

RETURN TO
REPORTS DESK
WITHIN
ONE WEEK
FILE COPY

RESTRICTED

WH152
Vol. 1

This report was prepared for use within the Bank and its affiliated organizations. They do not accept responsibility for its accuracy or completeness. The report may not be published nor may it be quoted as representing their views.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

AN APPRAISAL OF
THE DEVELOPMENT PROGRAM
OF VENEZUELA

VOLUME I

THE MAIN REPORT

August 17, 1965

Western Hemisphere Department

CURRENCY EQUIVALENTS

Selling Rate

U.S. \$1.00 = Bs. 4.50 (Bolivares)
Bs. 1.00 = U.S. \$0.22
Bs. 1,000,000 = U.S. \$222,222

Petroleum Exports

U.S. \$1.00 = Bs. 4.40

Other Exports

U.S. \$1.00 = Bs. 4.48

THE MISSION

Jonas H. Haralz.....Chief of Mission
Louis J. Walinsky*.....Public Investment Program Adviser
Enrique Lerda.....Chief Economist
Risto Harma.....Agricultural Economist
"Gosta Julen.....Agricultural Adviser
Konrad Studnicki-Gizbert.....Transportation Economist
Peter Engelmann.....Port Adviser
S. Clifford Hardy.....Highway Adviser
Emil Erdreich.....Industrial Economist
Ruperto Casanueva.....Public Health and Sanitation Adviser
Roelof vanDiffelen.....Education Adviser
Miss Larissa Tung.....Mission Secretary

In addition, the Mission received assistance from Mr. Bernard Zinman (Loan Operations), Mr. Frederick H. Howell (Electric Power) and Professor Carl S. Shoup (Taxation).

* Also served as Housing Adviser.

TABLE OF CONTENTS

	<u>Page No.</u>
BASIC DATA	i - ii
GLOSSARY OF ABBREVIATIONS	i - ii
SUMMARY AND CONCLUSIONS	i - iii
I. THE GENERAL REPORT	1
A. Introduction	1
B. Recent Economic Situation	2
C. The Size and the Financing of the Program	4
D. The Composition of the Program	13
E. The Role of External Borrowing	17
F. The Program and the Economy	21
II. A REVIEW OF THE SECTOR PROGRAMS	25
STATISTICAL APPENDIX	
APPENDIX A - Petroleum	
APPENDIX B - The Balance of Payments	
APPENDIX C - Taxation and Other Revenue Measures	
APPENDIX D - Public Debt	

BASIC DATA

<u>Area:</u>	352,000 square miles	
<u>Population (mid-1964)</u>	<u>8.4 million</u>	
Rate of growth 1950-1964	3.5%	
Population density per square mile	231 ^{1/2}	
<u>Gross national product 1964 (est.)</u>	<u>31.4 billion Bolivares</u>	
Rate of growth 1960-1964	5.1%	
1964	7.5%	
Per capita 1964: US\$	\$830	
<u>Gross domestic product 1964 (est.)</u>	<u>34.7 billion Bolivares</u>	
of which Agriculture	7.1%	
Petroleum	20.6%	
Mining	1.1%	
Manufacturing	17.6%	
Construction	6.3%	
Other	47.3%	
<u>Per cent of GDP at market prices</u>	<u>1964</u>	<u>1960-1964</u>
Gross investment (est.)	19.8	18.2
Gross saving (est.)	25.1	23.3
Balance of payments on current account		
deficit	surplus	surplus
Investment income payments (est.)	9.6	8.4
Government current revenues	20.5	21.3
<u>Resource gap as per cent of investment</u>	-	-
<u>Money and credit</u>	<u>December 1964</u>	<u>Annual rate of change 1960-64</u>
Total money supply	Bs. 4416.5 million	5.4%
Time and savings deposits	Bs. 2548.6 million	11.2%
Commercial bank credit to private sector	Bs. 5224.8 million	n.a.
Other lending to private sector	n.a.	n.a.
Rate of change in prices	3.8%	3.3%
<u>Public sector operations</u>	<u>1964</u>	<u>Annual rate of change 1962-64</u>
Government current receipts	Bs. 7,125 million	9.8%
Government current expenditure	Bs. 4,221 million	8.1%
Surplus	Bs. 3,904 million	30.2%
Government capital expenditures	Bs. 2,224 million	7.0%
Public investment expenditures (est.)	Bs. 4,136 million	n.a.
Total external assistance to public sector	Bs. 385 million	n.a.

^{1/} Population density is between 50-200 per square mile in most populous region where 70 per cent of inhabitants reside.

<u>External public debt in US\$</u>		<u>1960-1963</u>	<u>1965</u>
Total debt ^{1/}		141.6 million (1960)	180.6 million (1964)
Total annual debt service		104.8 million (1962)	45.0 million
Debt service ratio		4%	2%
 <u>Balance of Payments in US\$</u>		<u>1964</u>	<u>Annual rate of change 1960-1964</u>
Total exports		2,567	1.8%
Total imports		1,141	-
Net invisibles		-1,018	8.1%
Net current account balance		408	-5.4
		<u>Average 1960-1964</u>	<u>1964</u>
Commodity concentration of exports (petroleum)		92.8%	93.4%
Gross foreign exchange reserves		\$703 million or 7.6 months' imports	\$831 million or 8.7 months' imports
 <u>External financial assistance in US\$</u>		<u>1961-64</u>	<u>1964</u>
		<u>Commitments</u>	<u>Disbursements</u>
<u>Total</u>		<u>430.4 million</u>	<u>160.4 million</u>
<u>Soft assistance</u>		<u>106.7 million</u>	<u>46.8 million</u>
<u>Hard assistance</u>		<u>323.7 million</u>	<u>113.6 million</u>
		<u>76.8 million</u>	<u>53.0 million</u>
		<u>10.0 million</u>	<u>n.a.</u>
		<u>66.8 million</u>	<u>n.a.</u>

^{1/} Net of undisbursed. If undisbursed amounts are included, total debt as of June 30, 1960 was US\$201.6 million and as of December 31, 1964 US\$414.1 million.

GLOSSARY OF ABBREVIATIONS

BAP	Banco Agrícola y Pecuario Agricultural and Livestock Bank
BI	Banco Industrial Industrial Bank
BO	Banco Obrero Worker's Bank (Housing)
CADAFE	Compañía de Administración y Fomento Eléctrico Electric Power Development and Administration Company (Subsidiary of CVF)
CANTV	Compañía Nacional de Teléfonos de Venezuela National Telephone Company
CORDIPLAN	Oficina Central de Coordinación y Planificación Central Coordinating and Planning Office
CVF	Corporación Venezolana de Fomento Venezuelan Development Corporation
CVG	Corporación Venezolana de Guayanas Guayanas Corporation (Regional Development)
CVP	Corporación Venezolana de Petróleo Venezuelan Petroleum Corporation
EDELCA	Electrificación del Caroní Caroní Power (Subsidiary of CVG)
IAAFN	Instituto Autónomo de Administración de Ferrocarriles Nacionales Autonomous National Railroads Administration
IADA	Instituto Autónomo de Diques y Astilleros Autonomous Docks and Wharfs Institute
IAN	Instituto Agrario Nacional National Agrarian Institute (Agrarian Reform)
INC	Instituto Nacional de Canalizaciones National Canals Institute
INCE	Instituto Nacional de Cooperación Educativa National Institute for Educational Cooperation (Vocational Training)

INOS	Instituto Nacional de Obras Sanitarias National Institute for Sewage and Water Supply
IPASME	Instituto de Previsión y Asistencia Social para el Personal del Ministerio de Educación. Social Security Institute for Employees of the Ministry of Education.
IPSFA	Instituto de Previsión Social de las Fuerzas Armadas Social Security Institute for Members of the Armed Forces
IVP	Instituto Venezolano de Petroquímica Venezuelan Petrochemical Institute
LAV	Linea Aeropostal Venezolana Venezuelan Airline
MAC	Ministerio de Agricultura y Cria Ministry of Agriculture and Livestock
MOP	Ministerio de Obras Públicas Ministry of Public Works
SNAP	Sistema Nacional de Ahorro y Préstamo National Savings and Loan System

SUMMARY AND CONCLUSIONS

1. The Venezuelan Government's development program for 1965-1968, now in the final stage of preparation, is well designed to achieve the Government's principal aims: a satisfactory rate of economic growth, a significant expansion of public welfare, and a gradual strengthening of the non-petroleum sectors of the economy relative to the petroleum sector. The program includes a vigorous extension of previous efforts to provide the country with a fully adequate system of transportation, especially road transport. It foresees the continuation of previous plans to provide for an ample supply of electric power. It sets ambitious goals in education, health and housing. It seeks to promote vigorous agricultural development through extension of agricultural credit, development of irrigation areas and agrarian settlements. Finally, it provides for determined government action, in cooperation with private capital, to promote the metallurgical and the petro-chemical industries, which are considered by the Government to be of prime importance for the future industrial development of the country.

2. Serious obstacles will be encountered in carrying out the program as planned because of a general lack of skilled manpower, organizational weaknesses of important government agencies, and a shortage of financial resources. It is the mission's opinion that these obstacles can, to a large extent, be overcome through appropriate and determined government policies and that these policies should therefore be designed and implemented as soon as possible. But since they cannot be expected to become fully effective until the second half of the program period, in 1967 and especially in 1968, it is inevitable that the expenditures of the present program be substantially reduced for 1966 and, to a much smaller extent, for 1967. By the same token, a significant increase in the program expenditures for 1968 ought to be possible.

3. The program adjustments suggested by the mission involve primarily postponement to 1967 and 1968 of projects which had been scheduled to start earlier, but also reflect inevitable delays in execution in certain program areas. The mission also suggests the initiation of a few new programs and projects, which were not included in the original program. In spite of these additions the total adjusted program would be somewhat smaller than the original one. The mission discussed the suggested adjustments with the Government Planning Office, CORDIPLAN, and with many of the agencies concerned during its stay in Venezuela. In many instances, adjustments similar to the ones suggested by the mission were already being considered by CORDIPLAN and the agencies concerned.

4. While the program recommended for 1966 would thus be adjusted to the limitations of existing organizational, manpower and financial resources, measures would simultaneously be taken to expand these resources and thus pave the way for an enlarged program in 1968. These measures would include the strengthening of organizations, improvements in the technical and economic preparation of projects and modification of policies. Present and prospective shortages of skilled manpower would to some extent be relieved

by special short-term training courses, while at the same time the educational system would be reshaped and expanded. Lastly, financial resources would be expanded by improvements in tax administration and increases in tax rates and service charges, as well as by increased recourse to domestic and foreign borrowing.

5. In order to maintain the confidence of the major economic groups of the country and to assure their cooperation in the Government's development efforts, it is of major importance that the implementation of the program should not lead to inflationary price increases or to an excessive loss of foreign exchange reserves. The mission believes that the size it has suggested for the adjusted program, together with the measures and policies it recommends, will make it possible to maintain internal and external stability, without pre-empting resources required by the private sector. Inevitably, however, the economy will be operated at a narrower margin of safety than before. It will be necessary, therefore, for the Government to be prepared promptly to adjust programs and policies as circumstances may require.

6. In the past, the high level and rapid growth of its oil revenues have permitted Venezuela to maintain a low level of taxation of the rest of the economy. The prospect of slower growth in the oil sector, combined with the need for a rising level of development expenditures, now makes a gradual increase of other taxes necessary. The mission discussed with the Venezuelan authorities a number of structural and rate changes which, in total, would achieve the indicated revenue targets and which would, at the same time, help to create a more efficient and equitable system of taxation. They include a strengthening of the administration of income, customs and liquor taxes; increases in motor vehicles user charges; improved administration, and increases in the charges for services of some public agencies; an increase in personal income tax rates, and their application to income from dividends; a reduction in the number of steps in the corporate income tax, resulting in an increase in average effective rates; increases in estate and inheritance taxes; increases in import duties and excises on luxury items; and finally, increases in urban and rural property taxes for the benefit of municipalities and states. These measures would provide a somewhat larger amount than is required for the financing of the adjusted program, thus leaving a range of choice for the authorities in the revenue and borrowing decisions they make.

7. The relatively high level of private savings in Venezuela, combined with high liquidity, makes it feasible to resort increasingly to the sale of government bonds to the public for the financing of economic development. As the capital market is not much developed, the amount of this financing is bound to be limited for the next few years. Nevertheless, a significant and increasing contribution to domestic finance can be expected from this source, and measures should be taken to help expand this contribution in the longer run.

8. External borrowing on a substantial scale forms an integral part of the 1965-1968 program. The favorable economic prospects and low indebtedness of Venezuela leave a wide scope for such borrowing, but major efforts

will be required for its realization. Projects and programs will have to be prepared, which are well justified, economically as well as technically, the organizations responsible for program execution strengthened and complementary domestic financing mobilized. If these efforts are successful, the mission estimates that the utilization of external loans could average some US\$170 million per year during the program period, and could cover about 15 per cent of program expenditures. In spite of this increased borrowing, the debt service ratio would remain below 4 per cent of exchange earnings at the end of the program period.

I. THE GENERAL REPORT

A. Introduction

1. This is the report of an economic mission which visited Venezuela in March-May of 1965 for the purpose of studying and appraising the development program of the Venezuelan Government for the years 1965-1968. When the mission arrived in Venezuela, the 1965-1968 program, a new and extended version of a previous program for the years 1963-1966, was still in preparation in the Government Planning Office, CORDIPLAN. Programs of individual ministries and agencies were being received and revised, estimates of financial resources were being prepared and projections of balance of payments were being made. Before the mission left Venezuela a preliminary over-all program had taken shape. This program was intended to be an approach to the final program and was to be adjusted in the lights of emerging conclusions regarding its size, financing and composition. The mission was able to participate in this process of program adjustment. It participated in discussions on sector investment programs between CORDIPLAN and the ministries and agencies concerned; it participated in discussions on over-all program financing between the Ministry of Finance and CORDIPLAN; and it discussed balance of payments and monetary implications of the program with CORDIPLAN and with officials of the Central Bank. From these discussions, and from the further considerations of the mission after its return from Venezuela, a series of suggestions for the preparation of the final four year program have emerged. The mission discussed most of these suggestions with the Venezuelan authorities during its stay in Venezuela. Some of them originated with the mission itself, others were already being considered by CORDIPLAN or other authorities. In early July some members of the mission returned briefly to Venezuela to discuss their preliminary findings and conclusions with the Government. They found agreement with many of the mission's recommendations and willingness to give serious consideration to others in formulating the final program. Many of the mission's findings coincided with suggestions already under discussion inside the Government and the political parties.

2. This report begins with a brief review of recent economic developments in Venezuela and the present economic outlook. With this review as a background, it presents the preliminary unadjusted program and the adjustments recommended by the mission regarding the size and composition of the program, as well as its domestic and external financing. It then reviews the recommended adjusted program, analyzes its implications for economic growth and social welfare and its compatibility with external and internal stability, and appraises the general economic policies of the Venezuelan Government related to the program.

B. Recent Economic Situation^{1/}

3. After several years of recession, the Venezuelan economy has, since 1962 been undergoing a process of vigorous expansion. Oil revenues have risen substantially and have been used to finance increases in public investment and to repay external and domestic debts. However, future expansion is likely to take place at a more restrained pace. Industrial capacity is now more fully utilized, skilled manpower is becoming more scarce and the Government administrative machinery is becoming more strained. Furthermore, oil revenues are likely to rise more slowly in the future, while current public expenditures - especially for health and education - will continue to rise substantially, so that increasing financial constraints on further expansions in public investment may be expected.

4. The recession was originally brought about when the oil investment boom came to an end in 1958, at the time that the country was going through an arduous transition from dictatorship to democracy. The new Government found itself burdened with large short-term debts, domestic and foreign, incurred by the previous regime to finance an ambitious and, to some extent, wasteful program of public works. It also found itself faced with a loss in government revenue and foreign exchange earnings, a severe flight of capital and the collapse of a speculative construction boom in Caracas with ensuing unemployment and failures of private firms and financial institutions. After first attempting to alleviate unemployment by an emergency public works program, the Government had to resort to exchange and import controls, a partial devaluation of the currency and a strongly restrictive fiscal policy, including a reduction in salaries of public employees. As a result of these measures, the balance of payments position improved substantially in 1961 and economic growth was resumed in 1962. The recovery was helped by an increase in oil revenue which resulted from a revision of petroleum income taxation and a renewed increase in exports.

5. From 1962 to 1964 the economy has been expanding at the high average rate of almost 7 per cent annually. The upswing has been supported by some increase in public works, especially in road building, by a revival of private construction in the cities and by good agricultural crops. Because of the large excess capacity which existed in manufacturing industry, production of manufactures has been able to expand by about 10 per cent a year without the support of major new investments. Private consumption has increased substantially. So have savings, both private and public. Unemployment has diminished while at the same time the drift of people from the land to the cities has been reduced, partly as a consequence of land reform efforts.

6. The sharp recovery of production and expenditures has proceeded simultaneously with a continued strengthening of the balance of payments and, until recently, without internal price increases. Foreign exchange reserves have increased substantially and were at the high level of more than \$800

^{1/} For a more detailed analysis, see Recent Economic Developments in Venezuela, IBRD Report No. WH-145a, March 25, 1965.

million at the beginning of 1965. Short-term foreign debts have largely been paid up, while the utilization of long-term foreign credits has remained at a low level. Fiscal policy has played a major role in these developments.

7. The caution shown by the larger commercial banks initially helped to keep credit expansion at moderate levels. In 1964 and early 1965, however, under the impact of the accelerating upswing, and aided by the existence of large excess reserves, commercial bank credit to the private sector began to expand substantially and some pressures on domestic prices began to emerge. However, wage pressures have until now been held back by relatively high unemployment and the moderation of the trade unions. Collective agreements have been made for periods of one to three years and wage increases have remained below 5 per cent a year.

8. The new Government which took office in 1959 as the first democratically elected regime after ten years of dictatorship was strongly committed to far-reaching social and economic reforms. Economic conditions, especially the need to follow a restrictive fiscal policy, as well as manpower and organizational limitations, have prevented it from fully carrying out its intentions. Nevertheless, a number of important measures have been adopted, some of which have had a profound impact on the social and economic structure of the country. The number of children attending primary schools has risen from 65 per cent of the 7-13 year old age group in 1958 to 76 per cent in 1964. The number of people to whom potable water is available more than doubled in rural areas between 1958 and 1964 and increased by more than 70 per cent in urban areas, thus covering 60 per cent of the country's population. An ambitious program of land reform, agrarian settlement and general agricultural development has been initiated. Industrial development has been strongly promoted by tariff protection and more particularly, by import controls and the granting of credits through official institutions. Economical power resources are being developed on a large scale. Through its own specialized institutions, and partly in cooperation with domestic and foreign private capital, the Government is attempting to lay the foundations for export-oriented petro-chemical and metallurgical industries.

9. At the completion of the Government's five year term in 1963, democratic elections were successfully held in spite of an active terrorist campaign, and the present administration took office. This Government is engaged in continuing and intensifying the efforts of its predecessor. It is, however, confronting a situation significantly different from that of recent years. Idle capacity in manufacturing and construction has greatly diminished and the scarcity of skilled manpower is making itself progressively more felt, as are some limitations in the administrative capability of government organizations for executing expanded programs. At the same time, there has been a sharp increase in imports, and domestic prices have recently shown some tendency to rise. While in the nineteen-fifties economic growth was strongly supported by expansion of the oil industry, and in the early nineteen-sixties by an increasing sharing of oil revenue, the outlook is now for only a slow growth in oil production and revenue. The Government's program for continued economic and social betterment now in preparation will thus have to be shaped with due regard to this new situation. Care will have to be taken that expansion of public and private investment will not create excessive pressures on existing resources while policies which can bring about a gradual increase in these resources are being designed and implemented.

C. The Size and the Financing of the Program

The Preliminary Program

10. According to the preliminary program prepared by CORDIPLAN during the mission's visit in Venezuela, total expenditures for public investment, land purchase and credits of government financial institutions during 1965-68 were to amount to Bs. 20.5 billion (see Table 1 and 3). These expenditures, which comprise the entire public sector, the Central Government, autonomous public agencies and states and municipalities, will hereafter be referred to as "unadjusted program expenditures". By years these expenditures were to be divided as follows:

<u>Unadjusted program expenditures</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u>
Bs. billion	3.8	5.8	5.7	5.2	20.5

While entirely comparable figures are not available for previous years, neither for actual nor planned expenditures, it appears that the 1965 figure of Bs. 3.8 billion, for which provision had already been incorporated in the 1965 Central Government budget, did not imply any appreciable increase over the corresponding 1964 figure. But a large increase was to take place in 1966, to be followed by a slight tapering off in 1967 and 1968. In relation to the gross national product, program expenditures would increase from a level of about 11 per cent in 1964 and 1965 to above 16 per cent in 1966, subsequently to fall again to 13 per cent in 1968.

11. An increase in program expenditures of nearly 60 per cent is not realistic. It would greatly exceed the capacity of government agencies for effective implementation and would also exceed available financial resources and create strong inflationary pressures. But this preliminary program does not, in fact, represent the Government's considered and final intentions. Rather, it represents a first step in the process of program preparation, and naturally tends to concentrate into the near future expenditures for most projects that are already under way or that are far advanced in their preparation. Moreover, it does not take full account of projects that are not yet prepared but that are likely to be ready before the end of the period. While a curtailment of the 1966 expenditure figure will thus be inevitable, some of the cuts that would seem most advisable on the basis of general consideration of sectoral priorities and program balance, become difficult because commitments, or even contracts, for particular public works have already been made for that year.

12. The financial problem that would be presented by the projected increase in expenditures for public investment and credit in 1966 would be compounded by the sharp increase in public current expenditures which is also expected during that year. This increase, which would largely result from an increase in the salaries of government employees, making up for a reduction in 1961, and from the expansion of social security benefits and current educational and health services, would raise total public sector current expenditures by 14 per cent in 1966. For the period beyond 1966,

CORDIPLAN in cooperation with the Ministry of Finance has informed the ministries and agencies of the Government's intention to avoid further increases in current expenditures during the program period. The projected increases for 1967 and 1968 remain at the relatively moderate levels of 5 per cent and 7 per cent, respectively.

