3.1 Project Coordinating Unit		3.1 PCU reports and audits	
3.2 States' Privatization Programs Consulting Team (SPPT)		3.2 SPPT reports	
3.3 Public Sector Modernization Team (SPMT)		3.3 SPMT reports	
3.4 Aragua's Coordinating Unit			
3.5 Falcón's Coordinating Unit			
3.6 Mérida's Coordinating Unit			
3.7 State TBA's Coordinating Unit			

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Annex 2

Public Sector Modernization and Decentralization Project

Detailed Project Description

Project Component I - US$ 11.7 million (total cost of component)

Privatization at the State Level. This component, which builds upon the experience of a Bank region-wide initiative to support subnational governments privatization programs, would support four pilot state governments tailor and execute a customized strategy for transferring to the private sector productive public enterprises and services, and the construction, operations and maintenance of transport infrastructure. The best modalities for private sector participation will be applied on a case-by-case basis, including concessions, contracting out, sale of assets, etc. While the states may have privatization programs of larger scale and sectors' coverage, the assistance will focus on a restricted number of "transactions" in activities that either do not face regulatory issues (i.e. competitive enterprises) or where there already exists a national reform strategy, such as in airports and ports.

Bank support would be channeled towards:

a) Transactions' design and implementation. This includes the use of consultant services to prioritize and customize privatization programs, develop sales strategies, design wide stock-ownership privatization programs, organize auctions, prepare information sheets, bidding documents and contracts, and assist sale closures.

b) Strengthening the sub-national governments' capacity to design and implement transactions, monitor contracts, evaluate performance, and create the supervisory and institutional frameworks that would ensure the sustainability of the initiatives (consultant services, equipment and training).

The assistance would be managed by each State Coordination Unit, actively supported by the *Private Sector Development Consulting Team* (see Component III).

Target beneficiaries: During preparation, the project supported the States of Falcón and Sucre. The States of Falcón, Aragua and Mérida together with an additional state (to be selected) will participate in the implementation stage of the project.

I. The State of Sucre, in the last stage of implementation of its privatization program, successfully concessioned the salt mines of Araya and the International Fishing Port of Güiria, successfully auctioned its tourism infrastructure (10 small establishments), and is now in the process of concessioning the state airports. The State will continue to be a beneficiary of the project to strengthen institutional capacity for supervision of contracts. It will also participate in the private sector participation dissemination strategy.

II. Aragua is a state already advanced in its private sector participation strategy, having entered a number of partnerships with the industrial sector and the community in the management of public services particularly in the areas of education and social services. This state will require assistance in two areas: one continuing the efforts for private sector participation in the airport sector, subcontracting management of specific social and health institutions, industrial sector participation in technical schools and community management of irrigation systems; the other in the reorganization of the office of the Governor to establish a strong unit for supervising contracts with the private sector.

III. The State of Falcón already made some important advances in the implementation of its program. After two successful auctions of tourism assets and the awarding of one toll-road concession, it is now receiving offers for the concessioning of one of its marble mines, and preparing the strategy for a master concession of the salt mines and of the port in Punto Fijo (possibly to be concessioned in conjunction with the contiguous free zone).

IV. The State of Mérida developed a most ambitious but very well focused privatization program which encompasses transport (two highways, one port, two airports, one railway BOT, and the mass transport system for the city of Mérida), productive activities (convention center, telepheric, wholesale market, and free zone) in addition to other specific activities such as prison administration, rural aqueducts, etc. The strong capacity of, and support from, the implementing agencies should offer a solid base to move quickly on these initiatives.

The participating states would be expected to carry out at least three privatization/concession initiatives in the three-year implementation cycle. It is hoped that successes in these experiences may set the basis for developing an APL project that would extend to a number of additional states.

Project Component II - US$ 4.6 million (total cost of component)

Reform and Decentralization at the National Government. For state reforms to be viable and sustainable, it is critical to put in place at the national level adequate technical and economic regulatory frameworks in priority subsectors (e.g., airports and ports), develop sufficient supervisory capacity, and ensure consistency of individual initiatives with overall national objectives. Within the context of the Government's Public Sector Reform Program, this component would support reforms at the national government level that will actively complement state governments' initiatives in the area of increased private sector participation, as well as help the national government to prepare two major concessions in airport infrastructure.

Bank assistance will be directed to: i) institutional strengthening of supervisory, regulatory and evaluation functions and project management; ii) developing normative and regulatory frameworks to strengthen competition with emphasis on transport subsectors (e.g., airports and ports) reflecting the privatization priorities of both states and national governments; and iii) institutional restructuring studies and personnel audits to streamline operative functions and determine retrenchment needs and costs. The Bank will also provide limited policy assistance to the wider Public Sector Modernization Program of the Government for carrying out institutional studies of the public sector. This is expected to provide the basis for continued policy dialogue, and a vehicle for preparing a potential follow-up project.

