

Project Name Venezuela-Public Sector Legislative ... @  
And Administrative Modernization Project

Region Latin America and Caribbean Region

Sector Public Sector Management Adjustment

Project ID VEPE41807

Borrower(s) Republic Of Venezuela

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Environment Category C

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#### 1. Country and Sector Background

Since taking office, the Chavez administration has introduced a substantial reorientation to the public sector reform and regional development priorities that prevailed during the project's original design. These new priorities are embodied in the New Constitutional Reform agenda. Public sector strengthening and modernization have been assigned a priority standing within the context of the new reform agenda. The new Constitution clearly lays out the basic principals that should underly state restructuring initiatives; namely, integrity, professionalism, accountability, transparency, efficiency citizen participation and social control. It also requires that access to public employment as well as the retention, promotion and dismissal of public employees be subjected to the merit principle and to a well regulated civil service career. The new Constitution also calls for a set of institutional and legislative initiatives, that would govern the intergovernmental relations that would prevail in Venezuela. Moreover, the Constitution does not define a clear and distinctive form of territorial administration, but instead defers final definition of intergovernmental relations to future legislation. To this end, the Constitution mandates the approval of legislation on the Territorial Fiscal Regime, the establishment of a Territorial Compensation Fund, and the creation of the Federal Government Council (Consejo Federal de Gobierno). In light of the present ambiguity the nature of future intergovernmental relations in Venezuela will ultimately be defined by the abovementioned legislative initiatives. To address the change in priorities, the Ministry of Planning prepared a "Comprehensive

Institutional Development Plan" (CIDP) to implement the abovementioned constitutional mandates., In line with the above, the Government has requested that the Bank restructure the original operation so that it may better support, core public sector reforms resulting from the 1999 Constitutional Process, particularly by providing support to the implementation of the CPID. As explained in greater detail below, the restructured project as proposed will support a significant portion of the CPID, and in so doing will largely respond to the Government's request.

## 2. Objectives

**Original Objective.** The original objectives of the \$8.0 million Public Sector Modernization and Decentralization Project were to (a) increase the efficiency of public sector management of state productive enterprises and infrastructure, and improve the fiscal and financial situation of participating state governments; and (b) strengthen the national regulatory framework in some transport sub-sectors, and rationalize existing institutional structures in the national government.  
**New Development Objective.** The general objective of the restructured project is to improve the efficiency and the efficacy of the Venezuelan public sector. The specific objectives are to: (i) modernize the Public Sector's regulatory framework and, (ii) provide both national and sub-national governments with modern and automated management systems, necessary to help implement the legal reforms mentioned in (i) above.

## 3. Rationale for Bank's Involvement

In line with the objectives of the latest CAS, the proposed operation would be aimed at improving the efficiency, effectiveness and transparency of national and subnational governments. The former project, could at best offer only a limited impact toward strengthening and modernizing the Venezuelan state. Indeed, the previous project was designed in acknowledgement of weak government commitment to pursuing any profound Public Sector reform programs. Ultimately, the new administration would withdraw all support for the original operation, now not in line with its 1999 Constitutional Reform program, expressing instead its strong commitment to implement and develop the mandates of the Constitution, which calls for a strong refurbishing of the Public Sector.

The proposed project aims at helping the Government to do precisely that. It would put in place the foundations necessary for a modern, efficient, effective and transparent state, and furthermore strengthen the management capacity of strategic State functions. The alternative of canceling the original project and preparing a new State Modernization and decentralization operation from scratch was rejected given that the pace of reforms prescribed in the Government's "Comprehensive Institutional Development Plan" requires a rapid response. The added delay stemming from the needed preparation time for the loan would add no value, while obviating timely provision of assistance.

## 4. Description

The reformulated project would support Government initiatives geared at improving the efficiency and efficacy of the Venezuelan public sector as delineated in its "Comprehensive Institutional Development Plan" (CIDP) by supporting the following two components and associated subcomponents:A. Technical Assistance for the Development and Implementation a Basic Legal Framework for the Public Sector. This component will finance technical

assistance necessary for: (A.1) the preparation, discussion, and approval of those laws already envisioned in the National Assembly's Legislative Agenda, that will make up the Public Sector's basic legal framework; and (A.2). the preparation, discussion, and approval of the corresponding administrative regulations.

A1. Development of Key Legislation. The National Assembly is scheduled to process a number of legislative initiatives that will define the nature of Public Administration in Venezuela, its relationship with the citizenry (including citizen participation and social control), and the relationship between the central and sub-national governments. This component will finance all technical activities necessary for the preparation, discussion and approval of at least four of the following laws: (i) Civil Service; (ii) Territorial Compensation Fund; (iii) Municipal and State Finances; (iv) Municipalities; (v) Planning; (vi) "Consejo Federal de Gobierno"; (vii) Government Accountability; (viii) Citizen Participation and Social Control; and (xi) Electronic Transactions. Financing of any other laws not included in the previous list would require prior Bank approval.

A2. Development of Key Regulations. The process of reforming Venezuela's Public Sector's legal framework requires that the Executive branch develop and enact the corresponding administrative regulations. This component will finance all technical assistance necessary to develop and enact a number of regulations (to be determined) from the following list: (i) Regulations to the Public Administration Organic Law; (ii) Public Sector Salaries Regulation; (iii) any of the regulations necessary to implement the laws mentioned in A1. above; and (iv) National Statistics Law Regulation.