13. The relatively slow growth of Venezuelan petroleum production, combined with the declining tendency of world petroleum prices, make it highly probable that oil revenues, which account for about 70 per cent of total Central Government revenue, will increase only slowly during the program period. This will be partly compensated by a more rapid increase in other government revenue and by the substantial increase expected in the current receipts of autonomous government agencies, according to their and CORDIPLAN's estimates. In the face of the rather sharp increases in current expenditures, however, the anticipated increase in the surplus on current account will not be large enough to finance more than a minor share of the intended increase in program expenditures.

Bs. billion	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	Total <u>1965/68</u>
Current receipts	8.2	8.95	10.0	10.5	11.1	40.55
Current expenditures	<u>5.7</u>	<u>6.3</u>	<u>7.2</u>	<u>7.55</u>	<u>8.05</u>	<u>29.1</u>
Surplus on current account	<u>2.5</u>	<u>2.65</u>	<u>2.8</u>	<u>2.95</u>	<u>3.05</u>	<u>11.45</u>

14. In addition to the surplus on current account, the unadjusted program expenditures were to be financed by the net utilization of already committed domestic and foreign credit and by other capital sources, mostly representing repayments of loans to government banks and deposits in savings and loan associations. (CORDIPLAN had not yet incorporated the utilization of domestic and foreign loans not contracted at the time the program was prepared.) On this basis, the financing gap of the unadjusted program was Bs. 7.5 billion over the entire 1965/68 period.

Bs. billion	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	Total <u>1965/68</u>
<u>Program Expenditures</u>	<u>3.8</u>	<u>5.8</u>	<u>5.7</u>	<u>5.2</u>	<u>20.5</u>
Surplus on current account	2.6	2.8	2.9	3.1	11.4
Foreign and domestic loans already contracted and other capital sources (net)	0.8	0.4	0.3	-	1.5
<u>Financing Gap</u>	<u>0.4</u>	<u>2.6</u>	<u>2.4</u>	<u>2.1</u>	<u>7.5</u>

15. The estimates of Central Government revenue prepared by the Ministry of Finance and CORDIPLAN substantially understate the revenue increases which are likely to take place during the program period. This underestimation applies to some extent to oil revenues and, to a greater extent, to

non-oil income taxes, customs duties and other revenue where prospective increases in taxable income and the likely effects of rising imports and consumption were not adequately taken into account. The estimates were revised in discussions between the mission and officials of CORDIPLAN and the Ministry of Finance. These revisions reduce the original financing gap by about one-fifth to a remaining gap of Bs. 6.0 billion, divided by years as follows:

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total 1965/68</u>
<u>Remaining financing gap</u> Bs. billion	0.2	2.2	2.0	1.5	6.0

16. The mission's approach to the problem of how this remaining financing gap might best be closed was influenced by its generally favorable reactions to the constructive nature of the program and its belief that, with some rephrasing, pruning and strengthening, it would merit efforts to augment resources for its support, albeit, on a slightly reduced scale. During the last part of the mission's stay in Venezuela, its discussions with CORDIPLAN and the Ministry of Finance thus centered on ways of bridging the remaining financing gap by adjusting program expenditures and augmenting financial resources.

17. Given the soundness of basic global and sectoral objectives, the fundamental considerations were the capability in organization and skilled manpower to prepare projects and programs and carry them out and the availability of financial resources. A program exceeding the limitations imposed by these considerations would fall short of its targets and be harmful insofar as its full implementation was attempted. These limitations are not, however, fixed and immutable. They are amenable to the influence of government policies and corrective measures. A major purpose of the development program should be to help overcome these limitations and thereby make a larger and more effective program possible in the future.

18. The 1965/1968 development program is to a substantial extent based on projects which have already been technically well prepared or are being so prepared, and should be well executed. The Ministry of Public Works, in charge of executing road, irrigation and public building programs, and several of the autonomous agencies are well organized and have considerable experience in preparing and carrying out investment projects. There is also a sizeable number of efficient contractors in the country with a considerable work capacity which has not been fully utilized in recent years. However, the economic and financial justification of projects has sometimes been less carefully considered than the technical aspects, with the result that some projects of low economic priority have been initiated and that technical capabilities in some fields have tended to lead to the preparation of programs which are too large when over-all financial resources and relations to other sectors are taken into account. This applies especially to road building and irrigation works. But there are also other fields where government entities in charge of preparing and carrying out investment programs suffer from lack of trained and experienced personnel,

from deficiencies in organization and, in some instances, from inappropriate orientation of policy. Much has been done and is being done by these entities themselves, frequently with valuable support from CORDIPLAN, to overcome these difficulties. Nevertheless, in some fields, especially agriculture and housing, these shortcomings are still serious enough to limit the implementation of the program as originally presented. Many projects have been included in the 1965-1968 program which are not sufficiently well prepared, technically or economically, to be started during the first part of the program period. Many of the industrial projects are also likely to be delayed as compared with program schedules because of the long time inevitably required for negotiations with foreign and domestic firms.

19. There are consequently strong reasons for reducing program expenditures during the first part of the program period, and especially during the year 1966. This could be done both by postponement of projects scheduled for an early start and by the overt acknowledgment of inevitable delays in others. At the same time, measures could and ought to be taken to improve the technical and economic preparation of projects, to strengthen organizations, to train personnel and to improve policies in order to pave the way for an expansion of the development program during the second half of the program period.

20. The lack of skilled manpower is a special aspect of the constraints described above. It goes beyond the preparation and execution of projects, as it is likely to make itself most felt when the new projects come into use. The expansion of education will demand more teachers; new hospitals will require more nurses. The land reform program, the development of irrigated areas and the expansion of agricultural credit demand a vastly greater number of technically trained men than is presently available or in prospect. The establishment of new industries, as well as the expansion of older ones, make heavy demands upon skilled workers and technicians. The increase in residential construction envisaged in the program entails a great increase in the demand for bricklayers, carpenters, electricians and plumbers. Although much has been done, especially since 1958, to expand both primary and technical education, the lack of skilled manpower still prevails in almost every field. At the same time the inflow of skilled labor from Europe has ceased, and even turned to an outflow. A basic improvement in the availability of skilled manpower will only come through the training and up-grading of workers' skills on the job, and through the reshaping and expansion of the educational system which is now partly under way and partly envisaged. Nevertheless, some relief could be found by arranging special short-term training courses in fields where the lack is most acute, as in the case of agricultural extension workers, nurses and skilled building mechanics. An effort of this kind would enhance the possibilities for a larger and more effective development program in 1967 and 1968.

21. Revenue from the oil industry provides Venezuela with more ample funds to finance its development efforts than is common among developing countries. It has made it possible to extend education widely, to establish

good health services, to build an extensive road network to high standards, to lay the foundation for new industries and to promote low cost housing on a relatively large scale. It has also made it possible for the level of taxation outside the oil sector to remain low, as has internal and external indebtedness, except for a brief period in the late nineteen fifties when short-term domestic and foreign debts were accumulated. There is, therefore, a potential for raising revenues from domestic sources to a larger extent than previously for the benefit of the country's development efforts as the increase in oil revenue slows down. But to realize this potential will demand technical preparation as well as efforts by the Government to inform the general public, the political parties, the trade unions, and the organizations of farmers and businessmen about this problem and to convince them of the need of new revenue policies. A substantial increase in domestic financial resources could be secured for the second half of the program period if appropriate measures were taken soon.

22. The mission believes that while the preparation of the final 1965-1968 program should aim at keeping the program strictly within the limits of presently foreseeable organizational, manpower and financial resources in 1965 and 1966, it should also include measures to expand these resources in order to make a larger program possible in 1967 and 1968. The unadjusted programs prepared by government ministries and agencies for 1966 substantially exceed available resources and should, therefore, be reduced. The program reduction for 1966 is of special importance in view of the stage the current economic expansion has now reached. With industrial capacity becoming more and more fully utilized, imports increasing sharply and money expanding more rapidly than before, added pressures on resources could soon endanger stability. For Venezuela's future economic development it is of the greatest importance to maintain its good record of economic growth with stability, and to preserve present confidence in its economic management at home and abroad.

23. The programs as prepared for 1967 do not appear to be much in excess of the resources which might be available at that time, and the programs for 1968 fall significantly below these resources. To what extent the size of the 1967 program could be sustained and that of the 1968 program increased depends on how soon and how effectively the required new policies and corrective measures are initiated. In any case, programs made now for 1967 and 1968 will have to be thoroughly revised before their implementation. One purpose of programming for this more distant part of the period is to obtain a clear view of the measures that need to be taken now to make possible a desired expansion later on.

The Adjusted Program

24. In view of present limitations of resources and future possibilities for their expansion, the mission suggests adjustments in the preliminary program which involve primarily a reduction in 1966 expenditures and some increase in 1968 expenditures. For the entire program period the net reduction would be only Bs. 0.9 billion, or 4 per cent. The reduction for 1965 would be Bs. 0.1 billion, for 1966 Bs. 1.1 billion, and for 1967

Bs. 0.2 billion; the suggested increase for 1968 would be Bs. 0.5 billion. The adjustments for 1966 would include a rephasing of highway construction from 1966 to later years, a postponement of investment in metallurgical and petro-chemical plants and in the housing program, and some reductions in irrigation projects, and hospital, school and other government construction. The proposed reduction in industrial investment and housing would to a large extent only be an acknowledgment of inevitable delays. General financial and economic reasons might have made desirable a somewhat greater reduction in 1966 than that suggested by the mission. The advanced stage of project execution and of preparation of new projects, including the letting of contracts, especially in road construction and irrigation, makes larger cuts difficult for 1966, however. The main adjustment in 1967 would be a reduction in housing programs, while in 1968, the earlier reductions in manufacturing would be partly compensated by an increase, and the reduction in road construction entirely so. In addition, the mission suggests the initiation of new programs in agriculture and housing and in the building of rural feeder roads, the implementation of which would depend upon the results achieved in the meantime in organizational improvements and training of personnel.

25. After the recommended adjustments, the program expenditures for public investment, land purchase and credit would amount to Bs. 19.6 billion for the 1965/68 period as a whole compared with Bs. 20.5 billion for the unadjusted program and would be divided by years as follows:

<u>Adjusted program expenditures</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total 1965/68</u>
Bs. billion	3.8	4.6	5.4	5.8	19.6

In comparison with gross national product, program expenditures would increase from a level of about 11 per cent in 1964 and 1965 to 13 per cent in 1966 and almost 15 per cent in 1968.

26. After these adjustments in the size of the program and the revision of financial estimates, the financing gap would have been reduced to Bs. 5.0 billion, or two-thirds of its original size. It would be divided by years as follows:

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total 1965/68</u>
<u>Remaining financing gap</u>					
Bs. billion	0.1	1.1	1.8	2.0	5.0

After thorough discussions with Venezuelan authorities, the mission believes it will be feasible to bridge this remaining gap by augmenting financial resources. This would be done principally in two ways: firstly, by

increasing revenue through improvements in tax administration, in the administration of government enterprises and by increases in tax rates and service charges to yield approximately Bs. 1.8 billion; secondly, by the utilization of new internal and external credits in the amount of some Bs. 3.1 billion, in addition to those already contracted. Of these, new external borrowing would account for Bs. 1.8 billion.

27. The mission's estimates of feasible increases in revenues have been developed in close collaboration with the Ministry of Finance and CORDIPLAN. There is general agreement on the potential for increasing revenues by about Bs. 250 million annually by 1968 through improved tax collection procedures and administration. The improved administration of public agencies and enterprises, embracing more economic charges for goods and services produced and improved collections of delinquent loans outstanding as well as improved operating efficiency, could yield a much larger contribution to domestic finance than the modest estimate of some Bs. 50 million presented here. Action to bring user charges into a more rational relation to costs has already been decided upon with respect to Caracas water supply and telephone charges, and could usefully be extended in other fields. The mission also concurs with the view expressed by some Venezuelan authorities that a considerable potential exists with respect to municipal property taxes and state taxes on farm land. It believes that action to realize some of this potential in the amount, say, of Bs. 85 million a year, is overdue, and that such action should be coordinated with and stimulated by reductions in Central Government services to the states and municipalities for which they themselves should more properly assume responsibility. Finally, the mission considers certain structural and rate changes in the tax system of the Central Government to be essential on fiscal grounds, and to be desirable on equity and other grounds as well. Among these other grounds are the desirability of strengthening the domestic finances to carry a larger share of the even greater investment programs which may follow that of 1965-68, and of reducing reliance on oil revenues in the future.

28. The mission considers that the remaining goal of some Bs. 400 million annually in increased revenues from new tax measures beginning 1967 can best be achieved by a combination selected from the following, which total Bs. 485 million: corporate non-oil income taxes, Bs. 100 million; personal income taxes, Bs. 65 million; subjecting dividends to taxation, Bs. 100 million; increased customs and excises on luxury items, Bs. 35 million; estate and gift taxes, Bs. 25 million; and gasoline taxes and motor vehicle registration charges, Bs. 160 million.

29. Combined with the recommended annual increases in state and municipal taxation, improvements in tax collections and improved administration, these measures should produce added revenues of about Bs. 700 million in 1967 and Bs. 735 million in 1968, and a total of Bs. 1.8 billion for the program period. They would also have the effect of raising tax revenues on the non-oil sectors of the economy in relation to the non-oil gross domestic product from 8 per cent to 10 per cent. Before leaving Caracas, the mission was assured of the Government's intention to take under serious advisement a revenue program of the size and general composition here described.

30. The mission concurs with the Government's view that external borrowing for soundly conceived projects can make a substantial contribution to the success of the program without straining the country's debt servicing capacity. The strenuous efforts made by the Government in the past few years to repay previously incurred debt - much of it short- or medium-term - has left Venezuela with a very low foreign debt service burden. In 1965 the total foreign debt service will be less than 2 per cent of gross exchange earnings. If no new debt were incurred, the ratio would be only 1.5 per cent by 1968. The long-term foreign borrowing program recommended by the mission - and further described in the following chapter - would imply disbursements of about US\$170 million per year. It would cover about 15 per cent of the program expenditures in 1965-1968 and still leave the debt service ratio at less than 4 per cent of exchange earnings at the end of the program period. But the utilization of external credits to this extent would be contingent upon the success achieved primarily in carrying out the organizational improvements required, and also in manpower training and strengthened project preparation, all of which are essential to effective program implementation. It will also depend upon the success achieved in securing the necessary additional domestic financing for the development program, without which a reconsideration of the program as a whole would be inevitable.

31. In light of its discussions with CORDIPLAN and other Venezuelan authorities the mission believes that greater recourse can be had to the domestic capital market than in the past two years and that the progressive strengthening and development of this market should be an aim of government policy. In the early sixties substantial amounts were borrowed domestically, but much of this debt was placed on a compulsory basis with the banking system and another part with the oil companies. It would seem that the relatively high rate of private savings in Venezuela combined with high liquidity should make the private sector capable of absorbing larger amounts of government paper than have been offered in the past. Naturally, care will have to be taken not to flood the market too suddenly with government securities, but past experience with Centro Simon Bolivar and Banco Obrero flotations indicates that the market is ready to absorb reasonable amounts of safe paper at attractive rates. The mission believes that annual gross placements of Bs. 400-500 million could be aimed at, and that in any case the private sector should be offered more paper than is withdrawn through repayments. It therefore recommends that in 1967 and 1968, when repayments would otherwise exceed placements, some Bs. 200 and 300 respectively be put on the market for general purpose borrowing.

32. The suggestions developed in the preceding paragraphs are summarized in the following tabulation:

Bs. Billion	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u> <u>1965/68</u>
<u>Remaining financing gap</u>	<u>0.1</u>	<u>1.1</u>	<u>1.8</u>	<u>2.0</u>	<u>5.0</u>
Estimated effects of suggested administrative reforms and tax increases	-	0.4	0.7	0.7	1.8
Estimated new domestic borrowing	0.1	0.4	0.4	0.4	1.3
Estimated new external borrowing	0.1	0.3	0.6	0.8	1.8
Balance (surplus -, deficit +)	-	-	0.1	0.1	0.2

Note: Figures may not add because of rounding.

D. The Composition of the Program

33. The composition of the preliminary program continues to reflect, as have public development programs in recent years, the Government's desire to build with the maximum speed consistent with orderly and stable growth a strong, democratic society responsive to the needs and aspirations of all its people. It reflects the urgent economic needs and powerful social drives which result from a high rate of population growth; from low productivity, poverty and instability in the subsistence sector of the agricultural economy; from the extremely rapid growth of the urban population due to these and other factors; and from the critical housing, health, education, employment and other problems which inevitably accompany this rapid urbanization.

34. These considerations underly the large investment and credit program in land settlement, in the consolidation of earlier land distributions, in agricultural credit, and in housing, health and education. Because the rate of growth of the hitherto leading oil sector has slowed down, the program looks to expansions in agricultural, industrial and other sectoral production to offset this loss. In the case of agriculture, the program aims at sizeable production increases as well as at the extension and consolidation of agrarian reform. In the case of industry, where the Government believes the potentials of the existing import-substituting industries have been substantially exploited, the program seeks the large-scale development of export-oriented petrochemical and metallurgical^{1/} industries, with a significant degree of partnership with private foreign and domestic capital. This new departure in the industrial field introduces a new strategic element in the continuing attempt to achieve greater diversification of the economy and lesser degree of reliance on the oil sector. In addition, the program features the continuation of major on-going programs to extend and improve transportation, communications and electric power, and the regional development of the Guayanas. The program also pays more attention than hitherto to the need for consolidating previous land distributions, for gearing public and public-assisted housing more closely to the needs of low income families, and for encouraging private investment in industry, housing and other sectors. It also shifts the emphasis in school construction, appropriately, from the primary to the secondary level. An important consideration underlying the composition of the program is that the great inequalities of wealth and income in Venezuela make it impossible for a large proportion of the population to satisfy essential land, credit, housing, health, education and other needs in the market place.

35. In terms of its sectoral composition, the proposed program allocates something more than one-third of total program expenditures to the goods producing sectors, and more than one-quarter each to infrastructure and social programs. Notably, agriculture is allocated 19 per cent, manufacturing industry 16 per cent and housing 17 per cent of total program expenditures. Nearly two-thirds of total proposed program outlays is fixed investment. Significantly, more than one-fifth of the total is comprised of credits which are to facilitate and augment private production and investment, chiefly in the agricultural, manufacturing and housing fields. The considerable financial investments proposed are chiefly in the industrial field, in cooperation with private investors. The proposed flow of funds to the private sector thus comprises roughly one-quarter of all proposed capital expenditure of the public sector.

^{1/} Only exports by two proposed ore reduction projects are contemplated by 1968. Expectations with regard to steel products exports look further to the future.

36. Autonomous agencies are allocated responsibility for executing nearly two-thirds of the proposed program, the Central Government less than one-third, and states and municipalities the small remainder. One Ministry - the Ministry of Public Works - is responsible for more than four-fifths of all capital expenditures of the Central Government (including road and other transport, irrigation, school, hospital and other public buildings construction) and for more than one-quarter of the proposed total. It and the ten largest autonomous agencies combined have responsibility for executing approximately three-quarters of the planned program.

37. The mission subscribes, in broad, to the analysis and the priority objectives which underly the 1965-68 program and, with the qualifications noted, to the chief means by which it is proposed to achieve them. The declining rate of growth in the oil sector requires intensified emphasis on expansion in the agricultural, industrial and construction sectors if the pace of overall economic growth is to be maintained at satisfactory levels. Planned investments in education, health and housing are essential not only to family stability, welfare and the enlargement of opportunities required for the strengthening of a democratic society, but also to the increase in skills, productivity and incentives, and to the higher level of aspirations, necessary to economic growth. And transport, communications and power development must, of course, keep pace with the expanded needs of the productive and the social sectors.

38. The composition of the 1965-68 program is also well-adapted, in the mission's view, to the problems which arise out of the unique structure of the Venezuelan economy, and hence to what appears to be an appropriate longer-range development strategy. The oil industry, for so many years the great earner of foreign exchange and main contributor to government revenues, has not been a sizeable employer. The petro-chemical and metallurgical developments now proposed will, if successful, have similar characteristics. Housing, health and education thus take on a special significance in the Venezuelan setting as powerful generators of employment, as agents for the diffusion of resources from the productive sectors throughout the economy, and as a major means of expanding purchasing power and enlarging the size of the domestic market, thus permitting producers to take advantage of economies of scale. Thus viewed, large investments in these sectors are essential to the continued health and growth of the economy.

Recommended Adjustments in the Investment Program

39. The program adjustments discussed with Venezuelan authorities and here recommended by the mission are designed to protect and strengthen the capital expenditure program and at the same time to accommodate it, in size and time-phasing, to fiscal, monetary and balance of payments considerations. The mission believes that these objectives can be achieved by the judicious curtailment, deferral and rephasing of certain projects and programs on priority or feasibility grounds during the first half of the program period, by the expansion of others, and by the addition of a few new high priority projects during the second half of the program period provided the necessary policies and measures are adopted to overcome organizational, manpower, financial and

other limitations. Curtailments, deferrals and rephasing proposals have the effect chiefly of reducing the claims on resources in 1966. The expansions and new projects are phased to make only slight demands in 1967 and become significant only in 1968.

40. In the field of agriculture, the mission recommends moderate reductions in planned irrigation outlays and a rephasing of CVG's Delta Amacuro project. It recommends also, however, a substantial development project for the Zulia region and a strengthening of the agricultural credit and land settlement programs and of agricultural extension and research services. In industry, the mission recommends deferral for at least one year of the flat-products steel plant, minor curtailments and rephasing of the CVP program and that the probable delay in carrying out the IVP program be taken into account. The recommendation for CADAPE's electricity program reflects the mission's and the agency's estimate of higher investment requirements for the same program rather than a program change. In transport and communications, the mission recommends rephasing of the highways program and additional funds for rural feeder roads.

41. The sharp reductions in the housing program reflect the expectation of shortfalls in the Banco Obrero and Savings and Loan sub-programs. The mission, however, recommends additional funds for alternative low-cost housing of the Vivienda Rural type in 1967 and 1968, and a program to provide minimum essential improvements for the ranchos of Caracas. Moderate curtailment, it is believed, can be effected in the public health and education fields without damage to the essential objectives of those programs. Finally, the mission recommends modest reductions in CVG infrastructure investments and in public buildings construction.