Subcomponent II.A. Ministry of Transport & Communications (MTC). MTC is key to supporting priority initiatives in the states as well as urgent reforms at the national level in the airport sector. Not only has MTC decentralized roads, ports and airports operations to the states (18 out of 22 states have absorbed all or some of these functions) but the states are also keen in transferring the operation of this infrastructure to the private sector. The project will assist MTC in implementing its rationalization strategy, strengthening its regulatory capacity, and putting in place consistent regulatory and competition frameworks in specific subsectors.

Subcomponent II.B. Institutional restructuring studies to support the wider Public Sector Modernization Program of the government. These studies will provide policy guidance for continuing efforts to rationalize the public sector and the process of decentralization. They may also provide the basis for the design of a follow-up operation.

Project Component III - US$ 3.5 million (total cost of component)

Project Coordination and Implementation Assistance. The *Project Coordinating Unit* (PCU), based in Cordiplan, would be in charge of project coordination under the guidance of an Executive Committee integrated by the Ministers of Planning and of Transport & Communications, and the Governors of the participating states. The Unit would support and monitor progress of the reform, oversee contract completion, track disbursements, prepare semi-annual progress reports, and provide assistance to the Banks supervision missions. It would be staffed by the Project Coordinator, and a Chief Financial Administrator, and supported by two professional teams of consultants in the areas of private sector development and public sector modernization.

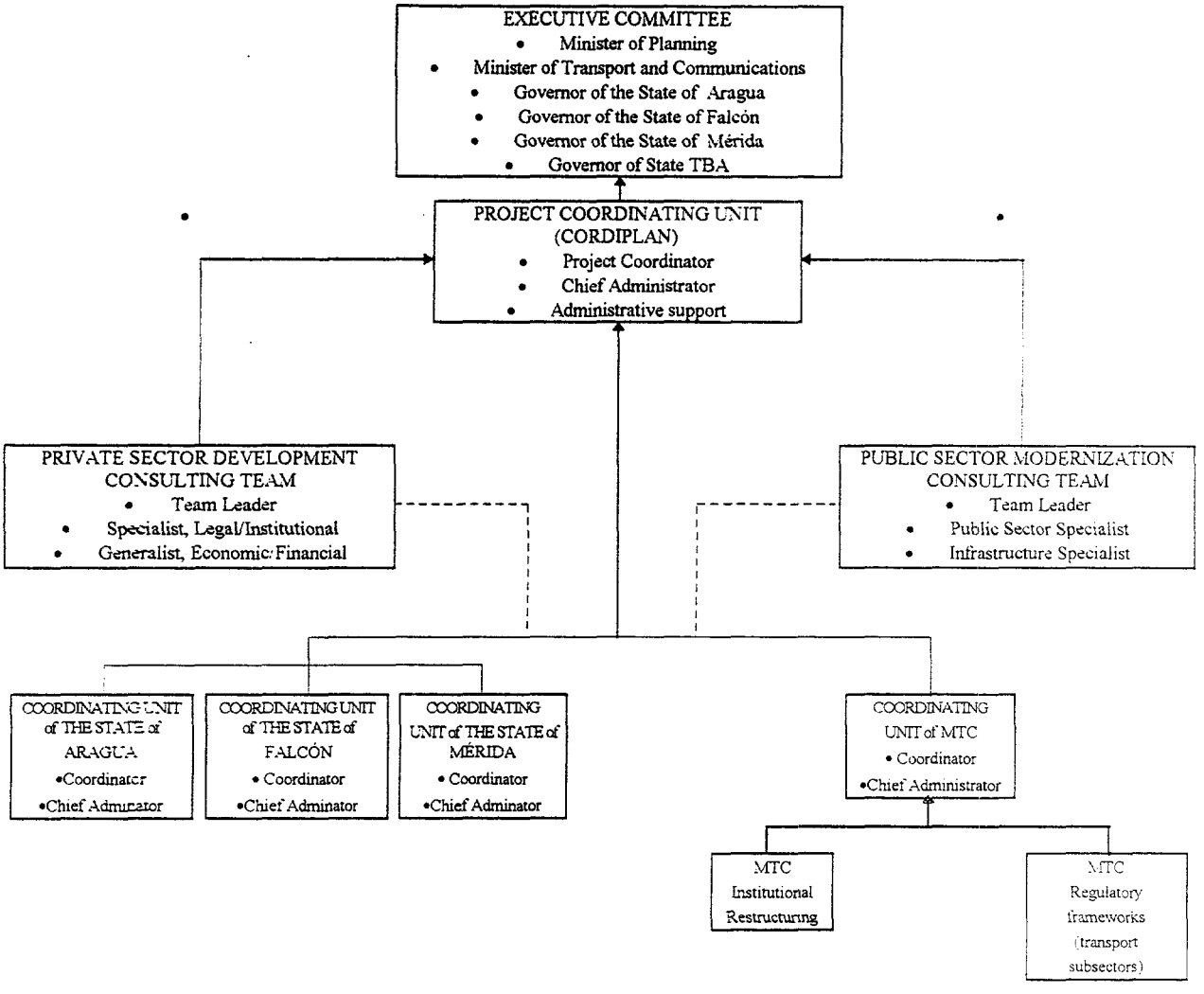
The *Private Sector Development Consulting Team* would count with four professional staff, including a team leader, a legal/institutional expert, and two generalists, one focusing on economic and financial aspects, and one on social and participatory aspects. It would work across participating states to provide direct technical support in the development and implementation of their respective privatization program. This would require a close collaboration between the team and the States' Coordination Units in all stages of transactions' management in the areas of privatization, concessions and outsourcing in, including an active involvement in the preparation of the general guidelines, workplan, timetable for implementation, and terms of reference for hiring of investment banks and consultant firms. The Team would also organize and deliver the assistance to strengthen the states' supervision and monitoring capacity, and lead dissemination seminars in other states to set the basis for future assistance. The Team would report to Cordiplan but maintain autonomy on technical issues.