B. Strengthening of the management and operational capacity of both National and sub-national government levels to undertake key strategic functions. This component will finance the technical assistance, procurement of goods and IT systems, and training services necessary to: (B.1) improve the Central Government's capacity to manage some (?) strategic functions; and (B.2) strengthen the sub-national governments' capacity to prepare budgetary plans on a participatory basis and to develop investment projects.

B1. Strengthening of Central Government's Management Capacity. This component will support the development and implementation of the following systems: (i) Human Resources Management including a staff performance evaluation system; (ii) Procurement; (iii) Planning and Evaluation; and (iv) simplification of administrative procedures.

B2. Strengthening of the Sub-national Governments' Participatory Planning and Budgeting Capacity. This component will support the provision of technical assistance to six States and municipality within one of the six States to: (i) enhance their ability to produce financial statements, control public expenditures and generate adequate financial and expenditure reports; (ii) strengthen the participatory basis of their planning and budgeting functions; and (iii) prepare investment projects.

## 5. Financing

Total ( US\$m)

BORROWER 1.5

Total Project Cost 9.5

## 6. Implementation

Project implementation will span three years. The Ministry of Planning will be the Executing Agency (EA). The Implementation Unit of the former Pre-investment and Institutional Development Project (PIID) will serve as

the Project Implementation Unit (PIU). This unit has continued operations since the PIID's close in June 2000 and is presently implementing a Technical Assistance program financed by the Andean Development Confederation (CAF). The National Assembly's Technical and Economic Office (NATEO) will be responsible for the execution of Component A1. and as such will: (i) prepare all necessary terms of reference (TORs); (ii) supervise consultants work; and (iii) conduct all essential activities (i.e., seminars, workshops, focus groups, etc.) to reach the political agreements necessary to ensure passage of the corresponding laws. NATEO will submit the corresponding TORs PIU approval and ultimate submittal to the Bank. The PIU in turn will ensure that bidding, procurement, contracting, and disbursements, are undertaken in accordance with the associated Bank guidelines and the proposed loan agreement. It will furthermore be responsible for monitoring the overall progress of the project, overseeing contract completion, tracking disbursements, preparing semi-annual progress reports, and providing assistance to Bank supervision missions.

#### 7. Sustainability

The government's objective to promote a more effective, efficient and transparent public administration based on a modern legislation and systems, is ambitious and requires a well managed sequence of legal, institutional and procedural reforms. This project focuses on the development of the basic Public Sector legal framework and the improvement of the management capacity of key administrative functions at the national and sub-national levels. The feasibility of the development of key legislation and corresponding regulations and the development and implementation of key management systems will depend on: (i) a close coordination among the different responsible units and their stakeholders; (ii) the use of a broad-based and profound participatory approach in the development of new legislation and regulations and in the development and implementation of new management systems; and (iii) efficient and productive use of technical assistance provided under the loan. Longer term sustainability will depend in part on: (i) ongoing macro-economic and political stability; and (ii) government commitment and ability to implement the reform agenda stemming from the new legislation and update the new management systems.

#### 8. Lessons learned from past operations in the country/sector

Among the key lessons learned from the experiences of other Bank projects and applied in the design of this operation are: the need for borrower commitment, strong project leadership, and sensitivity to political-economic issues. Borrower Commitment. Evidence of the borrower's commitment to the projects objectives lies in the fact that the broadbased public sector restructuring called for by Chavez' 1999 Constitution is to be carried out in accordance with the Comprehensive Institutional Development Plan which constitutes the basis for the present operation (Components A and B). On the other hand, Government commitment to enacting the basic legal framework for intergovernmental relations to be prepared under Subcomponent A1, is promising by virtue of the fact that the related laws are already envisioned in the National Assembly's Legislative Agenda. Strong Project Leadership. The National Assembly's Technical and Economic Office (NATEO) will be responsible for the execution of Component A1. NATEO was established and continues to function with support from the Inter-American Development Bank. It has

gained a reputation as a competent, independent, efficient and effective institution. In its capacity as technical office of the National Assembly, NATEO prepares economic impact evaluations of each law to be considered by Congress and oversees their respective processing of approval. It has a strong record as an effective institution that gets things accomplished. The Ministry of Planning, which is responsible for the overall execution of the whole operation on the other hand, has the support of a strong and recently issued constitutional mandate. They have already initiated reforms in some areas and have included transparency and social participation and control themes as priorities in the modernization effort. Sensitivity to Political Economic Issues. The change in the project's development objectives is tailored to the current political environment. Also, the limited scope of the project (i.e., development of the basic Public Sector legal-framework and strengthening of the management capacities in key, but few, strategic functions) reflects an understanding that the Public Sector reform process is a long-term endeavour, that should be approached in a sequential manner, by building strong solid foundations in order to avoid future conceptual contradictions. In line with the 1997 World development Report, this project: (i) attempts to help the GOV in redefining the role of the state, by supporting the development of a state bureaucracy based on principles of efficiency, effectiveness, transparency, integrity, professionalism, accountability, citizen participation and social control, and (ii) supports the development of strategic management functions such as results-oriented policies and systems for organizations and personnel, explicit social participation and control in the management of public affairs.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation)

Issues : The project would not directly trigger the Bank's safeguard policies. In the event that during its implementation, the project were to touch on privatization of public entities such as utilities, the regulatory framework would require audits and disclosure of the environmental liabilities of any companies privatized and mechanisms for assuring that negative environmental impacts are properly mitigated.

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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