42. The details of these recommended adjustments are shown, year by year, in Table 4. The adjusted program as recommended by the mission is shown, in comparison with the Government's preliminary program, in the sectoral distribution below:

Comparison of the Adjusted and the Unadjusted Programs, by Sector
1965-68

	Unadjusted		Adjusted	
	Bs. Million	Per cent	Bs. Million	Per cent
<u>Goods Producing Sectors</u>	<u>7,277.8</u>	<u>35.5</u>	<u>7,165.4</u>	<u>36.5</u>
Agriculture	3,995.2	19.5	4,373.4	22.3
Manufacturing	3,282.6	16.0	2,792.0	14.2

Table continued on the next page.

	<u>Unadjusted</u>		<u>Adjusted</u>	
	<u>Bs. Million</u>	<u>Per cent</u>	<u>Bs. Million</u>	<u>Per cent</u>
<u>Infrastructure</u>	<u>5,462.9</u>	<u>26.7</u>	<u>5,493.1</u>	<u>28.0</u>
Electricity	1,076.2	5.3	1,169.7	6.0
Transport and Communications	3,542.5	17.3	3,569.2	18.2
Public Buildings	844.2	4.1	754.2	3.8
<u>Social</u>	<u>5,772.3</u>	<u>28.2</u>	<u>5,043.4</u>	<u>25.7</u>
Housing	3,424.1	16.8	2,735.6	14.0
Health	1,703.8	8.3	1,683.4	8.6
Education	644.4	3.1	624.4	3.1
Sundry, Other Sectors and Unallocable	<u>1,960.5</u>	<u>9.6</u>	<u>1,904.9</u>	<u>9.7</u>
Total	20,473.5	100.	19,606.8	100.

E. The Role of External Borrowing

43. The mission has considered carefully the implications of the adjusted program for the need for new external borrowing by Venezuela during the program period, both from institutional and other sources. The over-all external financing required for the program was identified in section C above, and is related in section F below to Venezuela's over-all financial situation and prospects. The purpose of the following paragraphs is to review the specifics of the required external financing as it relates to individual sectors and projects, and particularly the measures that will have to be taken first to ensure that the recommended financing can become available as planned.

44. The mission has concluded that major efforts will be required if Venezuela is to be able to borrow abroad the sums that will be needed to help finance the recommended program: in identifying projects and programs suitable for this borrowing, in preparing the necessary technical and economic studies, in strengthening sufficiently the organizations responsible for program execution, and in mobilizing the complementary domestic financing required.

45. In the past four years Venezuela's external borrowing has been concentrated in electric power, highways, water supply and housing. In addition, some external credits have been obtained for agriculture and industry. Almost all this external borrowing has been from international lending institutions. Suppliers' credits have been utilized only to a very small extent. The first public sale of government bonds was carried out earlier in this year in New York and involved only a relatively small sum. At the present time important telecommunications and water supply projects are in an advanced stage of preparation for external institutional financing.

46. During the next four years there are greater possibilities for utilizing institutional external credits in transportation than in any other field. This is attributable to the proven ability of the Ministry of Public Works to prepare and carry out highway projects and to the large projects now in preparation. Highway development in Venezuela has, however, now reached a stage where the most obvious needs are being met and therefore a more careful selection of projects than in the past will be called for. The highway planning function consequently requires strengthening. The time seems also to have arrived for highway users to contribute to a greater extent than previously to the costs of the very high quality highway facilities being developed for them. General financial considerations also strongly support increasing highway user charges.

47. External loans for urban expressways are already helping to alleviate the serious transportation congestion of the Caracas metropolitan area and are likely to continue to do so during the program period, and thorough studies of the feasible alternatives for future solutions of this problem are being initiated. Projects resulting from these studies are not likely to be ready to start during the program period.

48. The small port program appears to lend itself to institutional external financing, even though the amounts involved would not be substantial. The re-equipment program of the government airline would, on the other hand, probably be more suitable for medium term suppliers' credits.

49. The large agricultural program would be a highly desirable field for the substantial utilization of external loans. The lack of trained manpower and organizational weaknesses are, however, greater obstacles to program implementation and to external borrowing in this field than in most others. Once serious efforts have been made to overcome these difficulties, significant utilization of external borrowing in this field will become possible. The most suitable projects for this appear to be rural feeder roads, the Zulia and Delta Amacuro integrated agricultural development projects and agricultural credit, especially medium- and long-term credit.

50. To make external financing of rural feeder roads possible, it will be necessary to place the planning and execution of their construction in the hands of one agency, adequately staffed for this purpose, and closely collaborating with other agencies responsible for agricultural development. The proper identification of areas of high potential through land capability studies is of basic importance. Arrangements will also have to be made to secure the necessary domestic financing for the rural feeder road program from states and local organizations to complement the contributions of the Central Government and the external financing agencies.

51. The two agricultural development projects of Zulia and the Delta Amacuro are being prepared with external financing in mind. The former is nearly ready for presentation, the latter will require additional time. Most of the irrigation projects that form an important part of the agricultural program do not, on the other hand, lend themselves to external financing as they are in most cases in an advanced state of execution, are likely to yield low returns, and were, on the whole, inadequately prepared from the beginning, especially insofar as land selection and complementary preparations for on-farm development were concerned.

52. Credit is a major instrument for promoting agricultural development in Venezuela, and a very large increase in the use of such credits, is envisaged for the program period. Lack of technical staff and inadequacies of organization and procedures in the Agricultural Bank will, however, make it difficult to carry out this program efficiently and, by the same token, will make it difficult also to utilize external borrowing. Insofar as these obstacles can be overcome and suitable projects identified and prepared, some external financing could be sought for agricultural credit, especially for medium- and long-term credit for which inadequate provision is made in the program, as well as for special livestock programs. Similar considerations would apply to land settlement, although institutional obstacles there are even greater than in agricultural credit.

53. In electric power development Venezuela has already had recourse to sizeable foreign borrowing. Provided that planned actions regarding rate adjustment and frequency unification take place, there is scope for further loans during the program period, largely to finance the continuation of previously started projects and programs. Large new projects in this field would not be initiated until later.

54. The Government envisages substantial foreign borrowing for its industrial program. Part of this borrowing is likely to take the form either of suppliers' credits or of general purpose borrowing on the capital market. In view of the success of the \$15 million bond flotation on the New York market earlier this year, there is reason to believe that a considerable further use can be made of such general purpose borrowing.

55. In water supply, sewage and public health and housing there has been some utilization of external loans in the past. It is reasonable to expect such borrowing to continue in the future. A relatively large loan for increasing the Caracas water supply is presently in an advanced state of preparation. The mission believes that the Government should also experiment with a pilot project to bring sanitation improvement to the "rancho" communities of Caracas and, if the results of such experiments warrant it, seek external financing for an expanded program. No external financing has until now been utilized in education. The high priority of this sector, and especially of technical education, makes it desirable to explore the possibilities of such utilization in the future, specifically for the construction and equipment of technical and agricultural schools.

56. Realization of the external borrowing potentials described above would result in the following estimated disbursements of foreign loans during the program period (for further details see Appendix D, Table D.3):

	1965-68 Million US \$
<u>Loans already contracted</u>	<u>244</u>
<u>Other possible borrowing</u>	<u>436</u>
Agriculture (Zulia, feeder-roads, irrigation, livestock, credit, Delta)	57
Industry	128
Electric power	13
Roads	34
Telecommunications	43
Ports	5
Housing	40
Water and sewerage	78
Education	6
Other (mainly bond issues)	<u>32</u>
<u>Total</u>	<u>680</u>
Average per year	170

In addition to the borrowing specified above for disbursement during the program period, some additional new borrowing would undoubtedly take place towards the end of the period against which disbursements would only begin after 1968.

57. The utilization of external borrowing to the extent indicated here would make it possible to carry out the adjusted program without risking excessive loss of foreign exchange reserves and is, therefore, an integral part of the 1965/68 program. But it would first require that a number of the organizational difficulties now impeding program execution be overcome and that coordinated action be taken to assure the adequacy of complementary domestic finance.

F. The Program and the Economy

58. The mission has attempted to assess the degree to which the adjusted program is likely to contribute to and be in harmony with the desired development of the economy. For this purpose the probable changes in gross product and expenditure, savings and investments, the balance of payments as well as money and credit were estimated, and the impact of the program on each of them appraised. Unfortunately, an analysis of this type was hampered by the lack of national accounts data for 1964 and - more seriously - by the lack of connection between national accounting and programming. Moreover, when the mission left Venezuela CORDIPLAN had not yet completed its estimates of the macroeconomic implications of the program. All the estimates and projections presented in this chapter have, therefore, been made by the mission; however, those pertaining to the balance of payments could be thoroughly discussed with officials of CORDIPLAN and of the Central Bank, who were largely in accord with the assumptions made.

59. In the past three years, 1962-1964, real gross domestic product has expanded at an annual average rate of 6.8 per cent. Increased public expenditures helped to achieve this rate of growth, both by their effects upon demand and their effects upon productive capacity, especially in agriculture. Basically, however, the effects of public expenditures upon productive capacity could only materialize over a long period of time and the high rate of growth during these years was due in significant degree to the considerable amount of idle capacity which existed in 1961, especially in manufacturing and construction.

60. With output now increasingly pressing against industrial capacity and with developing shortages of skilled manpower, it is questionable whether the same high rate of growth as in the immediate past can be maintained during the next few years, even though a significant expansion of capacity appears to be under way in a number of industrial lines. Neither is it likely that the size of the program could materially affect the rate of growth during the program period itself. Apart from their immediate effects upon demand, which decline in importance as capacity is more fully utilized, the expenditures included in the program are more likely to influence economic growth after the program period than in the immediate future. The principal exception to this could be agriculture, but there shortages of skilled manpower and organizational problems impose obstacles to the effective utilization of increased expenditures. In manufacturing industry the program is mainly directed towards large scale capital intensive projects with an extended gestation period.

61. The rate of growth, both over the shorter and the longer term, will not only depend upon the utilization of present capacity and past and prospective investment, but also upon general economic policy. The Venezuelan Government is fully aware of the great importance of maintaining internal and external stability and preserving confidence. It is also fully aware of the essential role which needs to be played by private enterprise in Venezuela's economic development, as was most recently indicated by its invitation to private foreign and domestic capital to participate in the development of the metallurgical and petro-chemical industries. It is not

only important, however, that private enterprise be given sufficient scope and means to contribute to economic development; it is of no less importance that the general economic environment should guide private investments as well as public efforts towards the uses most rewarding for the society. There are strong reasons to believe that the structure of protection of agriculture and industry which has gradually evolved in Venezuela, together with a relatively high concentration of industrial ownership, have created conditions which do not provide such guidance. In the case of agriculture, this problem may in some instances be compounded by official price policies. Since in the future these policies may increasingly misdirect development efforts and thwart economic growth, the mission would recommend that the Government consider how to reduce the arbitrary elements in the stimuli now provided to investment and production and how to limit their duration in time.

62. In view of the present economic situation, the nature of the program itself and the relatively slow rate of growth expected for petroleum, the mission finds it likely that economic growth during the program period will be slower than in the recent past. For the purpose of this report it has used an average growth rate of 5.6 per cent per annum. This rate combines the 3.2 per cent rate expected for petroleum and the 6.5 per cent average rate assumed for other sectors of the economy.

63. The growth of output will to an important extent set the limits for the growth of expenditures during the program period, but by no means entirely so. In the last few years the balance of payments position has been exceedingly strong, substantial surpluses have been created on current account, foreign indebtedness has been reduced and foreign exchange reserves have increased. This development of the balance of payments was of great importance in renewing the confidence in the Venezuelan economy at home and abroad, which had been shaken by political turbulence and economic recession. There is no need, however, for balance of payments surpluses to continue indefinitely. Confidence is now restored, foreign exchange reserves are high and foreign indebtedness low. It is therefore a reasonable aim that the surplus on current account should diminish during the program period, the building up of a foreign exchange reserves come to an end and the utilization of external credits increase. There are indeed clear indications that a change in this direction has already begun. In addition, the increase in industrial investment which is likely to take place during the program period, and which is partly a component of the program itself, will entail a substantial increase in foreign private investment. A gradual disappearance of the surplus in the balance of payments on current account, compensated by increased capital inflow and a slight fall in foreign exchange reserves, would make it possible for gross domestic expenditures, or resource use, to grow during the program period at a rate substantially higher than gross domestic product. The detailed balance of payments estimates made by the mission and described in Appendix B, combined with an average rate of growth of gross domestic product of 5.6 per cent, would make possible an average rate of increase of gross domestic expenditures of 7.3 per cent per annum during the program period (see Table 11).

64. The trends of public consumption and public investment during the program period are suggested by the program itself. The average rate of increase in public consumption would be almost 8 per cent per year, a considerably higher rate than that prevailing in recent years. There are three main reasons for this: the expected increase in civil service wage and salary rates; the growth in current social expenditures, particularly education and public health; and increases in current agricultural expenditures considered necessary to achieve a more rapid growth in agricultural production. The rate of increase in public investment, also indicated by the program, would be more than 12 per cent per year during the program period, and would raise public investment in relation to gross national product from 7-8 per cent in 1964 and 1965 to about 10 per cent in 1967 and 1968.

65. The program implies a substantial increase in private investment during the program period. First, a sharp increase is foreseen in credits of government agencies, which to a large extent would promote private investment. Second, much of the industrial investment included in the program is to be carried out in participation with private capital, domestic and foreign. Third, the increase in public investment included in the program is likely to stimulate private investment indirectly as well. There are also strong indications that, with confidence restored, Venezuela's considerable resources in entrepreneurship and private savings are finding outlets in higher levels of private investment. For these reasons the mission has assumed that private investment will increase during the program period at a rate similar to that of public investment, or by 12-13 per cent per annum. This rate would imply an increase of private investment in relation to gross national product from a level of about 13 per cent in 1964 to 16-17 per cent during the program period. The combined increase in public and private investment would raise total investment to a level of 27 per cent of gross national product by the end of the program period, a level similar to that of the late nineteen fifties but substantially above the level of approximately 20 per cent which prevailed from 1960 to 1964.

66. The increase in private investment indicated above will require a continued increase in bank credit to the private sector. The mission has considered whether such an increase could take place simultaneously with the increase in public expenditures foreseen in the program without creating excessive monetary expansion (see Table 14). If the adjustments in the program suggested by the mission are made and the fiscal measures it recommends are taken, the public sector will be largely neutral in its effects upon money supply. This monetary neutrality, together with the shift in the balance of payments towards a slight over-all deficit expected to take place during the program period, would make a considerable expansion of bank credit possible without money supply increasing at a significantly more rapid rate than the real supply of goods and services. Constant attention by the monetary authorities will be required, however, to ensure that credit expansion does not exceed appropriate limits, especially in view of the large volume of excess reserves of the commercial banks. Because of the size of these reserves, it may become necessary to consider the use of monetary control tools not traditionally employed in Venezuela, such as marginal reserve requirements.

67. The estimated increase in total expenditures, combined with the increase in public consumption and public and private investment indicated by the program and described above, would leave scope for an increase in private consumption of 5.5 per cent annually, only slightly below the 5.8 per cent estimated rate of growth of gross national product. At the same time private and public savings should maintain the high ratio of about 27 per cent of gross national product they have reached in the last two years. This development of private consumption and savings would only be possible if wage increases remain within moderate limits. Good relations between the Government and the trade unions as well as the relatively great emphasis on social services in the program itself should contribute to wage restraint.

68. During the recession from 1960 to 1962 savings were reduced significantly from the high levels of the late nineteen fifties. Presumably this fall was principally, if not entirely, in private savings, and it was smaller than the simultaneous fall in investment, which made possible the improvement in the balance of payments mentioned previously. Indications are that private savings recovered sharply in 1964 with the economic upswing, and that this improvement is continuing in 1965. According to estimates made by the mission, private savings would fall slightly relative to gross national product after 1965 as a result of the slow increase in depreciation charges of the oil sector. As for public savings, the relatively high level of about 10 per cent in 1963 and 1964 resulted from the sharp rise in oil revenue offset only in minor degree by increases in current expenditures. With oil revenue rising more slowly than previously and current expenditures rising more rapidly, the outlook is for public savings to fall significantly during 1965 and not to recover during the next few years if no special measures are taken to maintain them. The financial measures suggested by the mission would, however, help to bring public savings back to the level of 1963-1964, and thereby maintain the high over-all savings rate of recent years.

69. The course of the economy during the program period depicted in this chapter would make the implementation of the adjusted program compatible with external and internal stability. However, as capacity becomes more fully utilized and investment levels rise, the economy's margin of safety is reduced, and greater efforts than in the past will accordingly need to be made, not only to mobilize domestic resources fully and to use them to best advantage, but also to maintain the economy under close and constant scrutiny. The successful management of the economy during the execution of the adjusted program will require the responsible authorities to be sensitive to emergent cost, price and balance of payments pressures, and to be prepared to make such timely adjustments in programs and policies, as stability may require. If the authorities approach the program in this spirit, it is the mission's belief that the new development plan will serve Venezuela well.

II. A REVIEW OF THE SECTOR PROGRAMS

70. Detailed reports on each of the major sector programs are presented as separate annexes to this report. The purpose of this final section of the general report is to summarize briefly the content and justification of the sector programs and the mission's comments on them.

Agriculture

71. Agriculture, now employing about one-third of the population, has been growing at an average annual rate of 6 to 7 per cent since 1960. The growth was mainly in products consumed domestically and led to a substantial reduction in agricultural imports. The output of coffee and cacao, the principal export crops, has stagnated. The over-all output growth reflects both an extension in the land areas under cultivation and, in some cases, improved yields. Further increases in output will depend for some time to come both on bringing additional land into use and on improving yields which remain low. The agrarian reform program has much remaining work before it, not only to complete the distribution of new productive lands to the landless peasantry, but - equally if not more important - to help both new and earlier settlers to become productive and economically viable, and thus to consolidate the settlement program. Further progress towards the achievement of these objectives requires, on the production side, improved extension and research, backed up by adequate credit effectively administered; better coordination of irrigation projects with arrangements for on-farm use; an efficient rural feeder roads system; and a much greater technical training and assistance effort in the land settlement program than has until now been afforded it.

72. The agricultural program is well-conceived to confront the present needs in this sector. The three major components of the Bs. 3,953 million program are the agricultural credit program administered by the Agricultural Bank (BAP); the irrigation program administered by the Ministry of Public Works (MOP); and the land settlement (agrarian reform) program administered by the National Agrarian Institute (IAN). In addition, current expenditures of the Ministry of Agriculture (MAC) significant to agricultural development will total close to another Bs. 1 billion. However, in the mission's view a number of changes need to be made if the objectives of the program are to be realized efficiently.

73. The agricultural credit program, while essential, needs to be much improved. The Agricultural Bank appears to have been inadequately staffed for the nature and scope of its past program, let alone the larger programs now prepared. The loans are not adequately geared to farming patterns, and the collection of loans outstanding has been poor, which is a commentary on its lending and supervisory functions as well. There is inadequate provision for needed medium- and longer-term loans.

74. The irrigation program is comprised almost entirely of projects already under way. The program as proposed would result in completing much

of the civil works in many projects well before other agencies were capable of ensuring efficient use of the available water. The mission believes, therefore, that substantial reductions should be made in the civil works portion of the program, and that on-farm development should be strengthened and geared to the construction of civil works.

75. The land settlement program had settled some 78,000 farm families by the end of 1964 and proposes to settle an additional 160,000 families by the end of 1968. If the land settlement is to be orderly, this implies demarcating the parcels, assigning them to settlers, providing infrastructure and assuring on-farm development. Simultaneously, some degree of "consolidation" comprising the two latter operations is to be carried out for those who have been settled to date. It is the mission's firm view that any attempt to reach such extensive targets in a short time is bound to result in failure. Neither the money nor the trained staff required are available to achieve such targets; also, the availability of willing settlers requires a thorough review. The target for new land settlements should therefore be cut very substantially to a realistic level consistent with the IAN's and other cooperating agencies' capacity to locate productive land areas, demarcate parcels, assign them to settlers and to provide the minimum aids - in the form of credit, extension and other services - essential to stable, economically viable settlement. The organization, staff and operational procedures of the IAN should be reviewed and strengthened to enable it effectively to carry out such a revised program. The IAN budget could then be increased accordingly with assurance of more effective execution of the program.

76. The mission believes that greater emphasis should be placed on rural feeder roads in productive land areas, such as areas south of the Andes Mountains and the Zulia Region which are already attracting a substantial voluntary and unaided land settlement. The mission recommends additional investments for rural feeder road construction, preceded by land capability surveys to assure traversing the truly productive areas. Spontaneous settlers should be given increased technical assistance as agricultural extension services are strengthened and granted permanent titles as rapidly as possible.

77. The mission strongly recommends intensified training and build-up of the extension staff and the strengthening of production-oriented agricultural research basic to extension work. These recommendations would be mainly reflected in the current budget. All these programs are, however, dependent for their success on the strengthening of the major agricultural organizations. It is difficult to see how agricultural development can proceed as desired unless the major agencies responsible for achieving growth targets are considerably strengthened. If these measures are vigorously undertaken, the agricultural program should begin to produce substantial results in the second half of the program period.

78. The mission is also of the opinion that protectionist policies, price controls and other forms of governmental intervention are not well chosen or in the best interests of either farmers or the nation. A greater emphasis on improved farming methods, higher yields and lower production costs, and a lesser emphasis on protectionist policies, is recommended. The present

1/ In the course of its second visit to Venezuela (July 1965) the mission was informed that the over-all goal might be reduced to 100,000 families settled between 1965 and 1968.

situation with respect to the rice surplus is evidence of the need for timely and flexible modification in protectionist policy. Similarly government policy should address itself to making available to farmers reasonably priced inputs, such as animal feeds, which presently are heavily protected. (See also Annex II on industry, where protection policies are discussed).

Industry

79. Manufacturing output grew at an average annual rate of 9 percent from 1960 to 1964 and, together with construction, sparked the economy's vigorous growth during those years. Significantly, consumer goods and light industries accounted for less than a proportionate share of this growth. Intermediate goods and mechanical industries' output grew much faster than did manufacturing as a whole and contributed more than half of the absolute increase. While increased efficiency, lower costs and lower prices would contribute to a larger domestic market and permit vigorous and perhaps even an accelerated further growth for the consumer goods and light industries, the greater growth potential in the period immediately ahead clearly continues to lie in the basic and intermediate goods fields. The 1965-68 program, which concentrates on the development of export-oriented petro-chemical and metallurgical^{1/} industries, aims at the vigorous exploitation of this greater potential.