Each pilot state would set up a *State Coordinating Unit,* staffed by a local coordinator and a chief administrator, in charge of supporting implementation and maintaining the accounts of their respective component. These units would be responsible for regularly reporting their financial accounts to the PCU in Cordiplan. The states would also define the institutional arrangements to house the functions of supervision and monitoring of contracts, which will receive the assistance in these areas. In the case of Sucre, a Superintendency was created to supervise governmental concessions and contracts.

The *Public Sector Modernization Consulting Team* would count with three professional staff, including a Team Leader and two specialist, one on public sector reform and one on infrastructure. The Team would help coordinate the second component of the program, providing analytical support to MTC, and managing the development of institutional restructuring and other public sector modernization studies.

In the Ministry of Transport and Communications, the Planning Unit would be in charge of the management of the project. The Unit would be responsible for implementing the overall strategy, and preparing TORs and contracts for the development of the institutional and regulatory reforms.

Project Coordination Arrangements:



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Technical Assistance Input Requirements
Public Sector Modernization and Decentralization Project

Component	Activity	IBRD	IDB	Borrower State Govs.	Borrower Nat'l Gov.	Expenditures Local	Expenditures Foreign	Total	
Privatization at State Government Level		*$ 5,830,027*	*$ 5,830,027*	*$ 66,000*	*$ -*	*$ 6,054,293*	*$ 5,671,761*	*$ 11,726,055*	*59.2%*
	Dissemination activities	$ 60,000	$ 60,000			$ 120,000	$ -	**$ 120,000**	
	Regulatory capacity	$ 417,500	$ 417,500			$ 480,000	$ 355,000	**$ 835,000**	
	State of Sucre privatization program	$ 149,311	$ 149,311			$ 100,000	$ 198,622	**$ 298,622**	
	State of Aragua privatization program	$ 1,148,500	$ 1,148,500			$ 789,000	$ 1,508,000	**$ 2,297,000**	
	State of Falcón privatization program	$ 982,500	$ 982,500	$ 66,000		$ 1,045,000	$ 986,000	**$ 2,031,000**	
	State of Mérida's privatization program	$ 1,453,500	$ 1,453,500			$ 1,803,667	$ 1,103,333	**$ 2,907,000**	
	State of TBA's privatization program	$ 1,100,000	$ 1,100,000			$ 1,100,000	$ 1,100,000	**$ 2,200,000**	
	Unallocated	$ 518,716	$ 518,716			$ 616,626	$ 420,806	**$ 1,037,433**	
Reform and Decentralization of the National Government		*$ 1,528,333*	*$ 1,528,333*	*$ -*	*$ 1,528,333*	*$ 2,700,833*	*$ 1,884,167*	*$ 4,585,000*	23.2%
Subcomponent A.									
	MTC: Institutional Strengthening	$ 345,000	$ 345,000		$ 345,000	$ 517,500	$ 517,500	**$ 1,035,000**	
	MTC: Regulatory Framework	$ 183,333	$ 183,333		$ 183,333	$ 183,333	$ 366,667	**$ 550,000**	
	MTC: Human Resources	$ 333,333	$ 333,333		$ 333,333	$ 1,000,000	$ -	**$ 1,000,000**	
Subcomponent B. Public Sector Modernization Studies		$ 666,667	$ 666,667		$ 666,667	$ 1,000,000	$ 1,000,000	**$ 2,000,000**	
Coordination		*$ 987,900*	*$ 987,900*	*$ 1,140,000*	*$ 378,000*	*$ 3,349,800*	*$ 144,000*	*$ 3,493,800*	17.6%
	Project Coordinating Unit								
	Coordination	$ 120,000	$ 120,000		$ 180,000	$ 420,000	$ -	**$ 420,000**	
	Consulting Unit/Private Sector Development	$ 735,900	$ 735,900			$ 1,327,800	$ 144,000	**$ 1,471,800**	
	Consulting Unit/Public Sector Modernization	$ 132,000	$ 132,000		$ 198,000	$ 462,000	$ -	**$ 462,000**	
	States' Coordinating Units			$ 1,140,000		$ 1,140,000	$ -	**$ 1,140,000**	
Total		**$ 8,346,261**	**$ 8,346,261**	**$ 1,206,000**	**$ 1,906,333**	**$ 12,104,927**	**$ 7,699,928**	**$ 19,804,855**	**100%**
	In percentage	*42.1%*	*42.1%*	*6.1%*	*9.6%*	*61.1%*	*38.9%*		
Sources of Finance									
	TAL for PIID (loan & counterpart funds)	$ 346,728	$ 346,728	$ 186,000	$ 126,000	$ 806,834	$ 198,622	**$ 1,005,456**	
	New Operation (loan & counterpart funds)	$ 7,999,533	$ 7,999,533	$ 1,020,000	$ 1,780,333	$ 11,298,093	$ 7,501,306	**$ 18,799,399**	