80. The Bs. 3,283 million industry program has three major components: the large-scale development of export-oriented petro-chemical and metallurgical^{1/} industries already mentioned; the extension of government activities in oil and gas extraction and domestic distribution; and continuation of an active private enterprise industrial promotion program through loans and equity participations. A new strategic aspect is the proposal for a number of joint ventures with private foreign and domestic capital. To the extent that the program anticipates and invites private investment decisions, its outcome cannot, of course, be forecast.

81. Execution of this program is entrusted to four major agencies. The largest program is that of the Guayana Corporation (CVG) where almost Bs. 1 billion are programmed for extension of the state-owned integrated steel mill. More than half is for a new flat product mill; the rest is mainly for expansions of existing bar mill, ingot making and other facilities. The Guayana Corporation also plans to invest about Bs. 170 million, in association with nearly Bs. 500 million of private foreign and domestic capital, in enriched iron ore, sponge iron, aluminum ingot, pulp and paper and other ventures.

82. The Petrochemical Institute (IVP) has programmed investments of some Bs. 326 million, in association with private foreign and domestic partners, who are expected to provide nearly Bs. 500 million for synthetic rubber, fertilizer, ethylene oxide, caprolactum, aluminum sulphates and refrigerants, PVC, tetra-ethyl-lead and other ventures. In addition, IVP plans to expand the wholly government-owned fertilizer plant and to build an explosives plant, a caustic sodachlorine plant and various auxiliary services and satellite plants.

^{1/} Only exports by the proposed pelletizing and sponge iron plants are contemplated by 1968. Expectations with respect to steel products exports look further to the future.

83. The program of the Petroleum Corporation (CVP) provides for oil and gas extraction, for expansion of the existing refinery to 16,000 barrels per day, for a new 50,000 barrels per day refinery, and for a chain of gasoline distribution stations. It includes also provision for gas lines and urban gas distribution systems.
84. The main emphasis in the program of the Development Corporation (CVF) is on the promotion, mainly through long-term loans, of new chemical, metal-fabricating and equipment manufacturing plants. It also devotes substantial amounts to long-term loans for the expansion of existing industries.
85. The mission has not been able to study closely the many petrochemical and metallurgical projects, included in the CVG and IVP programs. The mission is of the opinion that the Government is wise in attempting to enlist private financial participation in these ventures. The participation of foreign entrepreneurs should not only help to assure technical know-how and successful marketing abroad, but also to encourage participation by domestic entrepreneurial capital as well. While subscribing to this program, in broad, the mission considers that the investment schedules proposed, particularly by the IVP, underestimate the time likely to be required to enlist private participation and to work out partnership and operational arrangements.
86. With respect to the proposed flat-products extension of the steel mill, on the other hand, the mission believes that the many managerial and rationalization problems which still remain to be solved at the existing plant make it advisable to defer this project for at least one more year. The mission also recommends deferral for at least a year of the new CVP oil refinery and various other minor modifications of the CVP program.
87. The mission has noted the continued rapid growth in recent years of private manufacturing industry, the high current degree of utilization of industrial plant as compared with that of recent years, and the favorable reaction of the private sector to the Government's recent and positive clarification of the dynamic partnership role it desires the private sector to play in the planned industrial advance. In this connection, the mission would observe that the Government's protectionist policy towards domestic industry has in considerable degree outlived its usefulness. It apparently serves in many cases today to protect high prices and profits rather than domestic employment; in others, to protect inefficiency and high costs which competitive pressures would help to reduce. The mission recommends, therefore, a phased reduction of the system of quantitative controls and a review of the existing tariff structure, with a view to reducing the dependence on administrative discretion, emphasizing instead the incentives provided by a well designed tariff structure. A possible obstacle to this might be existing trade agreements which freeze a number of tariff positions. Such a policy would contribute significantly to lower prices and to an enlargement of the domestic market. With improved efficiency in production and distribution,

the now well-established import-substituting industries should continue to contribute significantly to further growth, even with reduced protection, given the prospects for population growth and increased levels of income.

Electric Power

88. Installed capacity increased greatly, and electricity generation rose by about 17 per cent annually from 1960 to 1964. While consumption is expected to grow at a more modest rate from 1965 to 1968, an average annual increase of 11 to 12 per cent is to be expected.

89. The main objectives of the 1965-1968 power program are the completion of the Guri project, its connection with the Caracas metropolitan area and the continuation of the expansion and rehabilitation of the many power systems operated by the government agency CADAPE. Frequency unification between Caracas and other parts of the country is an integral part of the program. The orientation, nature and scope of the program are reasonable, and the government organizations concerned, capable of carrying it out. As in the past, CADAPE is, however, likely to meet with difficulties in consolidating and improving existing operations.

Transport and Communications

90. Highways provide the backbone of Venezuela's transportation system, with other media playing a subsidiary role. Past investment efforts have been concentrated on the development of a main highway network, by now largely completed. In addition, a number of interurban and urban expressways, designed to relieve traffic congestion, have been constructed or started. The extension and improvements of highways have brought important results in reducing transport costs and opening up new agricultural areas.

91. The chief objectives of the transport program are completion of the national trunk road system and its improvement as warranted by the growth of traffic; the building of secondary roads and rural feeder roads to supplement the main network; and expansion and improvement of roads and expressways in urban areas and regions of high population density.

92. Programs for transport media other than highways are modest. They include mainly improvements of airports and renewal of air traffic control equipment, and expansion of port facilities in Puerto Cabello as well as installation of better equipment in other major ports. The telephone company (CANTV) has an important program of extension and improvement. During the program period, the possibilities of an urban mass transportation system for Caracas will also be studied intensively.

93. The mission concurs in broad with the Government's investment proposals in the transport and communications sector. It does recommend, however, on both fiscal and priority grounds, a fairly substantial shift in secondary road investments from 1966 to 1968. It also recommends increased

allocations to rural feeder roads, subsequent to the establishment of a suitable organization for the planning, construction and maintenance of these roads. For the proper orientation of future investments a central planning office for transport problems should be established within the Ministry of Public Works. It is important both for financial reasons and for the balanced development of transportation that increased road user charges cover a more adequate portion of road costs than they do at present.

Housing

94. Housing construction during 1961-64, public and private, totalled approximately 80,000 units. With new family formation in the range of 40,000-45,000 a year, new construction fell short at least by half in matching new needs, and increased the already very sizeable deficit accumulated in earlier years to perhaps 500,000 units.

95. The 1965-68 program contemplates the construction of some 211,000 public and public-assisted housing units, and an investment of Bs. 3,474 million, during the 1965-68 period. In addition there will be private construction of some 41,000 units. While extremely ambitious in relation to performance in recent years, the program would not exceed by much the anticipated rate of new family formation, now officially estimated at some 50,000 annually. It would therefore contribute only very modestly to reduction of the existing deficit.

96. More than 80 per cent of the public units programmed are intended for families with lower to modest monthly incomes. With the exception of a small subsidy element for rural houses, the program is designed to be completely self-liquidating.

97. While the program seems for the most part well suited to urgent human and social needs with due regard to low income priorities, and to be well-balanced as between urban and rural needs and direct and credit construction, its prospects for success are clouded by problems of organizational capability, finance and manpower, and it makes no direct attempt to cope with the serious housing conditions of the ranchos - improvised urban housing units built by their occupants from makeshift and scrap materials and, for the most part, lacking water supply and toilet facilities.

98. Of the organizations entrusted with major responsibilities for implementing this program, only Rural Housing (a division of the Ministry of Health) seems capable of achieving its assigned targets (71,000 units). Organizational and management problems will probably cause serious shortfalls in the programs of the Banco Obrero (72,000 units) and of the Foundation for Community Development (27,000 units). The need to devote the Government's limited financial resources, primarily to help solve the housing problems of low and middle income families will probably make a reduction in the allocation of funds to the Savings and Loans System inevitable, and major shortfalls in the System's program of 30,000 units are likely to result. Quite apart from these limitations, prospective shortages of skilled construction labor might impose their own limitations on the execution of the program.

99. In view of the urgency of this program and its prospective difficulties, the mission recommends, among other things, additional low cost housing of the Vivienda Rural type in 1967 and 1968 to compensate for some of the anticipated shortfall in other elements of the program, the strengthening of organizational capacities, adequate training programs for skilled construction labor, more effective arrangements for bringing private builders into the social housing program and a program to provide at least piped water, communal sanitation facilities and building materials for the ranchos which cluster the hills of Caracas. These measures could add some 35,000-40,000 new units to the program, and improve another 60,000-70,000, in compensation for the 50,000-60,000 units for which shortfalls in the proposed program are anticipated. The mission also suggests more relative emphasis on single and row house construction, the provision of rental as well as sales units within the multi-family construction program and consideration of the removal of rent controls on new privately built multi-family construction units.

Public Health

100. Substantial improvements in longevity, in environmental sanitation and in the control of communicable diseases have been achieved in recent years. Striking gains were achieved in the numbers and proportion of both urban and rural population provided with potable water; progress with respect to sewage disposal was much slower. The outstanding tasks for the forward period call for still higher proportions of the rapidly growing population to be serviced with potable water and by sewage disposal systems, for the provision of the additional hospital beds required and for the training of nurses and other auxiliary medical personnel already in short supply.

101. Of the Bs. 1,704 million allocated to the public health program, about 60 per cent will be spent by the National Institute for Sanitary Works for urban water supply and sewage disposal systems. The rest is mainly accounted for by the Ministry of Health program of rural water supply and sewage disposal systems and by the hospital construction program executed by the Ministry of Public Works.

102. The urban water supply program would bring potable water to an additional 1.5 million urban dwellers by 1968, raising the population served to about 5.1 million out of an anticipated total of nearly 6 million. It is important that this program be put on a sound financial basis. The sewage disposal program aims at serving 60 per cent of the urban population by 1971. A substantial portion of investment in improved water supply facilities is planned for the Caracas metropolitan region. This project will increase available water supply by 150 per cent, and improve water treatment and distribution facilities. Meanwhile, potable water would be supplied by Ministry of Health programs to some 700,000 persons in rural communities, bringing to 100 per cent the communities of 500 to 5,000 population enjoying such service. The hospital construction program would add 9,335 beds to the existing 28,500, bringing the number of beds per 1,000 population from 3.3 to 3.9 for the larger population anticipated.

103. While the mission concurs in these high priority programs, it believes that the start of some new hospital projects can be deferred if more coordinated use is made of existing facilities. The sector report offers numerous recommendations for the better organization, administration and financing of health and welfare services involving current as well as capital activities.

Education

104. During the years 1961-1964, enrollments in the primary schools reached about 76 per cent of the appropriate age groups. Secondary school enrollments increased by some 40 per cent, but reached only a modest proportion of the 14-18 year old group. With primary school enrollments growing henceforth only slightly faster than population and secondary school enrollments due to increase sharply in consequence of the large rise in primary enrollments since 1958, the major tasks in the educational field are to improve, rather than to extend, primary education and to expand secondary education. In addition, the curriculum at all levels needs to be more closely related to the problems of the society and the specialized skills required by it; and teaching methods need to be more closely related to the requirements of the learners.

105. The investment program of Bs. 644 million provides for school construction at all levels, to be executed by the states and municipalities as well as by the MOP; for school equipment, for which the Ministry of Education is responsible; and, significantly, for vocational training centers administered by the INCE. School construction will emphasize the building of secondary schools of various types in anticipation of the larger enrollments expected. INCE's already large scale vocational training activities are being enhanced by an emergency training program for unemployed youths.

106. The education plan contemplates free education for everyone up to the level of his personal ability as its ultimate objective. The criteria for the plan are the extent to which it will (a) alleviate critical deficiencies in middle and high level manpower necessary for the fulfillment of development goals and (b) contribute to the long-term development of an adequate and balanced educational system. Unfortunately there does not exist a systematic manpower survey and it is recommended that steps be taken to initiate such surveys on a continuing basis. Meanwhile it is abundantly clear that there exists an urgent need for more skilled workers and intermediate level technicians for which the present educational system and the INCE do not adequately provide.

107. Taking note of the big expansion in primary education from 1958 to 1962, the plan contemplates for the period 1965 to 1968 a consolidation and improvement in primary education and an expansion of approximately 85 per cent in secondary enrollment, as well as a continued expansion in higher education. In the mission's view, consolidation and improvement of primary education will require a major effort to reduce the number of drop-outs and repeaters; homogeneous grouping of average, retarded and other special-problem children, with special teachers and curricula; reform in the curriculum, with particular

emphasis on the introduction of practical subjects for boys and girls in the upper primary and early secondary years; and the introduction of modern teaching methods and philosophy through both in-service and improved pre-service teacher training programs. The mission observed particularly the need for indoctrination of the existing teaching force toward a student-oriented rather than a tradition-oriented pedagogy.

108. The expansion of secondary education is clearly of high priority but will require a major effort to maintain even the existing level of quality in the face of the rapid increase in enrollment anticipated. In view also of the obvious need for skilled workers and middle level technicians, greater emphasis should be given at this level to technical courses of study which will lead ultimately to preparation for employment. Account should also be taken of the substantial number of students enrolled in primary schools for whom places will not be available at the secondary level and for whom some type of job counselling and training should be provided both inside and outside the formal education system. A major objective in the development of the secondary system should be the diversion of students away from the traditional, purely academic stream into parallel courses directed toward industrial, agricultural or commercial employment. The mission would recommend that such diversification of secondary education take place at the upper level, following two years of basic and general secondary education. It recommends also additional educational facilities for training sub-professional technicians.

109. Because the plan is somewhat unrealistic in its expectations with respect to sharp reductions in the proportion of children of school age not enrolled in school, the mission believes that the increase in funds allotted to school construction does not need to be quite as sharp as that proposed from 1965 to 1966.

Miscellaneous

110. Miscellaneous investments totalling Bs. 2,786 million include public buildings of various types, infrastructure and other investments by the Guayana Corporation, investments of the social security funds of the Ministries of Education and Defense and unallocable outlays of the state and municipalities.

111. The mission has not been in a position to give much consideration to these programs, on which only scant information was available during its stay in Venezuela. It believes, however, that within this group of programs some contribution can be made to the attempt to close the financing gap. More specifically, it suggests some curtailment in the public building program and reduction in the infrastructure program of the CVG.

STATISTICAL APPENDIX

Table No.

The Program and its Financing

1. The Original 1965-1968 Program and Suggested Adjustments.
2. The Adjusted 1965-1968 Program and its Financing.
3. Unrevised Program: Expenditures on Fixed Investments, Land Acquisition, Financial Investments and Credit Programs.
- 3a Unrevised Program Expenditures by Level of Government, 1965-68.
- 3b Unrevised Program Expenditures by Types of Outlay (1965-1968).
4. Suggested Program Adjustments.
5. Estimates of Central Government Current Revenue.
6. Recapitulation of Planned and Suggested Revenue Measures.

The Economy

7. Changes and Composition of Real Gross Domestic Product by Industrial Origin, 1958-1964.
8. Changes and Composition of Agricultural and Livestock Production 1961-1964 and Program Projection, 1965-1968.
9. Changes and Composition of Manufacturing Production 1961-1964 and Program Projection.
10. Savings and Investments, 1958-1964.
11. Gross Domestic Product and Expenditure Projections, 1965-1968.
12. Employment and Unemployment in the Caracas Metropolitan Area, 1961-1964.
13. Investments and Capital Transfers of the Central Government, by Source of Finance, 1957-58 to 1964.
14. Changes in the Money Supply, by Sector of Origin, 1963-1964 and Projection 1965-1968.
15. Legal and Actual Reserves of the Commercial Banks, 1959-1964.
16. Movements in Selected Prices, 1958-1964.
17. Domestic Debt, 1958-1964 and Projection 1965-1968.
18. External Debt, 1958-1964 and Projection 1965-1968.
19. Balance of Payments, 1963-1964 and Projection 1965-1968.

Table 1 THE ORIGINAL 1965-1968 PROGRAM AND SUGGESTED ADJUSTMENTS
(In millions of Bolivares)

	Total 1965/68	1965	1966	1967	1968
<u>Current Account (unadjusted)</u>					
Receipts	40,562	8,964	9,973	10,488	11,137
Expenditures	29,141	6,319	7,203	7,550	8,069
Balance on current account	11,421	2,645	2,770	2,938	3,068
<u>Capital Account Expenditures</u>					
Unadjusted program expenditures ^{1/}	20,474	3,823	5,776	5,652	5,222
Amortization of domestic debt	1,612	611	378	295	328
Amortization of external debt ^{2/}	933	289	271	180	192
Miscellaneous (net) ^{2/}	56	-41	5	-19	110
Total	23,075	4,682	6,430	6,108	5,852
<u>Capital Account Receipts</u>					
Balance on current account	11,421	2,645	2,770	2,938	3,068
Domestic credits already contracted ^{4/}	689	471	115	73	30
External credits already contracted ^{2/}	1,288	633	432	200	23
Repayments of loans to Gov. banks	1,278	290	300	328	360
Other capital sources ^{9/}	859	245	178	200	237
Total	15,535	4,284	3,795	3,739	3,718
<u>Financing Gap</u>	<u>7,539</u>	<u>400</u>	<u>2,635</u>	<u>2,369</u>	<u>2,135</u>
<u>Suggested Program Adjustments</u>	<u>867</u>	<u>63</u>	<u>1,125</u>	<u>212</u>	<u>-534</u>
<u>Increases in financial resources</u>					
a. Revision of estimates					
Increase in revenue estimates ^{7/}	949	195	119	213	422
Use of social security funds	577	-	237	173	168
Sub-total a.	1,526	195	356	386	590
b. Increases in revenue through improvements in administration and raising of tax rates and service charges ^{8/}					
Improvements in tax collection	505	-	75	180	250
Improvements of administration in Government enterprises	135	39	43	53	-
Increases in state and municipal taxes	190	-	40	65	85
Suggested tax reforms	1,000	-	200	400	400
Sub-total b.	1,830	39	358	698	735
c. Domestic and external credits not yet contracted					
Domestic credits ^{4/}	1,334	50	456	390	438
External credits ^{5/}	1,775	40	333	601	801
Sub-total c.	3,109	90	789	991	1,239

Table continued on the next page.

Table 1 - Page 2

	Total 1965/68	1965	1966	1967	1968
<u>Total increases in financial resources</u>	<u>6,465</u>	<u>324</u>	<u>1,503</u>	<u>2,075</u>	<u>2,564</u>
<u>Balance (surplus -, deficit +)</u>	<u>207</u>	<u>13</u>	<u>7</u>	<u>82</u>	<u>105</u>

Source: CORDIPLAN consolidated public accounts and Mission suggested adjustments.

1/ Includes public investment expenditures, granting of credit and financial participation in private enterprises on behalf of public agencies and "the capital expenditures", principally including land purchase (cf. CORDIPLAN's consolidated public accounts of June 2, 1965, and Table 3).

2/ Based on CORDIPLAN's consolidated public accounts of June 2, 1965. Includes repayments of short-term debts of BAP and Ministry of Defense not included in the balance of payments Table and the monetary consolidation.

3/ Includes the following items in CORDIPLAN's consolidated public accounts "deudores", "caja y bancos", "acreedores" and "venta de activos".

4/ cf. Appendix D "Public Debt".

5/ cf. Appendix D "Public Debt".

6/ Principally deposits in Savings and Loan Associations and employer's contribution to INCE.

7/ cf. Table 5.

8/ cf. Appendix C.

Note: Figures may not add because of rounding.

Table 2 THE ADJUSTED 1965/1968 PROGRAM AND ITS FINANCING
(In millions of Bolivares)

	Total 1965/68	1965	1966	1967	1968
<u>Current Account (adjusted)</u>					
Receipts	43,341	9,198	10,450	11,399	12,294
Expenditures	29,141	6,319	7,203	7,550	8,069
Balance on current account	14,200	2,879	3,247	3,849	4,225
<u>Capital Account Expenditures</u>					
Adjusted program expenditures	19,607	3,760	4,651	5,140	5,756
Amortization of domestic debt	1,612	611	378	295	328
Amortization of external debt	933	289	271	181	192
Miscellaneous (net)	56	-41	5	-19	110
Total	22,205	4,619	5,305	5,896	6,386
<u>Capital Account Receipts</u>					
Balance on current account	14,200	2,879	3,247	3,849	4,225
Use of social security funds	577	-	237	173	168
Domestic borrowing	2,023	521	571	463	468
External borrowing	3,063	673	765	801	824
Repayment of loans to Gov. banks	1,278	290	300	328	360
Other capital sources	859	245	178	200	237
Total	22,000	4,608	5,298	5,814	6,282
Balance (surplus -, deficit +)	205	11	7	82	104
<u>Net Domestic and External Borrowing</u>					
Domestic borrowing	2,023	521	571	463	468
Amortization of domestic debt	1,612	611	378	295	328
Net increase in domestic debt	411	-90	193	168	140
External borrowing	3,063	673	765	801	824
Amortization of external debt	933	289	271	180	192
Net increase in external debt	2,130	384	494	621	632

Source: cf. Table 1.

Note: Figures may not add because of rounding.