Detailed Input Requirement Matrix available on files

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Annex 3

Public Sector Modernization and Decentralization Project

Estimated Project Costs (*)

Project Component	Local	Foreign	Total
	US $ '000		
Privatization at State and Local Levels	6,054	5,672	11,726
Reform & Decentralization at Nat'l Gov.	2,701	1,884	4,585
Coordination	3,350	144	3,494
Total	12,105	7,700	19,805
Total Baseline Cost	11,488	7,279	18,767
Physical Contingencies	272	202	474
Price Contingencies	345	218	563
Total Project Cost	12,105	7,700	19,805

(*) Includes $1.0 million from Ln.3225-VE

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Annex 4

Cost Effectiveness Analysis Summary

(Indicate currency, units, and base year)

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	Financial Analysis[4]	Taxes	Subsidies
Project Costs				

Main Assumptions:

Cost-effectiveness indicators[5]

N/A

[4] If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g., "The difference between financial and economic costs arises from price controls on the inputs."

[5] These indicators should compare the project with a suitable comparator, e.g., unit project costs of alternative project designs or international standards.

Annex 5

Public Sector Modernization and Decentralization Project

Financial Summary

Years Ending June 30
(US $ '000)

	Implementation Period				Operational Period
	FY99	FY00	FY01	FY02	
Project Costs					
Investment Costs	1,309	5,646	6,896	4,107	
Recurrent Costs (estim.)	140	280	280	140	
Total	1,449	5,926	7,176	4,247	
Financing Sources (% of total project costs)					
IBRD	557	2,538	3,130	1,774	
Co-financier (IDB)	557	2,538	3,130	1,774	
Government					
National	215	490	556	520	
State	120	360	360	180	
User Fees/Beneficiaries					
Others					
Total	1,449	5,926	7,176	4,247	

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Annex 6
Public Sector Modernization and Decentralization Project
Procurement and Disbursement Arrangements

Procurement

Procurement methods (Table A)

Procurement will be the responsibility of the PCU in CORDIPLAN and the Executing Units in each state. Their capacity was assessed during appraisal and workshops were planned to enhance their skills. All procurement of goods will be done in accordance with the provisions of Section I of the 'Guidelines for Procurement under IBRD Loans and IDA Credits' dated January 1995 and revised in January and August 1996 and September 1997. Goods estimated to cost $250,000 equivalent or more shall be procured through LIB. Goods with contract values below $250,000 shall be procured through international shopping.

Consultants' services to be provided by firms will be selected in accordance with the quality-and cost-based selection procedures set forth in the 'Guidelines: Selection and Employment of Consultants by World Bank Borrowers', dated January 1997 and revised in September 1997. Individual consultants will be employed for assignments which do not require teams of personnel, and when the experience and qualifications of the individual are the paramount requirement.

Prior review thresholds (Table B)

The procurement of all goods will be subject to the Bank's prior review. The selection of consulting firms and individual consultants for assignments costing the equivalent of US$100,000 and 50,000 or more, respectively, will be subject to the Bank's prior review; for contracts below those amounts, the Bank will have to approve ex-ante only the terms of reference for the respective assignments.

Disbursement

Allocation of loan proceeds (Table C)

Disbursement will be made over a three year period, a shorter than average implementation period which is reasonable given the pilot nature of the project. Table C presents the expected disbursement by category. Fifty-two percent of consulting services and eighty-six percent of good purchases are expected to be local. The project is expected to be completed by September 30, 2001. The closing date for the proposed loan will be March 31, 2002.

Use of statements of expenses (SOEs):

The Borrower will use Statements of Expenditure (SOEs) for contracts below $100,000 in the case of procurement of goods, and below $100,000 and $50,000 respectively for the contracting of firms and individual consultants. The Borrower will maintain separate records of amounts withdrawn through SOEs and retain independent auditors to give an opinion on the adequacy of documents and controls on the use of SOEs.

Special account:

In order to expedite the loan disbursements, a special account with an authorized allocation of US$ 800,000 may be established in the Central Bank of Venezuela on terms and conditions satisfactory to the Bank. The initial deposit will be limited to US$ 200,000 until disbursement from the loan reaches US$ 600,000. For replenishment of the special account, the Borrower will furnish request for deposits at such intervals as the Bank will specify. Prior to each request the Borrower will submit the documents and other evidence for the payments for which replenishment is requested. During negotiations, it was agreed that mechanisms will be established to ensure Cordiplan has timely access to the account.

Financial Management

The Project Coordinating Unit in CORDIPLAN will be responsible for overall financial management of the project, although each state unit will maintain separate accounts and transfer information periodically to Cordiplan. The Units will contract personnel qualified in financial administration and procurement, establish sound financial management systems including adequate accounting, budgeting and reporting, ensure appropriate internal control mechanisms, and contract independent auditors satisfactory to the Bank to undertake the annual audits of all project accounts, financial statements, the Special Account and the SOEs.

A financial management assessment (on file) was undertaken in December 1997 for a project managed by Cordiplan (TAL for PIID Ln. 2335-VE) and specific recommendations produced to make the system consistent with Bank Guidelines. During technical discussions, the Government agreed to hire a specialized consultancy to establish a sound financial management system by effectiveness for the proposed project.

Accounting information submitted to the Bank should comply with the accounting standards of the Bank. To do this all Coordinating Units in the project will have established acceptable accounting and internal control systems to timely record all financial transactions of the project and provide sufficient financial information to monitor project activities. The PCU in Cordiplan will have the responsibility to provide to the Bank within six months after the end of each fiscal year, annual audited financial statements. Unaudited statements may be required by the Bank during the course of the year for monitoring purposes.

Auditing arrangements will have to be made in accordance with standards acceptable to the Bank. The auditing will include an assessment of the quality of the accounting and internal control systems, and of whether adequate documentation was maintained, and a verification of the expenditures submitted. It will be the Borrower's responsibility to ensure that independent auditors are contracted in time.

Table A: Project Costs by Procurement Arrangements

(in US$million equivalent)

Expenditure Category	Procurement Method				Total Cost (*) (including contingencies)
	ICB	NCB	Other (**)	N.B.F	
1. Goods			0.5 (0.5)	1.0	1.5 (0.5)
2. Consulting Services and Training			7.5 (7.5)	9.8	17.3 (7.5)
Total	-	-	8.0 (8.0)	10.8	18.8 (8.0)

Note: N.B.F. = Not Bank-financed.
Figures in parenthesis are the amounts to be financed by the Bank loan
(*) Fresh Financing only (does not include $1.0 million financing from Ln. 3225-VE)
(**) LIB, direct contracting, international shopping.

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Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts Subject to Prior Review
1. Goods	=> $250,000	LIB	All
	< $250,000	Shopping	All
2. Consulting Services			
Firms	=> $100,000	QCBS	All
	< $100,000	QCBS	Review of TORs only
Individuals	=> $50,000	Selection according to Consultant Guidelines	All
	< $50,000	"	Review of TORs only

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Table C: Allocation of Loan Proceeds

Expenditure Category	Amount (US$million)	Financing Percentage
1. Goods	$ 0.4	100% of Foreign and 85% of Local Expenditures
2. Consulting Services and Training	$ 7.1	100% of Foreign and Local Expenditures
3. Unallocated	$ 0.5	
Total	$ 8.0	

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Annex 7
Public Sector Modernization and Decentralization Project
Project Processing Budget and Schedule