Table 3 UNREVISED PROGRAM: EXPENDITURES ON FIXED INVESTMENT, LAND ACQUISITION, FINANCIAL INVESTMENT AND CREDIT PROGRAMS

(In millions of Bolivares)

	<u>1965</u>		<u>1966</u>		<u>1967</u>		<u>1968</u>		<u>Total</u>	
	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>
<u>Agriculture</u>	<u>436.1</u>	<u>369.9</u>	<u>628.1</u>	<u>375.6</u>	<u>609.6</u>	<u>438.5</u>	<u>629.2</u>	<u>512.2</u>	<u>2303.0</u>	<u>1696.2</u>
MAC	30.6	48.0	30.6	-	30.6	-	30.6	-	122.4	48.0
BAP - Commodity purchases	55.0	-	57.8	-	60.7	-	63.7	-	237.2	-
Other	18.0	321.9	25.0	375.6	-	438.5	-	512.2	43.0	1648.2
IAN - Land	140.1	-	143.2	-	144.4	-	146.1	-	573.8	-
Other	58.9	-	65.5	-	69.6	-	73.7	-	267.7	-
MOP (Land and fixed assets)	110.0	-	264.0	-	285.0	-	290.0	-	949.0	-
CVG - Delta Amacuro	18.0	-	37.0	-	10.0	-	15.0	-	80.0	-
Other	5.5	-	5.0	-	9.3	-	10.1	-	29.9	-
<u>Electricity</u>	<u>247.4</u>	-	<u>328.8</u>	-	<u>315.6</u>	-	<u>184.4</u>	-	<u>1076.2</u>	-
CADAFE	93.9	-	96.2	-	93.4	-	94.1	-	377.6	-
EDELCA	148.2	-	226.8	-	216.2	-	84.1	-	675.3	-
States and Municipalities	5.3	-	5.8	-	6.0	-	6.2	-	23.3	-
<u>Manufacturing</u>	<u>275.2</u>	<u>173.5</u>	<u>856.5</u>	<u>295.2</u>	<u>625.5</u>	<u>296.4</u>	<u>447.2</u>	<u>312.1</u>	<u>2204.4</u>	<u>1078.2</u>
CVG - Steel	79.3	-	340.3	35.1	322.2	9.9	247.2	14.8	989.0	59.8
Others	-	9.4	-	53.4	-	70.8	-	36.0	-	169.6
IVP	90.2	9.0	252.3	29.1	116.9	16.1	48.9	27.7	508.3	81.9
CVP	105.1	-	263.3	-	185.8	-	150.5	-	704.7	-
CVF	0.6	105.1	0.6	127.6	0.6	150.6	0.6	183.6	2.4	566.9
BI	-	50.0	-	50.0	-	50.0	-	50.0	-	200.0

Table 3 Page 2

	<u>1965</u>		<u>1966</u>		<u>1967</u>		<u>1968</u>		<u>Total</u>	
	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>
<u>Transport and Communications</u>	<u>737.2</u>	-	<u>1073.7</u>	-	<u>989.9</u>	-	<u>741.7</u>	-	<u>3542.5</u>	-
MOP	590.0	-	883.0	-	801.0	-	632.0	-	2906.0	-
of which roads	(564.0)	-	(831.0)	-	(734.0)	-	(558.0)	-	(2687.0)	-
Min. Com.	9.0	-	18.7	-	18.5	-	21.4	-	67.6	-
CANTV	74.2	-	130.8	-	127.6	-	46.1	-	378.7	-
IADA	1.1	-	14.0	-	15.0	-	14.0	-	44.1	-
IAAFN	1.2	-	1.2	-	1.2	-	1.2	-	4.8	-
INC	6.3	-	6.3	-	6.3	-	6.3	-	25.2	-
LAV	37.4	-	-	-	-	-	-	-	37.4	-
States and Municipalities	18.0	-	19.7	-	20.3	-	20.7	-	78.7	-
<u>Housing</u>	<u>260.8</u>	<u>440.1</u>	<u>331.5</u>	<u>437.4</u>	<u>419.5</u>	<u>500.4</u>	<u>445.5</u>	<u>588.9</u>	<u>1457.3</u>	<u>1966.8</u>
B. O. - Land	50.0	-	50.0	-	50.0	-	-	-	150.0	-
Others	121.5	57.3	213.8	30.0	300.0	30.0	374.0	30.0	1009.3	147.3
Vivienda Rural	-	61.0	-	70.0	-	100.0	-	125.0	-	356.0
Fund. Des. Com.	0.2	67.2	0.2	77.4	0.2	30.4	0.2	45.4	0.8	220.4
SNAP	-	174.0	-	260.0	-	340.0	-	388.5	-	1162.5
States and Municipalities	61.5	-	67.5	-	69.3	-	71.3	-	269.6	-
Other public	27.6	80.6	-	-	-	-	-	-	27.6	80.6

Table 3 Page 3

	<u>1965</u>		<u>1966</u>		<u>1967</u>		<u>1968</u>		<u>Total</u>	
	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>	<u>Land and Fixed Assets</u>	<u>Financial Investment and Credits</u>
<u>Public Health</u>	<u>286.6</u>	-	<u>480.8</u>	-	<u>504.8</u>	-	<u>431.6</u>	-	<u>1703.8</u>	-
INOS	144.3	-	286.1	-	332.8	-	264.3	-	1027.5	-
Min. San.	44.5	-	56.0	-	52.4	-	66.5	-	219.4	-
MOP	57.6	-	100.0	-	80.0	-	60.0	-	297.6	-
States and Municipalities	40.2	-	38.7	-	39.6	-	40.8	-	159.3	-
<u>Education</u>	<u>119.6</u>	-	<u>169.5</u>	-	<u>183.7</u>	-	<u>171.6</u>	-	<u>644.4</u>	-
MOP	54.8	-	101.3	-	113.3	-	99.0	-	368.4	-
Min. Ed.	12.1	-	12.5	-	12.8	-	13.2	-	50.6	-
States and Municipalities	35.1	-	38.5	-	39.6	-	40.5	-	153.7	-
Autonomous Agencies	17.6	-	17.2	-	18.0	-	18.9	-	71.7	-
<u>Sundry</u>	<u>325.2</u>	<u>59.9</u>	<u>400.3</u>	<u>61.0</u>	<u>380.3</u>	<u>62.2</u>	<u>400.8</u>	<u>63.4</u>	<u>1506.6</u>	<u>246.5</u>
CVG - Infrastructure	39.0	-	52.0	-	50.0	-	58.0	-	199.0	-
Other	3.9	-	35.5	-	10.6	-	18.8	-	68.8	-
General Government Buildings										
Central	149.8	-	172.3	-	161.8	-	175.3	-	659.2	-
Aut. Inst.	2.4	-	2.4	-	2.4	-	2.4	-	9.6	-
States and Mun.	38.7	-	51.2	-	52.3	-	33.2	-	175.4	-
Public Construction, Un-allocable	24.1	-	24.1	-	24.1	-	24.1	-	96.4	-
IPASME	26.0	59.9	20.6	61.0	24.2	62.2	28.4	63.4	99.2	246.5
IPSFA	32.2	-	32.2	-	32.2	-	32.2	-	128.8	-
<u>Other sectors and agencies</u>	<u>127.7</u>	<u>-34.8</u>	<u>161.2</u>	<u>206.2</u>	<u>169.8</u>	<u>175.7</u>	<u>148.3</u>	<u>153.3</u>	<u>549.1</u>	<u>498.5</u>
<u>Total</u>	<u>2815.8</u>	<u>1007.7</u>	<u>4400.2</u>	<u>1375.4</u>	<u>4179.0</u>	<u>1473.2</u>	<u>3592.3</u>	<u>1629.9</u>	<u>14987.3</u>	<u>5486.2</u>

Source: Mission sector break-down of preliminary program according to CORDIPLAN consolidated public accounts of June 2, 1965.

Table 3a. UNREVISED PROGRAM EXPENDITURES BY LEVEL OF GOVERNMENT, 1965-68

	Type of Outlay (Bs. million)					Proportion (%)
	Fixed Investment	Financial Investment	Credit	Other	Total	
Central Government	5,792	20	94	203	6,109	29.8
Autonomous Institutes	6,553	845	4,527	1,261	13,186	64.4
States and Municipalities	<u>860</u>	<u>-</u>	<u>---</u>	<u>318</u>	<u>1,178</u>	<u>5.8</u>
Total	<u>13,205</u>	<u>865</u>	<u>4,621</u>	<u>1,782</u>	<u>20,473</u>	<u>100.0</u>
Proportion (percent)	64.5	4.2	22.6	8.7	100.0	

Source: Mission break-down.

Table 3b. UNREVISED PROGRAM EXPENDITURES BY TYPES OF OUTLAY (1965-1968)
(In millions of Bolivares)

	1965	1966	1967	1968	Total 1965-68
Fixed investments	2,379	3,931	3,726	3,169	13,205
Financial investments	57	317	265	225	864
Credit	951	1,058	1,208	1,405	4,622
Other capital	<u>437</u>	<u>469</u>	<u>453</u>	<u>423</u>	<u>1,784</u>
Total	<u>3,824</u>	<u>5,776</u>	<u>5,652</u>	<u>5,222</u>	<u>20,474</u>
Proportion (percent)	18.7	28.2	27.6	25.5	100.0

Source: Mission break-down.

Table 4 SUGGESTED PROGRAM ADJUSTMENTS
(In millions of Bolivares)

	1965	1966	1967	1968	Total
<u>Agriculture</u>	<u>-12.6</u>	<u>-10.2</u>	<u>138.9</u>	<u>262.1</u>	<u>378.2</u>
MAC - Increase in research and extension services	-	-	12.9	37.3	50.2
BAP - Increase in staff and associated expenditures	-	-	13.5	31.5	45.0
Medium and long-term credit	-	-	40.0	50.0	90.0
IAN - Land	10.3	-24.2	-58.4	-93.1	-165.4
Other expenditures (including increase in staff and associated expenditures)	-9.9	37.0	95.9	181.4	304.4
MOP - Zulia	-	25.0	50.0	75.0	150.0
Irrigation	-	-21.0	-25.0	-25.0	-71.0
CVG - Delta Amacuro	-13.0	-27.0	10.0	5.0	-25.0
<u>Electricity</u>	<u>39.1</u>	<u>18.5</u>	<u>15.6</u>	<u>20.3</u>	<u>93.5</u>
CADAFE	39.1	18.5	15.6	20.3	93.5
<u>Manufacturing</u>	<u>-95.4</u>	<u>-532.7</u>	<u>-51.4</u>	<u>188.9</u>	<u>-490.6</u>
CVG - Steel	-28.3	-270.0	-58.2	56.5	-300.0
IVP - Fixed	-65.9	-172.7	-0.3	131.6	-107.3
Financial	-1.2	-10.0	-8.8	-17.7	-37.7
CVP	-	-80.0	15.9	18.5	-45.6
<u>Transport and Communications</u>	<u>5.8</u>	<u>-258.9</u>	<u>-17.5</u>	<u>297.3</u>	<u>26.7</u>
MOP - Roads	-	-200.0	-	200.0	-
Farm-to-market roads	-	-	17.0	47.0	64.0
CANTV	5.8	-58.9	-42.5	42.3	-53.3

Table continued on next page.

Table 4 - Page 2

	1965	1966	1967	1968	Total
<u>Housing</u>	<u>-</u>	<u>-226.0</u>	<u>-250.0</u>	<u>-212.5</u>	<u>-688.5</u>
B.O.	-	-66.0	-100.0	-104.0	-270.0
SNAP	-	-160.0	-220.0	-238.5	-618.5
"Rancho" improvement program	-	-	40.0	60.0	100.0
Alternative low-cost housing	-	-	30.0	70.0	100.0
<u>Public Health (MOP)</u>	<u>-</u>	<u>-24.0</u>	<u>-</u>	<u>4.0</u>	<u>-20.0</u>
<u>Education</u>	<u>-</u>	<u>-20.0</u>	<u>-</u>	<u>-</u>	<u>-20.0</u>
MOP	-	-20.0	-	-	-20.0
<u>Sundry</u>	<u>-</u>	<u>-72.0</u>	<u>-40.0</u>	<u>-18.0</u>	<u>-130.0</u>
CVG - Infrastructure	-	-12.0	-10.0	-18.0	-40.0
General Government Buildings	-	-60.0	-30.0	-	-90.0
<u>Total</u>	<u>-63.1</u>	<u>-1125.3</u>	<u>-212.4</u>	<u>534.1</u>	<u>-866.7</u>

Table 5 ESTIMATES OF CENTRAL GOVERNMENT CURRENT REVENUE
(In millions of Bolivares)

	Collections		Estimates				Total 1965/1968
	1963	1964	1965	1966	1967	1968	
<u>Original Ministry of Finance estimates</u>							
Oil and gas taxes	4,711	5,005	4,896	5,024	5,177	5,338	20,435
Income tax (non-oil/min.)	646	699	670	760	800	840	3,070
Customs duties	402	475	454	507	521	540	2,022
All other revenue ^{1/}	837	946	953	1,059	1,122	1,182	4,316
Total	6,596	7,125	6,973	7,350	7,620	7,900	29,843
Difference between estimates of Ministry of Finance and Cordiplan	-	-	-	50	-20	-100	-70
<u>Original Cordiplan estimates</u>	<u>6,596</u>	<u>7,125</u>	<u>6,973</u>	<u>7,400</u>	<u>7,600</u>	<u>7,800</u>	<u>29,773</u>
<u>Revised estimates</u>							
Oil and gas taxes ^{2/}	4,711	5,005	4,952	5,101	5,238	5,478	20,769
Income tax (non-oil/min.) ^{3/}	646	699	748	800	856	916	3,320
Customs duties ^{4/}	402	475	471	531	556	587	2,145
All other revenue ^{4/}	837	946	997	1,087	1,163	1,241	4,488
Total	6,596	7,125	7,168	7,519	7,813	8,222	30,722
Difference between revised estimates and Cordiplan original estimates (increase +)	-	-	195	119	213	422	949

Sources: Ministry of Finance, CORDIPLAN and mission estimates.

^{1/} Includes income tax on iron ore mining companies to the amounts of million Bs. 80 in 1963, 104 in 1964, 115 in 1965, 135 in 1966, 150 in 1967 and 165 in 1968.

^{2/} cf. Appendix A, Petroleum.

^{3/} Based on a 7% annual increase from the 1964 level.

^{4/} Based on discussions with Ministry of Finance and CORDIPLAN officials.

Table 6 RECAPITULATION OF PLANNED AND SUGGESTED REVENUE MEASURES
(In millions of Bolivares)

	Total 1965/1968	1965	1966	1967	1968
<u>Increases in revenue estimates</u>	<u>949</u>	<u>195</u>	<u>119</u>	<u>213</u>	<u>422</u>
Taxes on oil and minerals	334	56	77	61	140
Income tax (non-oil and minerals)	250	78	40	56	76
Customs duties	123	17	24	35	47
All other	172	44	28	41	59
Difference between Min. of Finance and Cordiplan	70	-	-50	20	100
<u>Improvements in tax collection^{1/}</u>	<u>505</u>	-	<u>75</u>	<u>180</u>	<u>250</u>
<u>Improvements in administration of government enterprises^{2/}</u>	<u>135</u>	<u>39</u>	<u>43</u>	<u>53</u>	-
CADAPE	93	39	18	16	20
IVP	-58	-	-	-	-58
All other	100	-	25	37	38
<u>Increase in state^{3/} and municipal taxes</u>	<u>190</u>	-	<u>40</u>	<u>65</u>	<u>85</u>
<u>Suggested tax reform^{4/}</u>	<u>1,000</u>	-	<u>200</u>	<u>400</u>	<u>400</u>

Sources: Increases in revenue estimates (cf. Table on "Estimates of Central Government Current Revenue"); other items (cf. Appendix C).

^{1/} Estimated results of improvements in the collection of income taxes, customs duties and liquor taxes. Estimate based on discussion with Ministry of Finance officials. (cf. Appendix C).

^{2/} Takes into account expected effects of increases in charges for services of Government agencies and savings in their operational expenditures to the extent that these are not already included in CORDIPLAN's consolidated public accounts. The figures for CADAPE represent CADAPE estimate of increased revenue not included by CORDIPLAN. In the case of IVP expected surpluses in their operations in 1968 have been deducted because of the anticipated delay in their construction program.

^{3/} Represents suggested increases in property taxation for the benefit of states and municipalities. At the same time as these increases were carried out, it is expected that the share of states and municipalities in expenditures for education, public health, etc., would be raised and that of the Central Government lowered. (cf. Appendix C).

^{4/} For the details of the suggested tax reform see Appendix C.

Table 7 CHANGES AND COMPOSITION OF REAL GROSS DOMESTIC PRODUCTS BY INDUSTRIAL ORIGIN, 1958-1964 (Percentages)

	<u>1958</u>	<u>1959</u> (Percentage Change over preceding year)	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1964</u> Percentage Distribution
Agriculture and livestock	4.3	4.5	10.3	2.1	10.9	6.6	6.9	7.1
Petroleum	-6.2	6.5	3.2	2.3	9.0	1.5	4.7	20.6
Mining	-1.0	10.9	11.9	-27.0	-6.8	-12.4	24.2	1.1
Manufacturing	8.7	16.3	1.0	5.7	11.5	7.8	10.7	17.6
Construction	2.4	5.5	-15.5	-24.1	20.0	18.4	20.0	6.3
Electricity, gas and water	17.5	19.9	9.3	13.7	13.1	11.4	11.6	1.7
Transport and communications	6.5	8.8	-4.5	-0.8	4.0	7.0	7.5	4.0
Commerce	-3.3	5.2	-4.1	2.1	5.0	5.6	6.0	15.0
Housing	12.0	11.1	7.9	4.6	2.8	3.3	5.5	10.9
Other services	7.5	8.6	4.3	-1.5	5.0	5.8	7.0	7.0
Government	4.4	1.9	7.9	-1.2	-1.3	8.8	4.0	8.7
Total	2.1	8.0	1.7	0.3	7.0	5.8	7.5	100.0
Total, Million Bs.(1960prices)	24237	26178	26622	26705	28586	30231	32513	32513

Source: CORDIPLAN (II Mensaje Presidencial, Caracas 1965)

Table 8 CHANGES AND COMPOSITION OF AGRICULTURAL AND LIVESTOCK PRODUCTION, 1961-64 AND PROGRAM PROJECTION 1965-1968

	Proportion of Gross Value of Agricultural Production (1961-64)	Average Annual Production 1961-64 (000 metric tons unless otherwise specified)	Average Annual Growth Rate 1961-1964 over 1957-60	Average Annual Growth Rate 1965-1968 over 1961-64
<u>Cereals</u>	<u>10.1</u>			
Rice	3.7	120.4	32.0	8.3
Corn	6.3	476.6	6.7	11.3
Wheat	0.1	1.0	-9.5	0
<u>Pulses</u>	<u>1.6</u>			
Peas	0.1	1.8	-4.3	8.5
Black Beans (caraotas)	0.9	25.7	-9.3	11.2
Chickpeas (frijoles)	0.5	13.6	-10.5	17.0
"Quinchoncho"	0.1	3.7	-10.5	12.0
<u>Roots and Tubers</u>	<u>9.5</u>			
Sweet potatoes	0.4	20.2	2.8	12.2
"Mapuey"	0.2	9.3	-7.0	-0.3
Yams (Ñame)	1.4	60.1	1.6	7.5
"Ocumo"	1.6	69.4	5.6	10.5
Potatoes	2.5	105.6	1.3	5.4
Cassava (Yuca)	3.3	316.2	7.7	10.0
<u>Industrial Crops</u>	<u>14.3</u>			
Sesame	2.0	32.7	17.0	14.0
Groundnuts	0.1	1.5	0	7.5
Copra	0.7	12.8	10.7	12.4
Sugar cane	5.4	2,821.8	9.3	8.6
Non-centrifugal sugar (cane)	1.7	482.3	0	-0.8
Tobacco	2.3	8.9	7.7	8.5
Cotton	1.8	32.5	9.5	17.5
Sisal	0.4	9.8	4.5	8.5

Table continued on the next page.

Table 8 - Page 2

	Proportion of Gross Value of Agricultural Production (1961-64)	Average Annual Production 1961-64 (000 metric tons unless otherwise specified)	Average Annual Growth Rate 1961-1964 over 1957-60	Average Annual Growth Rate 1965-1968 over 1961-64
<u>Fruits and Vegetables</u>	<u>7.5</u>			
Bananas (Cambur)	3.2	375.2	-1.5	6.3
Plantain (Plátano)	2.6	371.1	13.3	12.5
Onion	0.5	21.2	-3.3	5.2
Tomato	1.2	58.9	6.3	7.8
<u>Livestock and Dairy Products</u>	<u>38.8</u>			
Beef (000 heads)	14.4	910.4	5.8	4.7
Pork (000 heads)	3.0	700.9	1.3	0.9
Goats (000 heads)	0.2	400.2	6.2	-1.3
Mutton and lamb (000 heads)	-	52.0	-8.7 ^{1/}	-3.8
Poultry (million heads)	4.2	30.4	8.2 ^{1/}	11.8
Eggs (000 units of 0.265 kg)	3.6	320.1	8.3 ^{1/}	10.7
Milk	12.9	499.1	7.3 ^{1/}	10.4
<u>Fisheries</u>	<u>2.9</u>	93.4	3.9	5.6
<u>Forestry</u>	<u>4.1</u>			
Timber (000 cu.m.)	3.9	320.9	15.0 ^{1/}	5.9
Charcoal (000 metric tons)	0.1	11.7	n.a.	1.6
Others (Rubber (metric tons)	(0.1	161.0	-12.3 ^{1/}	-6.3
(Firewood (000 metric tons)	(0.1	4.1	n.a. ^{2/}	7.6
<u>Principal Export Crops</u>	<u>11.2</u>			
Coffee	9.0	52.1	-1.2	2.3
Cocoa	2.2	14.6	-1.3	5.7

Source: CORDIPLAN. For details, see Annex 1.

^{1/} Average annual growth rate from 1961 to 1964.

^{2/} Completion of growth rate not meaningful due to big annual fluctuations.

Table 9 CHANGES IN MANUFACTURING PRODUCTION 1961-1964 AND PROGRAM PROJECTION
1965-68

	Proportion of Value Added in Manufacturing 1964 (%)	Average Annual Growth Rate 1961-1964 (%)	Average Annual Growth Rate Projected in Program 1965-68 (%)
<u>Consumer Goods and Other Light Industries</u>	<u>47.5</u>	<u>7.5</u>	<u>7.9</u>
Food	14.7	9.2	7.6
Beverages	10.1	2.2	7.0
Tobacco	4.6	7.2	6.2
Textiles	6.8	13.0	9.7
Apparel and Shoes	6.5	8.6	8.1
Wood and Cork	0.9	7.2	9.6
Furniture and Accessories	2.9	6.2	10.4
Hides and Leather	1.0	8.8	8.0
<u>Intermediate Products</u>	<u>32.6</u>	<u>11.2</u>	<u>12.6</u>
Paper and Cellulose	3.1	16.0	13.0
Rubber	3.0	10.1	9.4
Chemicals	9.1	17.9	14.6
Petroleum derivatives	10.4	4.9	3.4
Non-metallic minerals	5.1	6.5	8.4
Basic metals	2.0	55.0	43.3
<u>Mechanical Industries</u>	<u>7.4</u>	<u>16.5</u>	<u>19.1</u>
Metal products	2.4	10.6	16.3
Machinery	0.3	15.5	61.0
Electrical equipment	1.4	12.3	13.0
Transport equipment	3.2	24.0	18.0
<u>Others</u>	<u>4.1</u>	<u>11.2</u>	<u>11.8</u>
Graphic arts	2.8	6.4	9.8
Miscellaneous	1.3	28.0	15.7
<u>Sub-total</u>	<u>91.6</u>	<u>9.5</u>	<u>10.5</u>
<u>Artisan Production (est.)</u>	<u>8.4</u>	<u>3.2</u>	<u>3.0</u>
Total	<u>100.0</u>	<u>8.9</u>	<u>10.2</u>

Source: CORDIPLAN

Table 10 SAVINGS AND INVESTMENTS, 1958-1964^{1/}
(In millions of Bolivares)

	1958	1959	1960	1961	1962	1963	1964
<u>Gross domestic investment</u>	<u>6314</u>	<u>7127</u>	<u>4510</u>	<u>4626</u>	<u>5202</u>	<u>4794</u>	<u>6874</u>
Gross fixed investment	5965	6720	4797	4286	4635	4849	6574
Changes in inventories	349	407	-287	340	567	-55	300
Plus:							
Balance of Payments							
Surplus on current Account	-358	140	1399	1331	1073	1700	1836
Equals:							
<u>Gross domestic savings</u>	<u>5956</u>	<u>7267</u>	<u>5909</u>	<u>5957</u>	<u>6275</u>	<u>6494</u>	<u>8710</u>
Minus:							
Depreciation of mining sector	-47	(50)	-61	-64	-63	-65	(-65)
Depreciation of oil sector	-836	-939	-948	-929	-911	-872	-868
Equals:							
<u>Gross national savings</u>	<u>5073</u>	<u>6278</u>	<u>4900</u>	<u>4964</u>	<u>5301</u>	<u>5557</u>	<u>7777</u>
<u>GNP at market prices</u>	<u>22488</u>	<u>23176</u>	<u>23471</u>	<u>23757</u>	<u>25260</u>	<u>26914</u>	<u>31407</u>
Gross domestic saving:GNP(%)	26.5	31.3	25.1	25.1	24.9	24.1	27.7
Gross national saving:GNP(%)	22.6	27.0	20.9	20.9	21.0	20.6	24.8

Source: 1958-1959, IBRD The Economic Development of Venezuela (Baltimore 1961) and Banco Central, Cuentas Nacionales 1959;

1960-1963, Banco Central, Informe Economico 1963 (Caracas 1964);

1964 Mission estimate.

^{1/} Changes in statistical methods make the figures before 1960 not fully comparable with those of subsequent years.

Table 11 GROSS DOMESTIC PRODUCT AND EXPENDITURE PROJECTIONS, 1965-68
(In millions of Bolivares)

	1963 ^{1/}	1964 ^{2/}	1965 ^{3/}	1966 ^{3/}	1967 ^{3/}	1968 ^{3/}	Average Annual Rate of Increase 1964-68
Private consumption ^{4/}	16357	18402	19414	20482	21609	22797	5.5
Public consumption ^{5/}	4063	4295	4427	5120	5376	5757	7.6
Private fixed capital formation ^{13/})	4849	4136	5561	5628	5819	6647	12.6
Public fixed capital formation ^{5/})		2438	2317	2988	3697	3859	12.2
Change in inventories	-55	300	400	300	200	200	
Total GDE ^{6/}	25214	29571	32119	34518	36701	39260	7.3
Net exports of goods and services ^{7/}	4026	5166	4514	4149	4073	3992	
GDP at market prices ^{8/}	29240	34737	36633	38667	40774	43252	5.6
Factor payments abroad ^{9/}	-2326	-3330	-3452	-3566	-3645	-3906	
GNP at market prices ^{10/}	26914	31407	33181	35101	37129	39346	5.8
Gross Domestic Savings ^{11/}	6494	8710	9340	9499	10144	10792	5.5 ^{11/}
Public ^{12/}	2859	3246	2879	3247	3849	4225	6.8
Private ^{13/}	3635	5464	6461	6252	6295	6567	4.7
Gross Savings: GNP ratios (%)	24.1	27.7	28.1	27.1	27.3	27.4	
Public	10.6	10.3	8.7	9.3	10.4	10.7	
Private	13.5	17.4	19.5	17.8	17.0	16.7	

Source: 1963: Central Bank
1964-68: Mission estimates as explained in footnotes.

Footnotes on the next page.

Table 11 - Footnotes

- 1/ Central Bank, current prices, unless otherwise specified.
- 2/ Mission estimate, current prices.
- 3/ Mission projections in prices of 1964.
- 4/ 12.5 per cent in 1964 and 5.5 per cent in subsequent years.
- 5/ Plan Operativo 1964 (CORDIPLAN) and 1965-68 Plan with suggested program adjustments, including under consumption the increase in research and extension in MAC, increase in staff and associated expenditures in BAP, and that part of IAN "other expenditures" that represents staff and associated expenditures, i.e. Bs. 12, 37 and 75 million in 1966-1968, respectively.
- 6/ GDP minus net exports of goods and services.
- 7/ Balance of payments surplus on current account plus net factor payments abroad.
- 8/ Computed by adding separate projections for GDP of petroleum sector and of GDP of all other sectors:
 - (a) GDP of petroleum sector: see Appendix on Petroleum
 - (b) GDP of other sectors: 12.5 per cent increase in 1964, based on preliminary Central Bank estimates of 8.9 per cent rise in real output and 3.3 per cent rise in domestic wholesale prices. For 1965-68 based on assumed growth rate of 6.5 per cent per year.
- 9/ Balance of payments.
- 10/ GDP minus factor payments abroad.
- 11/ GNP minus public and private consumption.
- 12/ For 1963-1965 Central Government surplus on current account, plus CORDIPLAN estimate for 1965 of current surpluses of autonomous institutes and States and Municipalities. For 1966-1968, Plan with suggested adjustments.
- 13/ Residual.
- 14/ If depreciation in the petroleum sector is excluded the overall rate becomes 6.0%, and the private savings rate 5.3%.

Table 12 EMPLOYMENT AND UNEMPLOYMENT IN THE CARACAS METROPOLITAN AREA, 1961-1964

		<u>January</u>	<u>(December)</u>			
		1961	1961	1962	1963	1964
<u>Total Labor Force</u>	(000)	451.2	476.0	514.5	523.9	532.8
<u>Percentage Change</u>	(%)		5.5	8.1	1.8	1.7
<u>Employed</u>	(000)	351.4	377.9	423.5	427.7	467.0
<u>Percentage Change</u>	(%)		7.5	12.1	1.0	9.2
<u>Unemployed</u>	(000)	99.8	98.1	91.0	96.2	65.8
<u>Percentage Change</u>	(%)		-1.7	-7.1	5.7	-31.6
<u>Unemployed: Labor force</u>	(%)	22.1	20.6	17.7	18.3	12.3

Source: Central Bank

Table 13 INVESTMENTS AND CAPITAL TRANSFERS OF THE CENTRAL GOVERNMENT, BY SOURCE OF FINANCE, 1957-58 TO 1964
(In millions of Bolivares)

	1957-58	1958-59	1959-60	1960-61	1962	1963	1964
Total	<u>2721</u>	<u>2088</u>	<u>1833</u>	<u>1961</u>	<u>1865</u>	<u>2130</u>	<u>2404</u>
Balance on Current Account	<u>2661</u>	<u>2239</u>	<u>1505</u>	<u>1816</u>	<u>2365</u>	<u>2596</u>	<u>2950</u>
Current revenues	<u>4881</u>	<u>5324</u>	<u>5093</u>	<u>5484</u>	<u>5910</u>	<u>6596</u>	<u>7125</u>
Current expenditures and transfers	2220	3085	3588	3668	3545	4000	4175
Net Borrowing	<u>-500</u>	<u>-1075</u>	<u>-273</u>	<u>240</u>	<u>-175</u>	<u>-438</u>	<u>-488</u>
External	n.a.	n.a.	n.a.	n.a.	<u>-50</u>	<u>-168</u>	<u>-46</u>
Drawings	n.a.	n.a.	467	200	<u>175</u>	<u>55</u>	n.a.
Repayments	n.a.	n.a.	n.a.	n.a.	225	223	n.a.
Internal	n.a.	n.a.	n.a.	n.a.	<u>-122</u>	<u>-270</u>	<u>-442</u>
Drawings	n.a.	n.a.	n.a.	269	<u>635</u>	n.a.	n.a.
Repayments	n.a.	n.a.	n.a.	n.a.	760	n.a.	n.a.
Other	<u>560</u>	<u>924</u>	<u>621</u>	<u>-95</u>	<u>-325</u>	<u>-28</u>	<u>-58</u>
Change in Treasury deposits (-increase)	<u>560</u>	<u>924</u>	<u>621</u>	<u>-95</u>	<u>-331</u>	<u>-28</u>	<u>-54</u>
Coinage	-	-	-	-	3	-	-
Other, unallocable	-	-	-	-	-3	-	-4

Source: Ministry of Finance and IMF

Table 14 CHANGES IN THE MONEY SUPPLY BY SECTOR OF ORIGIN 1963-1964, AND PROJECTION 1965-1968
(In millions of Bolivares)

	1963	1964	1965	1966	1967	1968	Total 1965-1968
Total Money Supply, beginning of period ^{1/}	3609	3890	4417	4726	5057	5411	
Annual Change in Money Supply	281	527	309	331	354	379	1373
<u>Private Sector</u>	<u>22</u>	<u>409</u>	<u>170</u>	<u>360</u>	<u>394</u>	<u>715</u>	<u>1639</u>
Central Bank ^{2/}	13	76	50	85	90	95	320
Commercial Banks ^{3/}	9	333	120	275	304	620	1319
Credits and investments ^{3/}	371	723	530	700	744	1075	
Minus: Increase in quasi money ^{2/}	-393	-352	-360	-370	-380	-390	
Increase in paid-in capital and reserves ^{2/}	-20	-46	-50	-55	-60	-65	
Increase in dividends payable ^{2/}	3	-	-	-	-	-	
Other accounts (net) ^{2/}	49	8	-	-	-	-	
<u>Foreign Sector^{4/}</u>	<u>486</u>	<u>432</u>	<u>126</u>	<u>-36</u>	<u>-122</u>	<u>-441</u>	<u>-473</u>
Balance of payments (with contracted loans only)	-	-	33	-461	-755	-1255	
Other possible borrowing	-	-	93	425	633	814	
<u>Public Sector^{5/} (Central Bank)</u>	<u>-93</u>	<u>-644</u>	<u>13</u>	<u>7</u>	<u>82</u>	<u>105</u>	<u>208</u>

Source: 1963-1964 Central Bank;
1965-1968 Mission projections.

Footnotes on the next page.

Table 14 - Footnotes

- 1/ Demand deposits, notes and coin. Annual increase of 7 per cent for 1965-1968, estimated as acceptable non-inflationary rate, in view of projected increases of 5.8 per cent in GNP and 7.2 per cent in GDE.
- 2/ 1965-1968 national Mission projections.
- 3/ 1963-1964 Central Bank. 1965-1968 calculated as residuals.
- 4/ For 1963 based on Central Bank estimate of Bolivar equivalent of foreign exchange accumulation by Central Bank and commercial banks. For 1964-1968 based on the over-all balance of payments deficit or surplus at Bs. 4.50 = US. \$1.00.
- 5/ For 1963 based on Central Bank estimate of General Government impact on money supply, minus exchange profits. For 1964 Central Bank estimate for impact of General Government. In both years the autonomous agencies' net rediscounting operations with the banking system appear to have been excluded from this item and to have been included in the total corresponding to the private sector. The figures were Bs. 5 and 85 million respectively. For 1965-1968 the over-all public sector surplus (-) or deficit, including the effects of debt repayments and drawing on foreign and domestic loans.

Table 15 LEGAL AND ACTUAL RESERVES OF THE COMMERCIAL BANKS, 1959-1964

(In millions of Bolivares)

	Legal Reserves	Actual Reserves	Excess Reserves	Adjusted ^{1/} Excess Reserves	Money ^{2/} Supply
December 1959	770.2	1048.5	278.4	278.4	3770
September 1960	597.0	833.0	236.0	151.1	3046
December 1960	619.3	932.6	313.3	243.2	3539
September 1961	654.0	1169.2	515.2	480.9	3433
December 1961	642.7	1166.4	523.8	493.7	3603
December 1962	638.7	917.6	278.9	278.9	3551
September 1963	634.5	1231.9	597.4	597.4	3542
December 1963	658.6	954.7	296.1	296.1	3803
September 1964	709.4	1126.6	417.2	417.2	3845
November 1964	755.2	1285.9	530.7	530.7	4182
May 1965	888.5	1436.6	548.1	548.1	4182

Source: Central Bank and IMF.

^{1/} Adjusted by subtracting special Central Bank credits granted at the end of the month to make up for deficiencies in reserves.

^{2/} Demand deposits, notes and coin.

Table 16

MOVEMENTS IN SELECTED PRICES, 1958-1964^{1/}

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> ^{2/}
<u>Wholesale Prices</u>	<u>1.5</u>	<u>2.7</u>	<u>0.8</u>	<u>1.5</u>	<u>4.8</u>	<u>3.2</u>	<u>3.8</u>
<u>Imported Products</u>	<u>...</u>	<u>1.7</u>	<u>2.0</u>	<u>2.7</u>	<u>10.8</u>	<u>6.7</u>	<u>4.2</u>
<u>Domestic Products</u>	<u>...</u>	<u>3.6</u>	<u>-0.9</u>	<u>1.0</u>	<u>-0.3</u>	<u>-1.2</u>	<u>3.3</u>
Agricultural products		5.3	-	0.4	-3.1	-1.2	0.7
Processed foods		4.5	-3.6	-0.4	1.2	0.5	5.1
Textiles		3.5	0.7	0.3	2.4	-0.3	4.5
Chemical and pharmaceuticals		2.5	-	0.1	2.5	3.4	2.0
Hides and leather products		1.7	7.1	1.8	-0.9	-0.9	14.7
Paper and products		7.0	5.6	0.5	0.2	0.3	10.9
Construction materials		1.0	-	-0.2	0.3	0.8	3.5
Furniture		1.1	1.2	0.4	1.8	3.3	-

Source: Central Bank

1/ Annual averages unless otherwise specified.

2/ December 1963 - December 1964.

Table 17 DOMESTIC DEBT 1958-1964 AND PROJECTION 1965-1968

(In millions of Bolivares)

	Disbursements ^{1/}	Repayments	Net Change	Total Debt Outstanding
1958				488
1959	402	65	337	825
1960	587	334	263	1088
1961	1354	1004	350	1438
1962	741	780	-39	1399
1963	336	412	-76	1373
1964	131	528	-397	926
1965	468	287	181	1107
1966	536	263	273	1380
1967	443	277	166	1546
1968	468	337	133	1679

Source:

1958-1964 II Mensaje Presidencial (Caracas 1965)

1965-1968 Mission projection

^{1/} Excludes States and Municipalities and short-term borrowing from commercial banks, which are:

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
States and Municipalities	15	20	20	-
Commercial banks	38	15	-	-

Table 18 EXTERNAL DEBT 1958 - 1964 AND PROJECTION 1965 - 1968

(In millions of Bolivares)

	Disbursements	Repayments ^{1/}	Net Change	Total Debt Outstanding
1958				615
1959	-	-192	-192	423
1960	668	-125	543	966
1961	82	-239	-156	810
1962	305	-372	-67	743
1963	166	-247	-81	662
1964	385	-214	171	803
1965	673	157	516	1319
1966	765	206	559	1878
1967	801	160	641	2519
1968	824	173	651	3170

Source:

1958-1964 II Mensaje Presidencial, (Caracas, 1965). As these figures are expressed in bolivares, they are affected by the changes in the rate of exchange carried out during the years 1960-1964.

1965-1968 Mission projection

^{1/} For 1965-68 excludes floating debt, which is included in public sector consolidated accounts.

Table 19 BALANCE OF PAYMENTS 1963 AND 1964 AND 1965-1968 PROJECTION
(US \$ Million)

	<u>1963</u>	<u>1964</u> ^{1/}	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u> <u>1965-68</u>
1. <u>Exports</u>	<u>2549</u>	<u>2567</u>	<u>2639</u>	<u>2712</u>	<u>2786</u>	<u>2864</u>	<u>11001</u>
Petroleum sector ^{2/}	2384	2398	2452	2507	2563	2621	10143
Iron ^{3/}	93	114	122	130	138	148	538
Others	72	55	65	75	85	95	320
2. <u>Imports</u>	<u>-1017</u>	<u>-1141</u>	<u>-1334</u>	<u>-1460</u>	<u>-1531</u>	<u>-1606</u>	<u>-5931</u>
Petroleum sector ^{3/}	99	-90	-125	-130	-134	-139	-528
Others ^{4/}	918	-1051	-1209	-1330	-1397	-1467	-5403
3. <u>Trade Balance</u>	<u>1532</u>	<u>1426</u>	<u>1305</u>	<u>1252</u>	<u>1255</u>	<u>1258</u>	<u>5070</u>
4. <u>Transport and Insurance</u> ^{5/}	<u>-105</u>	<u>-121</u>	<u>-139</u>	<u>-160</u>	<u>-173</u>	<u>-187</u>	<u>-659</u>
5. <u>Non Financial Services</u> ^{3/}	<u>-150</u>	<u>-157</u>	<u>-163</u>	<u>-170</u>	<u>-177</u>	<u>-184</u>	<u>-694</u>
6. <u>Investment Income</u> ^{6/}	<u>-675</u>	<u>-740</u>	<u>-767</u>	<u>-792</u>	<u>-810</u>	<u>-868</u>	<u>-3237</u>
7. <u>Total</u>	<u>602</u>	<u>408</u>	<u>236</u>	<u>130</u>	<u>95</u>	<u>19</u>	<u>480</u>
8. <u>Private Capital & Family Rem.</u>	<u>-406</u>	<u>-302</u>	<u>-322</u>	<u>-262</u>	<u>-264</u>	<u>-262</u>	<u>-1110</u>
Petroleum sector capital ^{3/}	-131	-57	-103	-69	-71	-73	-316
Other capital ^{7/}	-173	-38	-	34	53	72	90
Family remittances)	-102	-207	-219	-232	-246	-261	-958
Errors and Omissions)							
9. <u>Official Capital</u>	<u>-86</u>	<u>-10</u>	<u>114</u>	<u>124</u>	<u>142</u>	<u>145</u>	<u>525</u>
<u>Disbursements</u>		<u>53</u>	<u>149</u>	<u>170</u>	<u>178</u>	<u>183</u>	<u>680</u>
Loans contracted 31/12/64		-	129	76	37	2	244
Other possible borrowing ^{9/}		-	20	94	141	181	436
Repayments ^{10/}		-63	-35	-46	-36	-38	-155
10. <u>Change in Reserves (-increase)</u>	<u>-156</u>	<u>-96</u>	<u>-28</u>	<u>8</u>	<u>27</u>	<u>98</u>	<u>105</u>

Footnotes on the next page.

Table 19 - Footnotes

Source: 1963-1964 Central Bank; 1965-1968 Mission projections.

- 1/ Preliminary.
- 2/ After 1964, petroleum production is projected to rise by 3.5 per cent per year, and domestic consumption by 7 per cent. Realized foreign prices are projected to decline by 1 per cent per year.
- 3/ After 1964, CORDIPLAN.
- 4/ 15 per cent in 1965, 10 per cent in 1966 and 5 per cent in 1967 and 1968.
- 5/ Assumed to move roughly in proportion with imports.
- 6/ After 1964, based on projection of profits of petroleum sector (see Appendix A) and CORDIPLAN estimates for other items.
- 7/ After 1964 computed to take account of (a) main known projects in industrial sector in which CVG and IVP expect to participate with private foreign capital, and (b) the increased total imports, part of which are presumed to be financed by direct private foreign investment.
- 8/ Includes only loans in advanced state of negotiations. Excludes additional possible borrowing program.
- 9/ Proposed borrowing program. See Appendix D.
- 10/ Excludes floating debt, estimated repayments of which in 1965-68 are of the order of US\$60 million, and which are included in the public sector accounts (see Tables 1 and 2).

APPENDIX A

PETROLEUM

1. Petroleum continues to dominate the Venezuelan economy in several respects, and although it is the policy of the Government to reduce the country's dependence on this sector, it is generally realized that this can only be achieved gradually and over a much longer time period than is covered by the Program. Moreover, it is a goal that cannot be achieved merely by stimulating the nonpetroleum economy; since the dependence is greatest in respect to foreign exchange earnings and fiscal revenues, appropriate concomitant measures will have to be taken, especially in regard to export diversification and domestic taxes.

2. The world petroleum situation in the post war period has undergone several more or less unforeseen changes of major importance - quite aside from innumerable relatively minor fluctuations - which make projections particularly risky. Events such as the Iranian oil nationalization, the Algerian and Libyan finds, the Suez crisis, the emergence of Russian exports and the Dutch natural gas discoveries, superimposed on the longer term substitution of petroleum for coal, first in the United States and later in Europe, each were enough to upset any medium term forecast made shortly before they took place, and there is no reason to assume that unpredictable occurrences, of this kind will be absent in the future. Nevertheless, planning in Venezuela must necessarily take place in the context of specific assumptions about the petroleum economy, and for this purpose there is no alternative to extrapolating current trends. The basic assumptions of this projection are that the average annual rate of increase of production is 3.5 per cent and that the average annual rate of decline of realized foreign prices is 1 per cent. These assumptions were discussed with competent Venezuelan officials, many of whom agreed that they were plausible, even though the comparable rates for the preceding four years were 4.6 and 2.2 per cent.

3. The impact of the foreign owned petroleum companies on the Venezuelan economy is three-fold: they affect gross product, the balance of payments and public (Central Government) revenues. Since each of these categories is influenced by a specifiable number of items from the companies' accounts, it is these accounts that have to be projected. Thus GDP and GNP originating in the petroleum sector can be determined by ascertaining what the expected levels of the following items will be:

Wages and salaries chargeable to costs
plus Taxes
plus Depreciation
equals GNP
plus Profits
equals GDP

Similarly the fiscal impact of the sector may be derived by considering the items determining tax liabilities while the balance of payments impact is the net result of the current and capital transactions of the companies in Venezuela.