A. Project Budget (US$000)	Planned (At final PCD stage)	Actual

B. Project Schedule	Planned (At final PCD stage)	Actual
Time taken to prepare the project (months)	13	
First Bank mission (identification)	05/14/1996	05/14/1995
Appraisal mission departure	06/25/1997	06/25/1997
Start Negotiations	02/25/1998	/ /19
Planned Date of Effectiveness	09/01/1998	/ /19
Procurement Workshop	June 1998	
Publication of the General Procurement Notice	October 1998	
Invitation to integrate short-lists	November 1998	

Prepared by: Cordiplan, Ministry of Transport and Communications, Governments of Aragua, Falcón, and Mérida

Preparation assistance: Technical Assistance Loan for Pre-Investment and Institutional Development, Italian Trust Fund

Bank staff who worked on the project included: Antonio Martín del Campo, Arianna Legovini, José Augusto Carvalho, Gerver Torres, Ellis Juan, Maria del Carmen Miñoso

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Annex 8
Public Sector Modernization and Decentralization Project
Documents in the Project File*

A. Project Implementation Plan

Borrower Implementation Plan
Draft Subsidiary Agreement

B. Bank Staff Assessments

Assessment of the State of Sucre Privatization Experience (Arianna Legovini, August 1997)

C. Other

Environmental Assessment: Resumen Ambiental y Social (IDB November 1997)
Manual de Operación (IDB November 1997)
Financial Management Assessment (Miguel Medina, Consultant, December 1997)

*Including electronic files.

Annex 9
Status of Bank Group Operations in Venezuela
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US$ Millions IBRD	IDA	Cancellations	Undisbursed	Difference Between expected and actual disbursements a/ Orig	Frm Rev'd	Last ARPP Supervision Rating b/ Dev Obj	Imp Prog
Number of Closed Loans/credits: 19												
Active Loans												
VE-PE-8216	IBRD 32250	1990	GOVERNMENT OF VENEZUELA	PRE-INV & INSTIT DEV	30.00	0.00	0.00	13.57	13.56	6.22	S	S
VE-PE-8204	IBRD 32700	1991	GOVERNMENT OF VENEZUELA	SOCIAL DEVT	100.00	0.00	15.00	37.19	52.20	10.54	S	S
VE-PE-8212	IBRD 34950	1992	GOVERNMENT	LOW-INCOME BARRIOS I	40.00	0.00	0.00	22.15	22.16	11.42	S	S
VE-PE-8226	IBRD 34940	1992	GOVERNMENT	STUDENT LOAN REFORM	58.00	0.00	0.00	19.54	19.53	-6.83	HS	HS
VE-PE-8214	IBRD 34200	1992	REPUB OF VENEZUELA A	AG SCTR INV	300.00	0.00	181.95	70.15	252.11	65.16	S	U
VE-PE-8223	IBRD 35530	1993	GOVERNMENT	HWY MGMT	150.00	0.00	40.00	99.87	137.87	4.55	S	U
VE-PE-8227	IBRD 35380	1993	MIN OF HEALTH	ENDEMIC DISEASE CONT	94.00	0.00	20.00	38.21	53.87	4.39	S	S
VE-PE-8233	IBRD 35140	1993	GOV	JUD.INFRA DEV	30.00	0.00	0.00	24.81	24.83	1.00	S	S
VE-PE-8210	IBRD 36570	1994	GOVT OF VENEZUELA ELA	URBAN TRANSP.	100.00	0.00	20.00	63.10	73.09	1.93	S	S
VE-PE-8218	IBRD 36560	1994		BASIC EDUC	89.40	0.00	20.00	62.74	72.66	7.36	S	S
VE-PE-8237	IBRD 39020	1995	GOVERNMENT	INPARQUES	55.00	0.00	0.00	51.37	22.71	4.12	S	S
VE-PE-8222	IBRD 38620	1995	GOVERNMENT	AG EXT	39.00	0.00	0.00	37.59	7.55	3.09	S	S
VE-PE-8215	IBRD 38230	1995	REPUBLIC OF VEN.	HEALTH SERVICE REFOR	54.00	0.00	0.00	48.01	23.58	9.95	S	S
VE-PE-8224	IBRD 40310	1996	GOVERNMENT	MONAGAS WATER	39.00	0.00	0.00	34.09	14.76	0.00	S	S
VE-PE-44325	IBRD 42700	1998	GOVERNMENT	SUPREME COURT STRGTH	4.70	0.00	0.00	4.70	0.00	0.00		
VE-PE-35743	IBRD 42530	1998	GOVT OF VENEZUELA	ENV MGT	28.00	0.00	0.00	28.00	0.00	0.00		
Total					1,211.10	0.00	296.95	655.09	790.48	122.90		

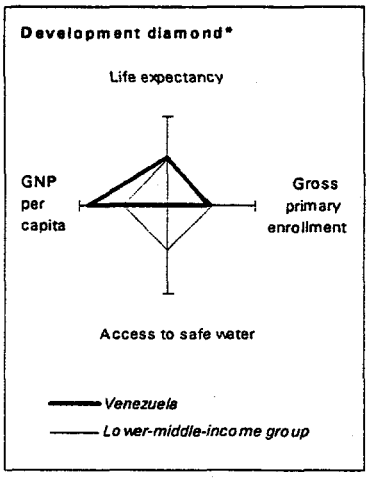
	Active Loans	Closed Loans	Total
Total Disbursed (IBRD and IDA):	259.03	1,779.95	2,038.98
of which has been repaid:	42.83	730.65	773.48
Total now held by IBRD and IDA:	871.32	1,049.30	1,920.62
Amount sold :	0.00	27.54	27.54
Of which repaid :	0.00	27.54	27.54
Total Undisbursed :	655.09	0.00	655.09

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:
Disbursement data is updated at the end of the first week of the month.

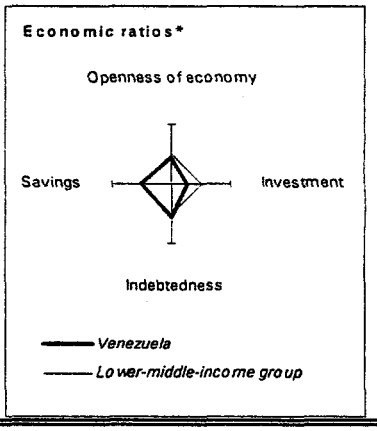
Annex 10: Venezuela at a glance

POVERTY and SOCIAL	Venezuela	Latin America & Carib.	Lower-middle-income
Population mid-1995 (millions)	21.7	478	1,153
GNP per capita 1995 (US$)	3,020	3,320	1,670
GNP 1995 (billions US$)	65.4	1,586	1,930
Average annual growth, 1990-95			
Population (%)	2.3	1.7	1.4
Labor force (%)	3.0	2.3	1.7
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	31	..	..
Urban population (% of total population)	93	74	56
Life expectancy at birth (years)	71	69	67
Infant mortality (per 1,000 live births)	23	37	41
Child malnutrition (% of children under 5)	6	..	..
Access to safe water (% of population)	88	80	..
Illiteracy (% of population age 15+)	9	13	..
Gross primary enrollment (% of school-age population)	96	110	104
Male	95	..	105
Female	97	..	101



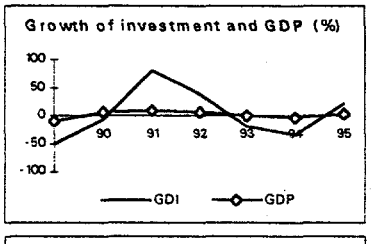
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

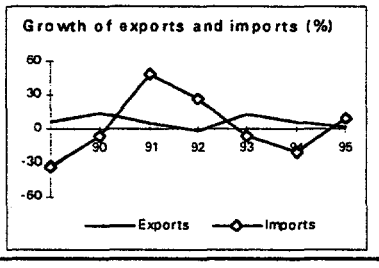
	1975	1985	1994	1995
GDP (billions US$)	32.5	62.0	58.3	75.0
Gross domestic investment/GDP	32.8	18.5	13.2	15.9
Exports of goods and services/GDP	28.8	25.0	30.2	26.7
Gross domestic savings/GDP	39.7	27.7	21.6	20.6
Gross national savings/GDP	39.4	24.1	18.1	18.3
Current account balance/GDP	6.7	5.4	4.4	3.0
Interest payments/GDP	0.4	2.9	3.0	2.8
Total debt/GDP	6.9	57.0	63.3	47.8
Total debt service/exports	5.9	25.0	19.1	21.7
Present value of debt/GDP	..	..	57.1	45.6
Present value of debt/exports	..	..	172.3	152.8
	1975-84	**1985-95**	**1994**	**1995**
(average annual growth)				
GDP	0.1	2.9	-2.8	2.2
GNP per capita	-3.2	0.5	-5.1	0.6
Exports of goods and services	-4.4	5.7	6.3	2.2



STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	5.0	5.8	5.1	5.3
Industry	46.5	43.0	41.7	38.3
Manufacturing	15.7	21.9	17.1	17.2
Services	48.5	51.2	53.2	56.4
Private consumption	48.9	61.8	71.7	73.3
General government consumption	11.5	10.4	6.7	6.1
Imports of goods and services	21.9	15.8	21.9	22.0
	1975-84	**1985-95**	**1994**	**1995**
(average annual growth)				
Agriculture	1.9	1.3	2.2	-0.7
Industry	-0.3	3.8	-3.2	4.0
Manufacturing	3.4	2.0	-3.6	7.2
Services	0.2	2.3	-2.9	1.0
Private consumption	4.9	2.9	-1.9	0.2
General government consumption	2.5	2.7	-7.3	-0.2
Gross domestic investment	-7.0	-0.4	-34.9	23.6
Imports of goods and services	-1.7	3.1	-20.1	9.3
Gross national product	-0.3	2.9	-3.0	2.9





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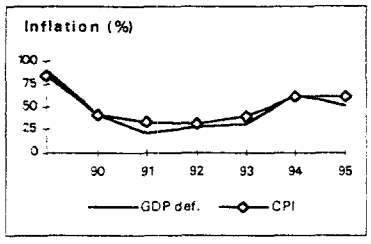
Note: Figures in italics are for years other than those specified. The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

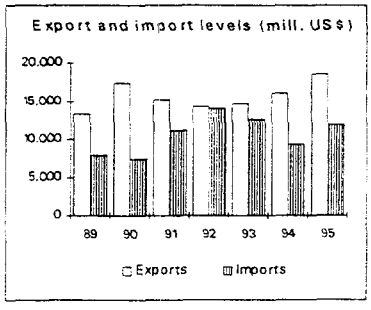
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	10.3	11.2	60.7	59.9
Implicit GDP deflator	5.1	10.4	63.1	50.1
Government finance				
(% of GDP)				
Current revenue	30.5	27.1	19.0	..
Current budget balance	16.3	10.1	2.7	..
Overall surplus/deficit	1.4	5.1	-4.1	..



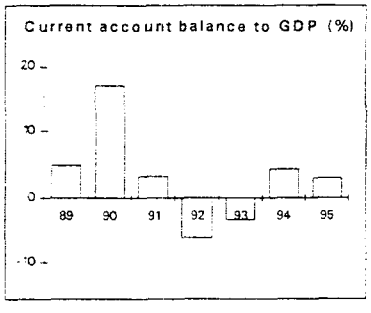
TRADE

	1980	1985	1994	1995
(millions US$)				
Total exports (fob)	19,221	14,438	16,089	18,457
Fuels, minerals, and metals	18,817	12,633	*12,263*	..
Other primary commodities	77	476	*441*	..
Manufactures	327	1,328	*1,983*	..
Total imports (cif)	11,827	8,106	9,187	11,968
Food	1,715	1,046	*1,426*	..
Fuel	189	195	*125*	..
Machinery and transport equipment	5,062	3,429	*6,293*	..
Export price index (1987=100)	161	140	*97*	..
Import price index (1987=100)	96	85	*117*	..
Terms of trade (1987=100)	168	166	*82*	..



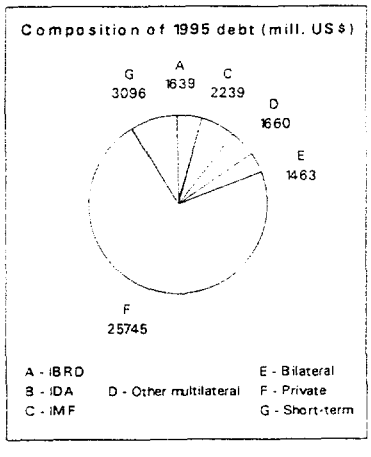
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and services	9,352	15,275	17,679	20,357
Imports of goods and services	7,108	9,544	13,159	16,467
Resource balance	2,244	5,731	4,520	3,890
Net income	100	-2,233	-1,896	-1,746
Net current transfers	-173	-171	-83	111
Current account balance, before official capital transfers	2,171	3,327	2,541	2,255
Financing items (net)	539	-1,627	-3,871	-3,275
Changes in net reserves	-2,710	-1,700	1,330	1,020
Memo:				
Reserves including gold (mill. US$)	9,971	13,998	12,459	10,715
Conversion rate (local/US$)	4.3	7.5	148.5	176.8



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	2,224	35,334	36,853	35,842
IBRD	221	42	1,653	1,639
IDA	0	0	0	0
Total debt service	591	4,304	3,691	4,867
IBRD	34	26	115	235
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	2	6	18
Official creditors	148	-87	406	147
Private creditors	-391	-581	-733	-438
Foreign direct investment	418	68	764	245
Portfolio equity	0	0	42	7
World Bank program				
Commitments	0	0	308	148
Disbursements	14	0	20	47
Principal repayments	18	22	0	116
Net flows	-4	-22	20	-69
Interest payments	16	3	115	120
Net transfers	-20	-26	-95	-189



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