4. Wages and Salaries Chargeable to Costs. There has been an almost continuous decline in employment in the industry over the last 16 years, only interrupted in 1957 by the granting of large new concessions in 1956. At the same time, the average number of hours worked also fell, while wages and fringe benefits rose:

	No. of Workers (000)	Hours Worked (millions)	Av.Wage ^{1/} Per Man Year (Bs.000)	Av.Wage ^{1/} per Hour (Bs.)	Wages Chargeable to: Total Costs Capital (Bs. million)		
Av. 1948-50	50.7	119.1	12.8	5.4	648.4	n.a.	n.a.
Av. 1951-53	44.4	103.8	15.1	6.5	672.2	n.a.	n.a.
Av. 1954-56	42.4	101.4	18.4	8.0	800.3	n.a.	n.a.
Av. 1957-59	44.7	103.7	23.3	10.0	999.0	920.0	79.0
Av. 1960-62	37.5	78.6	28.4	13.6	999.4	957.0	42.0
Av. 1963-64	<u>33.5</u>	<u>66.5</u>	<u>31.6</u>	<u>15.9</u>	<u>968.0</u>	<u>912.0</u>	<u>56.0</u>
Av. Rate of Change 1948-50 to 1963-64 (%)	-2.9	-4.1	6.7	8.0	2.9	n.a.	n.a.

Source: Ministry of Mines

^{1/} Includes fringe benefits.

The decline in employment was caused in part by the reduction in exploration activities - which are highly labor intensive - and in part by technological improvements and by the endeavor of the industry to economize labor as wages rose and oil markets weakened after 1957. Exploration activities are at present rising slightly, but really substantial changes are not to be expected until an agreement is reached between the Government and the foreign companies on the granting of service contracts. There are strong reasons to believe that this issue will be settled during the program period, but more precise estimates are next to impossible. For purposes of the projection, the level of employment was therefore assumed to be unchanged for the average of the next four years. Wage rates, on the other hand, are assumed to rise, since in May 1966 the industry's three year collective bargaining agreement expires. A new one, retroactive to that date, is due to be negotiated before the end of 1966, and is here assumed to raise wage rates and fringe benefits by some 12 per cent, i.e. by the same proportion as the last contract. Therefore, the wage bill is expected to remain approximately stable in 1965, to rise by 6 per cent in 1966 and another 6 per cent in 1967 and to stabilize in 1968.

ACCOUNTS OF THE PETROLEUM SECTOR, 1958-1964 AND PROJECTIONS, 1965-1968
(In millions of Bolivares)

APPENDIX A
Page 3

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Costs	3,107	3,231	3,373	3,186	3,024	2,971	3,541	3,587	3,689	3,796	3,842
Operating	2,271	2,292	2,425	2,257	2,113	2,099	2,673	2,707	2,799	2,896	2,932
Wages and salaries charged to costs	900	940	999	1,001	875	867	957	957	1,014	1,075	1,075
Materials, services and other supplies	1,371	1,352	1,426	1,256	1,238	1,232	1,716	1,750	1,785	1,821	1,857
Depreciation and Depletion	836	939	948	929	911	872	868	880	890	900	910
Royalties and other Non-Income Taxes	1,601	1,600	1,641	1,683	1,846	1,873	2,707	2,794	2,881	2,971	3,066
Royalties	1,415	1,444	1,503	1,553	1,703	1,731	2,564	2,654	2,747	2,843	2,943
Surface tax	32	32	28	23	20	19	20	20	19	18	18
Others	154	124	110	107	123	123	123	120	115	110	105
Total Deductions from income	4,708	4,831	5,014	4,869	4,870	4,844	6,248	6,381	6,570	6,767	6,908
Revenues	7,662	7,289	7,287	7,477	7,915	7,902	11,062	11,342	11,633	11,934	12,244
Exports	7,099	6,654	6,640	6,837	7,239	7,216	10,336	10,565	10,802	11,045	11,293
Domestic Sales	563	635	647	640	676	686	726	777	831	889	951
Profits before Income Tax	2,954	2,458	2,273	2,608	3,045	3,058	4,814	4,961	5,083	5,167	5,536
Allowance for income tax	1,465	1,260	1,070	1,216	1,462	1,544	2,313	2,381	2,439	2,480	2,657
Net profits	1,489	1,198	1,203	1,392	1,583	1,514	2,501	2,580	2,644	2,687	2,879
Fiscal Collections	2,927	3,504	3,247	3,860	4,075	4,710	5,016	4,952	5,101	5,238	5,478
Income tax	1,198	1,465	1,260	1,555	1,500	1,759	2,165	2,364	2,424	2,469	2,613
Royalty	1,327	1,603	1,603	1,551	1,581	1,695	2,481	2,568	2,658	2,751	2,847
Surface tax	32	32	28	23	20	19	20	20	19	18	18
Exchange profits	370	404	356	731	974	1,237	350	-	-	-	-

Source: 1958-1964 Ministry of Mines
1965-1968 Mission estimates (see text)

5. Other Costs. The very appreciable present shut-in capacity of the industry makes marginal costs lie very much below average costs; an unofficial study has put them at close to zero. For this reason, it is expected that the projected additions to output can be obtained without significant increases in physical inputs; just as in the case of labor costs, the whole projected increase is derived from changes in wage rates, so the projected increase of 2 per cent per year of materials, services and other supplies is expected to originate in rising unit prices for inputs. Depreciation has been projected to change only fractionally, since no great changes in total investment expenditures are likely until after the program period, even if a fairly early settlement is made in the matter of service contracts. This is so because the most actively studied project, and quite possibly the first one initiated under the new system, is that of the "Orinoco Tar Belt" i.e. one involving large, very heavy oil deposits near that river, in which the Cia Shell de Venezuela has expressed interest. Heavy capital expenditures would probably not begin before the fourth or fifth year after an agreement is signed.

6. Royalties. The companies have to pay $16\frac{2}{3}$ per cent of their production to the Government, either in cash or in kind, for purposes of the Renta de Hidrocarburos. Since payments in kind have not been used except for a brief period in the 'forties, the problem of determining the value of production for royalty purposes has long been a subject of concern for both Government and companies. The present method consists in valuing Venezuelan production by applying a reference price for comparable grades - gravity, gasoline and nafta, viscosity, residuum and sulphur content - using Platt's monthly quotation for East and West Texas oils as basic references. It should be noted that this method makes royalty valuations potentially different from realized prices, but is not, on the other hand, comparable to the Middle Eastern posted price method. For purposes of the projection, it was assumed that the reference price during the program period would be the same as in 1964. Beside the royalty, some other relatively small taxes are paid under the Renta de Hidrocarburos. The main one is the surface tax which is paid on the area under concession, but which can be partially offset against the royalty when the concession area is not lying idle. No significant change was projected for the program period.

7. Revenues. As noted above, the basic assumptions of this projection are that (a) production will rise by 3.5 per cent per year^{1/}; (b) domestic consumption will rise by 7 per cent per year; (c) the volume of exports will rise by about 3.2 per cent per year; and (d) the average realized price will fall by 1 per cent per year. These expected rates of increase bear the following relations to the immediate past:

^{1/} In the first seven months of 1965 the actual growth rate was of only about 2.8 per cent.

	Production ^{1/} (%)	Domestic Consumption ^{2/} (%)	Volume of Exports ^{3/} (%)	Average Realized Price ^{4/} (%)
1961	2.8	-0.5	3.0(2.8)	0.3
1962	9.6	5.1	9.2(9.2)	-3.0
1963	1.5	0.7	1.8(2.1)	-2.1
1964	4.6	8.2	4.6(5.2)	-3.7
Average Rates:				
1950-64	6.0	7.7	6.0(6.2)	-0.3
1960-64	4.6	3.3	4.6(4.8)	-2.2

Source: Ministry of Mines

^{1/} Excluding gas.

^{2/} Refined.

^{3/} Refined and crude. Figures in parenthesis refer to total exports including those from Curacao and Aruba, but excluding Venezuelan exports to these islands.

^{4/} Export revenues divided by volume of crude and refined exports.

8. Regarding realized prices, the mission did not find any basis for optimism except the probability of a somewhat lower rate of increase of production and capacity in Africa and the possibility that OPEC might help to decelerate the 2-3 per cent annual price declines of recent years. Any greater improvement in price performance than that assumed by the mission - an average annual decline of 1 per cent - could probably only be achieved through output restrictions in Venezuela, with the consequent offsetting effects on export values. It was assumed that during the period under study there would be no significant change in the product mix or in the relative prices of petroleum exports (crude vs. refined and refined products among each other).

9. The presumption that domestic consumption will rise at a slightly higher rate than GDP is compatible with the longer term experience of Venezuela, since domestic consumption of refined products between 1950 and 1964 rose by an annual average rate of 7.7 per cent, while real GDP during the same period grew at about 6.9 per cent yearly. Domestic consumption is, in any event, a relatively minor factor in the industry; in 1964 it represented 6.6 per cent of gross receipts and in 1968, according to this projection, the proportion would be 7.8 per cent. The projection of export volumes, on the other hand, is both more problematical and more important. There has been, in recent years, a slowing down in the rate of growth of Venezuela's petroleum exports to its largest market, the United States. In part this is connected with the imposition of quotas - first voluntary and later mandatory - on imports from countries other than Canada and Mexico in the early sixties. In part it also reflects the vigorous competition of other sources of energy - mainly natural gas and coal - which has made the over-all rate of consumption growth for petroleum products relatively sluggish. The import system - which allocates quotas to refiners rather than to countries of origin - is objected

to in Venezuela more on grounds of its discriminatory character in favor of other countries in the Western Hemisphere, than for its own sake, since Venezuelan authorities feel that, with fairly limited proven reserves, price maintenance is relatively more important to them - and volume maximization relatively less important - than to other major exporting countries. The issue is the subject of continuing discussion between the two Governments, and the accuracy of the projection may be substantially affected by the outcome of these discussions.

CONSUMPTION OF PETROLEUM AND PETROLEUM PRODUCTS^{1/} IN SELECTED REGIONS^{2/}

		<u>Percentage Change Over Previous Year</u>				<u>Average Annual Rate</u>			
		1961	1962	1963	1964	1950-64	1955-64	1960-64	Project 1965-68
USA	Total	1.0	4.6	3.2	2.3	n.a.	2.8	2.8	
	Venezuelan	-0.9	7.7	-0.6	6.2	5.6	5.3	3.0	2.5-3.0
Canada	Total	4.0	3.1	6.5	4.0	n.a.	5.7	4.4	
	Venezuelan	6.5	5.6	4.2	18.9	9.3	5.4	8.7	5.0-6.0
EEC	Total	22.7	16.0	15.8	10.3	n.a.	14.0	16.1	
	Venezuelan	52.6	29.2	10.7	-23.3	6.7	4.7	13.8	4.5-5.5
UK	Total	10.2	9.1	9.3	8.9	n.a.	9.5	9.4	
	Venezuelan	-3.4	13.7	6.7	-4.1	8.9	8.1	3.0	2.5-3.0
Latin Am. ^{3/}	Total	2.5	6.1	7.4	5.8	n.a.	5.4	5.3	
	Venezuelan	-10.1	-0.1	4.5	15.5	5.7	4.3	2.1	1.5-2.0

Source: Ministry of Mines and World Petroleum

^{1/} Computed on a crude-equivalent basis. Includes liquified gas, refining losses and military deliveries.

^{2/} Accounting for almost 90 per cent of Venezuela's petroleum exports in 1964, distributed in the following proportions:

U.S.A.	41.6 per cent
Canada	11.5 per cent
EEC	8.3 per cent
UK	9.0 per cent
Latin America	19.4 per cent

^{3/} Including British West Indies, Surinam, British and French Guayanas. Excludes Aruba and Curacao from Venezuelan import data since exports from these islands are consolidated with Venezuelan export totals.

10. In over-all terms, it is assumed that world consumption for petroleum products, which between 1960 and 1964 rose at an average annual rate of 6.5 per cent, will continue to rise faster than Venezuelan exports, but may itself show a somewhat slower growth rate in the next few years. The prospects for somewhat slower economic growth in the US, the UK and the EEC as well as of a continuation of the process of substituting natural gas for petroleum in certain uses, makes this slowing down likely. In Latin America, which is Venezuela's second largest market, the growth rate of Venezuelan exports has been low in the sixties mainly because of the complete loss of the Cuban market and because of the emergence of temporary petroleum self-sufficiency in Argentina. In the future total demand in this region may grow quite rapidly; thus the Bank has projected Brazilian imports of crude to rise at about 9 per cent per year until 1967, and has also projected very sizeable increases for Argentine imports for 1965, but the competitiveness of Venezuelan oil in this market is at least problematic. Thus on transportation grounds alone, Brazil may find Nigerian oil more attractive than Venezuelan, and the growing price consciousness of the Brazilian Government may also create difficulties for Venezuelan supplies. Western European demand for petroleum products has, in recent years, been rising rapidly, varying in the last decade from 9-10 per cent per year in the United Kingdom to about 15 per cent in the EEC. Imports from Venezuela, however, rose more slowly, since most of the European supplies came from North Africa and the Middle East. The recent discovery of large natural gas deposits in the Netherlands may be expected to depress somewhat the future growth of petroleum consumption and imports.

11. Income Taxes. Income tax liabilities at present derive from a three layer tax structure, namely (a) the basic schedular tax of 2.5 per cent on taxable net income; (b) the complementary tax which is levied at progressive rates up to a maximum of 45 per cent on net income in excess of Bs. 28 million; and (c) an additional tax, applicable only when oil company income after taxes exceeds the government's total taxes derived from a company. The excess is then taxed at 50 per cent. Since the Government in the last few years has received about two-thirds of the industry's pre-tax profits, the additional tax has been largely inoperative. The total income tax liabilities accrued during a year have in recent years been around 48 per cent of pre-tax profits, and this ratio has also been applied to the projected profits 1965-1968.

12. In 1961, largely in consequence of the financial crisis, it was decided to switch over to a pay-as-you-earn system in a three year period. The following collection schedule was adopted, and serves as the basis for the projection of petroleum income tax collections:

Payable in 1961:

100 per cent of tax liabilities incurred in 1960
40 per cent of tax liabilities incurred in 1961

Payable in 1962:

40 per cent of tax liabilities incurred in 1961
75 per cent of tax liabilities incurred in 1962

Payable in 1963:

- 20 per cent of tax liabilities incurred in 1961
- 25 per cent of tax liabilities incurred in 1962
- 75 per cent of tax liabilities incurred in 1963

Payable in 1964 and each subsequent year:

- 25 per cent of tax liabilities incurred in the preceding year
- 75 per cent of tax liabilities incurred in the current year

While the projected annual growth rate of net pre-tax profits and of petroleum income tax liabilities is 3.5 per cent, that of actual collections is 4.8 per cent. It should be noted that tax liabilities and collections in 1964 were appreciably higher than in 1963 because of the modification in the exchange rate applying to oil transactions, which was changed from 3.09 to 4.40 bolívares per U.S. dollar. On the other hand, this same alteration produces a decline in fiscal receipts from the oil sector in 1965, as the profits from the exchange differential - here wholly imputed to the petroleum sector - cease to accrue to the Central Government.

13. Gross Product. The preceding items supply the necessary basis for projecting GDP and GNP for the petroleum sector:

	1963 ^{1/}	1964 ^{2/}	1965 ^{2/}	1966 ^{2/}	1967 ^{2/}	1968 ^{2/}	Average Annual Change 1965-68 (%)
	(Bs. million)						
Wages	867	957	957	1,014	1,075	1,075	2.9
Taxes ^{3/}	3,417	5,020	5,175	5,320	5,451	5,723	3.3
Depreciation	872	868	880	890	900	910	1.2
<u>GNP</u>	<u>5,156</u>	<u>6,845</u>	<u>7,012</u>	<u>7,224</u>	<u>7,426</u>	<u>7,708</u>	3.0
<u>Profits</u>	<u>1,514</u>	<u>2,501</u>	<u>2,580</u>	<u>2,644</u>	<u>2,687</u>	<u>2,879</u>	3.6
<u>GDP</u>	<u>6,670</u>	<u>9,346</u>	<u>9,592</u>	<u>9,868</u>	<u>10,113</u>	<u>10,587</u>	3.2

Source: Text Table, p. 3.

^{1/} Current prices.

^{2/} 1964 prices.

^{3/} Tax liabilities. As indicated in the text, these figures differ from actual tax collections, because of the timing factor affecting the income tax.

14. Balance of Payments. Some of the main items of the balance of payments on petroleum account have also emerged from the above discussion. For some others, additional assumptions are needed:

	1963	1964	1965	1966	1967	1968
	(US \$ million)					
Exports	2,384	2,398	2,452	2,507	2,563	2,621
Imports	-99	-90	-125	-130	-134	-139
Investment income	-675	-740	-767	-792	-810	-868
Capital (net)	-131	-57	-103	-69	-71	-73
Total	<u>1,479</u>	<u>1,511</u>	<u>1,457</u>	<u>1,516</u>	<u>1,548</u>	<u>1,541</u>

The exports and investment income figures are derived from the projection of the companies' accounts discussed above, where the investment income refers to the total of after-tax profits, whether distributed or not. Imports and capital movements are projections made by Venezuelan officials, and which the mission finds plausible. The capital item includes reinvested earnings as well as new capital inflow.

APPENDIX B

The Balance of Payments

1. The mission has attempted to project the most likely course of the balance of payments by combining the information available for each of the principal sectors of the economy, and the main items of expenditures. This included, of course, the likely effects of the development program itself. In this work the mission drew extensively on the expertise of government officials in many departments. Most particularly discussions were held with the staff of CORDIPLAN, the Central Bank and - for the petroleum sector - the Ministry of Mines. The projections lead to the conclusion that the rise in foreign exchange reserves, which in 1963 and 1964 had been of US \$156 and 96 million respectively, would slow down to some US \$28 million in 1965 and thereafter turn into a slight decline. For the program period as a whole a net loss of some US \$105 million is projected, which would still leave reserves at a very high level; at close to US \$750 million they would be sufficient to cover 9 months of imports at the 1964 rate and 6 months at the rate projected for 1968. Projections of this kind are naturally subject to very strong qualifications, and can only yield the grossest kind of approximation to what actual events may turn out to be. Innumerable assumptions about economic policies and events, both in Venezuela and in the rest of the world, are implicit in them, and only the most important of these assumptions can here be made explicit.
2. Petroleum exports are expected to grow at about 2.2 per cent per year. It is expected that the volume of such exports may grow by some 3.2 per cent annually, but that realized prices will decline, on the average, by 1 per cent per year. Although this projection is slightly below the 2.5 per cent average annual rate of increase of export values of the past 4 years, it is well in excess of the increases of 1963 and 1964. (For details of this and other petroleum sector items, see Appendix A on Petroleum).
3. The rest of the export sector consists of two major categories: iron and others. Iron exports were projected by CORDIPLAN at an average rate of increase of 6.7 per cent. There are no serious constraints on the supply side, but the mission agrees that there is little prospect for a greater expansion of foreign demand. Moreover, the projected expansion may be contingent on a satisfactory resolution of a tax dispute between one of the major foreign mining firms and the Venezuelan Government. Other exports have moved erratically in recent years; the most important ones are coffee and cocoa, for which no significant increases can be envisaged during the program period. Fish and shrimp exports have shown some dynamism in recent years, and this may be expected to continue; the possibilities of a continuation of the recent expansion of banana and plantain exports, on the other hand, seem more limited. While CORDIPLAN expects a substantial expansion of the exports of manufactured goods - mainly basic metals - the mission feels that such an expansion during the program period is contingent on a number of exceedingly optimistic

assumptions. These refer both to the ability of Venezuela's new and prospective heavy industry to compete in international markets - both as regards prices and quality - and to the assumption that the projected increases in industrial capacity will already be operational during the program period. Moreover, the mission was unable to obtain definite judgements regarding the prospects and implications of Venezuela's entry into the Latin American Free Trade Association (LAFTA).

4. Imports of the nonpetroleum sector, which had been relatively stagnant until 1963, grew substantially in 1964. The exact amount cannot yet be determined. The Central Bank's preliminary balance of payments estimate shows a 14.4 per cent increase, but an equally preliminary analysis of the Ministry of Development's trade returns by CORDIPLAN indicates a rise closer to 20 per cent. For the reasons indicated in the report - rising income combined with fuller utilization of domestic productive capacity and rising investment utilizing imported capital equipment - it is expected that substantial increase will continue in 1965 and 1966 - say 15 and 10 per cent respectively - and that for the period as a whole the average annual growth rate will be almost 9 per cent. It is assumed herein that the authorities in charge of the import control mechanism will permit entry of the imports for which demand is here projected. The alternative would be to frustrate the achievement of the program goals and court the danger of substantial inflation. Since the availability of foreign exchange is not expected to be a major limiting factor during the program period - given the large initial surplus, the high level of reserves and the projected foreign borrowing - a liberal administration of the import controls will be both feasible and desirable.

5. Private nonpetroleum capital has in the past few years left the country in substantial volume. Partly this seems to have been speculative capital export, and partly it may have been mixed up with immigrants' remittances. It is expected that some flow of this kind will continue, but will be increasingly offset both by direct foreign investments and by partial foreign financing of the projected increases in imports. On balance, then, the past outflow is expected to turn into a net inflow.

6. Official capital is projected to include not only loans already contracted, but also projects for which no detailed appraisals have yet been made but which, upon cursory inspection by the mission, looked promising and seemed to be in accordance with the proper development of their respective sectors. Moreover, allowance was made for the possibility of some general purpose borrowing and for the emergence of some additional projects in the course of the program period. The total official capital inflow between 1965 and 1968 is thus projected at US \$680 million, or \$170 million a year in the average, of which over 35 per cent derives from loans already contracted. Against this are scheduled repayments of US \$155 million, yielding an average annual net inflow of about US \$131 million, compared with net outflows in the two preceding years.

BALANCE OF PAYMENTS 1958-1964 AND PROJECTION 1965-1968
(US \$ million)

APPENDIX B

Page 3

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	Total 1965-1968
<u>Exports</u>	2508	2326	2392	2452	2534	2549	2567	2639	2712	2786	2864	11001
Petroleum sector	2299	2128	2175	2276	2370	2384	2398	2452	2507	2563	2621	10143
Iron	120	129	158	125	113	93	114	122	130	138	148	538
Others	89	69	59	51	51	72	55	65	75	85	95	320
<u>Imports</u>	-1507	-1513	-1140	-1095	-1136	-1017	-1141	-1334	-1460	-1531	-1606	-5931
Petroleum sector	-231	-158	-92	-58	-104	-99	-90	-125	-130	-134	-139	-528
Others	-1276	-1356	-1048	-1037	-1032	-918	-1051	-1209	-1330	-1397	-1467	-5403
<u>Trade Balance</u>	1001	813	1252	1357	1398	1532	1426	1305	1252	1255	1258	5070
<u>Transport and Insurance, Net</u>	-172	-170	-128	-121	-121	-105	-121	-139	-160	-173	-187	-659
<u>Non Financial Services</u>	-270	-199	-101	-126	-179	-150	-157	-163	-170	-177	-184	-694
<u>Investment Income</u>	-600	-512	-516	-568	-663	-675	-740	-767	-792	-810	-868	-3237
Petroleum	-503	-420	-408	-477	-569	-600	-644	-664	-681	-691	-740	-2776
Others	-97	-92	-108	-91	-94	-75	-96	-103	-111	-119	-128	-461
<u>Total, Balance on Current Account</u>	-41	-68	507	542	435	602	408	236	130	95	19	480
<u>Private Capital & Family Remittances</u>	5	-1	-660	-426	-360	-406	-302	-322	-262	-264	-262	-1110
Petroleum sector, capital	59	109	-87	-76	-230	-131	-57	-103	-69	-71	-73	-316
Others, capital	-43	-53	-79	-253	-240	-173	-38	-	34	53	72	90
Family remittances	-11	-57	-494	-97	110	-102	-207	-219	-232	-246	-261	-958
Errors and omissions												
<u>Official Capital</u>	-344	-291	54	-123	-87	-86	-10	114	124	142	145	525
<u>Change in Exchange Reserves</u>	386	367	104	19	2	-156	-96	-28	8	27	98	105
(- Increase)												

Source: Central Bank and Mission Projections (see Appendix text and statistical Appendix, Table 19)

APPENDIX C

TAXATION AND OTHER REVENUE MEASURES

1. The potentials for increased public sector revenues in Venezuela are of four different kinds: They involve (a) possibilities for improvements in tax administration and collection; (b) possibilities for improving the efficiency and administration of public agencies and enterprises; (c) possibilities for increases in state and municipal revenues; and (d) possibilities for structural and rate changes in the tax system of the Central Government. Awareness of these potentials, three of which (a, c and d above) were thoroughly studied by Dr. Carl Shoup and his fellow Commission members in 1958,^{1/} was an important element in the mission's consideration of the combination of measures by means of which the resource gap shown by the Government's 1965-68 program might most appropriately and constructively be closed. The mission also had the benefit of Dr. Shoup's consultation in arriving at the judgements herein presented.

2. Improvements in Tax Administration and Collection. The Ministry of Finance and CORDIPLAN were both of the opinion that improvements in this area could be productive of some Bs. 200 million or more annually. Tax evasion is perhaps most glaringly practiced with respect to personal income taxes. It is, however, admittedly widespread with respect to customs duties and liquor taxes as well.

3. Revenues from personal income taxes in Venezuela are reportedly paid for the most part by civil servants and the employees of large firms whose tax obligations are withheld at the source, and amount only to 1 per cent of total personal income. While the relatively high exemption (Bs. 12,000 per year) and the large proportion of low income receivers are of course important factors in this statistic, it would appear to confirm what is universally acknowledged to be a very high incidence of personal income tax evasion as well.

4. The Ministry of Finance estimates of the revenue potential from improved tax collections do not rely in any significant degree on customs duties. The mission is of the opinion that tax evasion of customs duties is widespread, and that it can and should be reduced substantially. Ambiguities in the existing classification of imported goods, which permit inspectors a considerable degree of latitude in determining which tariff rates to apply, appear to be an important escape mechanism. The effective reduction of tax evasion in this field may thus depend on a thorough and perhaps time-consuming reclassification of goods which would reduce these loopholes. The Mission was informed, in this connection, that preparations are being made to introduce the Brussels nomenclature.

5. The mission estimates take into account the time which may be required to realize these potentials for more efficient tax collection. They anticipate increased revenues of Bs. 75 million in 1966, Bs. 180

^{1/} Carl S. Shoup and Others, The Fiscal System of Venezuela (Johns Hopkins University Press, 1959).

million in 1967 and Bs. 250 million in 1968 as a result of these efforts. Of this, the Mission estimates that income taxes would contribute Bs. 160 million; customs, Bs. 40 million; and liquor taxes, Bs. 50 million.

6. In its attempt to improve the efficiency of tax collections, the mission considers the Government is fortunate in having available to it the excellent and detailed analysis and recommendations for improved administration made by Shoup and his associates in every important tax field.

7. Improving Administrative Efficiency in the Public Agencies and Enterprises. The potentials for reducing costs and increasing revenues in the autonomous agencies and enterprises of the Central Government are suggested by the huge volume of their financial operations and by their sizeable collective deficits on current account. These deficits, it may be noted, are for the most part before depreciation charges.

8. For the period 1965-68, the autonomous public agencies and enterprises collectively are projected to have total receipts of Bs. 9.8 billion, expenditures of Bs. 10.7 billion and a deficit of Bs. .9 billion, all on current account. Their sale of goods and services alone is expected to reach Bs. 8.5 billion. Receipts on capital account are projected at Bs. 4.1 billion before deduction of the deficit on current account, and include Bs. 1.3 billion of loan recoveries and Bs. .7 billion from sales of assets. Their capital expenditures are programmed to reach Bs. 15.2 billion (before adjustments suggested by the mission). It is obvious that the potentials for both cost reductions and increased revenues would be considerable, even if a fair degree of operating efficiency already prevailed throughout these agencies, and even if their prices for goods and services were close to optimum levels.

9. Until job opportunities in the private sector are adequate to provide employment to part of the presently unemployed and to new entrants to the labor force, it would not perhaps be realistic to expect the Government to insist sharply on cost-cutting measures which would reduce staff. On the other hand, improved efficiency in the procurement and utilization of goods and non-personal services, which are programmed at Bs. 4.4 billion on current account for 1965-68, more rational pricing of goods and services sold, and greater efficiency in capital investment do appear to offer substantial savings possibilities.

10. As regards pricing, the Government has already indicated its determination to increase its charges for selected services, as in the case of telephone rates and Caracas water charges, more nearly to approximate their actual costs, and is considering similar action in other areas. Efforts to improve the collection of delinquent agricultural, housing and other loans are also being made. Intensified efforts along this line - combined with more judicious scrutiny of new loan applications and subsequent supervision of new loans - would still be productive.

11. The estimates made by the mission for increased revenues on all these scores - Bs. 135 million for 1965-68 - count conservatively on only a beginning toward the needed realization of these potentials. The mission does not mean by this to suggest that the effort made toward these ends should be lacking in determination. The Government's effort should be vigorous. Its aim here should be not only to contribute to the domestic finance required for the present program, but even more importantly to develop a far greater contribution from the autonomous agencies and enterprises toward the larger programs which may be expected to follow the present one.

12. Increasing State and Municipal Revenues. The weakness of state and municipal finance in Venezuela is dramatized by the Government's projections which anticipate for them over the 1965-68 period combined current revenues of Bs. 962 million, current expenditures of Bs. 3,980 million, and a deficit of Bs. 3,018 million. Subsidies from the Central Government, to finance this current deficit and to assist in their capital expenditure programs, are projected at Bs. 4,488 million. Central Government subsidies are thus some 4.5 times the receipts derived by the states and municipalities from taxes, borrowing and other sources.

13. Taxes play only a negligible role in state finance, which relies almost entirely on Central Government subsidies. In the case of municipal finance, the proportion contributed by taxes is still relatively modest - less than 50 per cent. Farm land being entirely free of tax, real estate taxes make no contribution at all to state finance. Their contribution to municipal finance is minor only, being approximately one-sixth of all municipal taxes, and some 8 per cent of all municipal revenues. It is easy therefore to understand why Shoup says "the real estate tax, in our opinion is the only state or municipal tax source capable of yielding substantial increased revenues".^{1/}

14. In its discussions with CORDIPLAN, the mission learned that the Planning Agency is keenly aware of the desirability on fiscal and on equity grounds of strengthening state and municipal real property taxation and finance and had already made recommendations to this effect. CORDIPLAN is aware also of the contribution which modern techniques - as in the case of aerial photography - can make to the efficient introduction of real property taxation. In the mission's view, reductions in Central Government services to states and municipalities should be coordinated with, and stimulate, action on their part to strengthen real property taxation. Such action to strengthen regional and local finance, the mission ventures to observe, would serve also to strengthen the democratic process at those levels of government.

15. The mission considers feasible, and recommends as a 1968 target, an annual revenue increase of Bs. 85 million from such taxes.

^{1/} Ibid, page 336.

16. Structural and Rate Changes in the Tax System of the Central Government. Taxes and other revenues on oil and, (in very minor degree) on mineral profits account for over 70 per cent of Central Government revenues. This relation is not likely to change in coming years unless special measures are taken to increase non-oil revenues. Although the great profitability of the large foreign oil companies, and the taxes, royalties and other levies they pay explain the relatively high relation of Central Government tax revenues to gross domestic product in Venezuela - something over 20 per cent - they help to explain at the same time the relatively small share of the tax burden borne by the non-oil, non-mineral sectors, in relation to the gross domestic product generated by them. This is illustrated, by major tax categories, in the tabulation below.

	1963		1964	
	Bs. Million	Per Cent	Bs. Million	Per Cent
1. <u>Tax Revenues - Total</u>	6,596	100	7,125	100
2. <u>Oil and Minerals</u>	4,791	72.6	5,109	71.7
3. <u>Income Taxes</u> (non-oil/minerals)	646	9.8	699	9.8
4. <u>Customs</u>	402	6.1	475	6.7
5. <u>All Other</u>	757	11.5	842	11.8
6. <u>G.D.P.</u>	29,240		34,737 ^e	
7. <u>G.D.P. - non-oil/mineral</u>	21,964		24,993 ^e	
8. <u>Line 1 as % Line 6</u>		22.6		20.5
9. <u>Lines 3 + 4 + 5 as % Line 7</u>		8.2		8.1

17. The mission has concentrated its search for additional revenue in the non-oil sector because it recognizes that the possibilities for increasing the Government's share of pretax oil profits - which has stood at 66-67 per cent for some years - without undesirable effects on the level of investment and activity in the industry, are quite limited. In any event, this question is one to which the Government has devoted close and continuing attention for many years. The mission has therefore concerned itself with examining the potentials of the non-oil sectors in its search for the Bs. 400 million of additional annual revenues still needed, after all other measures to close the financial gap as shown in Table C.1 of this Appendix.

18. The Personal Income Tax. The personal income tax accounts for approximately one-fourth of income tax revenues. Low yields from this tax reflect chiefly the high level of exemption (Bs. 12,000 annually), relatively low rates on the income taxed and the exclusion of dividends from tax liability. Effective tax rates on personal income were calculated by Shoup, after the tax changes of 1958, to be as follows:

Effective Income Tax Rates
(As revised 1958)

Married person, two children	Tax liability as Per Cent of Net Income		
	Type of Income		
<u>Net Income in Bolivares (before exemptions)</u>	<u>Salary and Wage</u>	<u>Business</u>	<u>Farm</u>
12,000	0	0	0
15,000	0.2	0.5	0
19,200	0.37	0.93	0
19,201	1.00	2.50	0
25,000	1.24	2.74	0.24
50,000	2.72	4.22	2.52
75,000	3.76	5.26	4.76
100,000	4.59	6.09	5.59
200,000	7.11	8.61	8.11
500,000	10.29	11.79	11.29
1,000,000	13.38	14.88	14.38

19. The tax law of 1961 apparently had the effect of raising these effective rates in moderate degree, as follows:

On wage and salary income	by 2 per cent
On business profits	by 2.5 per cent
On profits from noncommercial professions	by 2 per cent
On income from real estate	by 2.5 per cent
On real estate capital gains	by 3 per cent

20. These changes still leave effective personal income tax rates in Venezuela well below taxable capacity and inadequate to the country's financial requirements for development. The mission suggests that Bs. 65 million in additional revenues can readily be raised by appropriate rate increases. This would mean, by 1968, increasing personal income tax revenues derived from the present schedules by approximately one-fifth.

21. Dividend Income Taxation. The mission recommends at the same time that dividend income, which is presently exempt, be made liable to income taxation. It estimates that dividend payments amount currently to some Bs. 700 million annually. Assuming that dividend recipients would be subject to an average marginal tax rate of, say, 15 per cent, the yield from such a tax would be Bs. 105 million. It would of course be substantially more by 1968. On the assumption that the Government might wish to grant dividend recipients some credit against corporate income taxes paid on the dividends earned, the mission assumes a net revenue increase of about Bs. 100 million by 1968.

22. Proposed legislation to subject dividend income from non-oil companies to taxation was submitted by the Government within the last two years. It was however withdrawn when some legislators sought to include in the measure dividends paid by the oil companies as well. The mission's recommendation thus is in accordance with the Government's already demonstrated desire, and is made in awareness of the political problems which may make such legislation difficult to enact.

23. The Corporate Income Tax. As amended in 1961, the tax rates applicable to corporate income are as follows:

up to Bs. 100,000	- 10 per cent
100,000 - 1,400,000	- 20 per cent
1,400,000 - 3,800,000	- 25 per cent
3,800,000 - 6,400,000	- 30 per cent
6,400,000 - 10,000,000	- 35 per cent
10,000,000 - 20,000,000	- 40 per cent
20,000,000 - 28,000,000	- 42.5 per cent
over 28,000,000	- 45 per cent

24. The mission believes that action to increase corporate tax revenues should be accompanied by a reduction in the number of income steps incorporated in the present schedules. A regrouping of corporate incomes subject progressively to, say, 25 per cent, 35 per cent and 45 per cent rates might be used to achieve a target of Bs. 100 million a year in additional revenues. This would mean, at the level of tax liability which might otherwise be anticipated by 1968, an increase of some 13 per cent in total corporate taxes paid.

25. The mission suggests that such an increase in corporate taxation be accompanied by appropriate tax loss carry-back and carry-forward allowances.

26. Estate and Gift Taxes. Estate taxes in Venezuela are levied at the following rates:

On Ascendants, descendants and spouse	Tax Rate
up to Bs. 15,000	1.0 per cent
15,000 - 50,000	2.5 per cent
50,000 - 100,000	5.0 per cent
100,000 - 250,000	7.5 per cent
250,000 - 500,000	10.0 per cent
500,000 - 1,000,000	15.0 per cent
1,000,000 - 4,000,000	20.0 per cent
over 4,000,000	25.0 per cent

27. The mission believes that yields from these taxes, which yield currently some Bs. 25 million a year, could be increased by Bs. 25 million.

28. Customs and Excises. Customs and related revenues are projected at present rates, and with improved collections, to yield some Bs. 627 million in 1968. Duties are imposed primarily on the basis of weight, rather than value. Many luxury and semiluxury items appear to be subject to rates inconsistent with equity considerations, development priorities and fiscal needs. The mission is of the opinion that appropriate revision of the duties levied on such items can contribute in major degree to the suggested goal of Bs. 35 million in additional revenues from this source. Complementary adjustments in excise taxes should be made simultaneously on the same classes of goods.

29. Gasoline Taxes and Motor Vehicle Registration Charges. The potential revenue increases from these sources are explored in considerable detail in the Transportation Appendix, and will not be repeated here. The mission envisages the possibility of additional revenues of some Bs. 160 million in 1968 from these sources.

30. The foregoing comments on feasible revenue potentials from new tax measures, while not exhaustive, have indicated how some Bs. 485 million annually in additional revenues might be obtained by the end of the program period. Still other possibilities will of course be apparent to the Government. Obviously, the Government has a range of choices open to it in seeking to achieve its revenue target. The mission would itself prefer to reduce the Bs. 485 million potential outlined above, to the Bs. 400 million annual target, by lowering the gasoline and motor vehicle target, and perhaps, in lesser degree, the corporation tax target as well. Assuming that the necessary actions were taken before the end of 1965, they might be expected to yield Bs. 200 million in 1966, Bs. 400 million in 1967 and Bs. 400 million in 1968, or a total of Bs. 1,000 million for the program period.

31. In recommending new revenue measures to the Government, the Mission recognizes considerations which go beyond the need merely to close the financial gap in the adjusted investment program. It sees these measures as important elements in a longer term strategy designed to achieve a strengthened domestic finance which will not need to lean as heavily on borrowing to finance investment programs after the present program has been completed, and designed also to reduce Venezuela's dependence on oil revenues. In relating tax payments more closely to ability to pay, in relating user charges more closely to benefits received, and in closing progressively the loopholes to tax evasion, it sees them also as steps towards greater equity in the tax system and towards a stronger and more democratic economic society.

Table C.1 TAXES ON NON-OIL/MINERAL SECTOR

APPENDIX C

Page 8

<u>Non-oil/mineral taxes</u> (Bs million)	<u>1963</u>	<u>1964</u>	<u>1968^{1/}</u>			
			I	II	III	IV
Income Tax	646	699	840	916	1076	1266 - 1341
Customs Duties	402	475	540	587	627	662
All Other	<u>757</u>	<u>842</u>	<u>1017</u>	<u>1076</u>	<u>1126</u>	<u>1301 - 1226</u>
Total	1805	2016	2397	2579	2829	3229
 <u>Non-oil/mineral GDP</u> (Bs million)	 21,964	 24,993			 32,153	
 <u>Ratios to non-oil/mineral GDP</u> (Percentages)						
Income Tax	2.95	2.8	2.6	2.85	3.5	3.9 - 4.2
Customs Duties	1.8	1.9	1.7	1.8	1.8	2.1
All Other	<u>3.45</u>	<u>3.4</u>	<u>3.2</u>	<u>3.35</u>	<u>3.5</u>	<u>4.0 - 3.8</u>
Total	8.2	8.1	7.5	8.0	8.8	10.0

Source: Taxes: Cf. table "Estimates of Central Government Revenue"
 GDP: 1963, Banco Central de Venezuela; 1964 and 1968 Mission estimates.

^{1/} I: Ministry of Finance Projections.
 II: I revised
 III: II adjusted on account of improvements in collection
 IV: III adjusted on account of new tax measures to raise 400 million Bs.

Table C.2 SUMMARY OF REVENUE MEASURES^{1/}

	1965		1966		1967		1968		Total, 1965-68	
	A	B	A	B	A	B	A	B	A	B
Total, Public Sector	39	-	118	290	233	550	250	570	640	1410
Central Government	-	-	<u>75</u>	<u>250</u>	<u>180</u>	<u>485</u>	<u>250</u>	<u>485</u>	<u>505</u>	<u>1220</u>
<u>Non-oil/minerals income tax</u>	-	-	<u>48</u>	<u>138</u>	<u>115</u>	<u>265</u>	<u>160</u>	<u>265</u>	<u>323</u>	<u>650</u>
Corporate	-	-	-	<u>52</u>	-	<u>100</u>	-	<u>100</u>	-	-
Personal	-	-	-	<u>34</u>	-	<u>65</u>	-	<u>65</u>	-	-
Dividends	-	-	-	<u>52</u>	-	<u>100</u>	-	<u>100</u>	-	-
<u>Estate and inheritance</u>	-	-	-	<u>12</u>	-	<u>25</u>	-	<u>25</u>	-	<u>59</u>
<u>Customs and excises</u>	-	-	<u>12</u>	<u>18</u>	<u>29</u>	<u>35</u>	<u>40</u>	<u>35</u>	<u>81</u>	-
<u>Liquor</u>	-	-	<u>15</u>	-	<u>36</u>	-	<u>50</u>	-	<u>101</u>	-
<u>Motor vehicles user taxes</u>	-	-	-	<u>82</u>	-	<u>160</u>	-	<u>160</u>	-	<u>392</u>
Autonomous institutes ^{2/}	<u>39</u>	-	<u>43</u>	-	<u>53</u>	-	-	-	<u>135</u>	-
States and Municipalities	-	-	-	<u>40</u>	-	<u>65</u>	-	<u>85</u>	-	<u>190</u>

A - Improvements in tax collection and administration of public enterprises

B - Structural and rate changes in the tax system

1/ The totals shown exceed the revenue targets of the report, since, as Appendix C makes clear, some of the measures outlined are considered by the Mission as alternative ways to reach the total revenue targets, thus the 1965-68 total of Bs. 2050 million (640 + 1410) is comparable to the Bs. 1830 million shown on Table 1.

2/ Of the total of Bs. 135 million, Bs. 100 million represent the Mission's general estimate of achievable improvements. The rest reflects a statistical reconciliation between CORDIPLAN's estimates of IVP and CADAFE savings on current account, and those developed by the Mission or the agencies.

APPENDIX D

PUBLIC DEBT

External Debt

1. At the beginning of 1965 Venezuela's public external debt stood at slightly more than US \$400 million - more than half of it undisbursed - of which almost 45 per cent was to the IBRD, less than one-fourth each to the U.S. Government and to private foreign creditors and the rest to the Italian Government and the Inter-American Development Bank (IDB). The service on this debt in 1965 is scheduled to amount to less than 2 per cent of the projected foreign exchange earnings in that year. By 1968 the corresponding proportion would be 1.5 per cent.

2. The program described in the report would involve disbursements of almost US \$440 million on debts that have not yet been contracted. At the same time a total of US \$155 million would be repaid. Since somewhat more debt will be contracted than will be disbursed, the total foreign debt outstanding may be expected to roughly double during the program period. However, the extremely low initial debt service ratio and the fact that the bulk of the projected new debts would be contracted with long maturities, imply that at the end of the program period Venezuela's foreign debt service will continue to be a very small charge - between 3 and 4 per cent - on its export earnings.

3. At the time of the mission's visit, several loans were in an advanced state of negotiation, and some of these have since then been contracted. The mission estimated the likely disbursements on these loans in collaboration with the borrowing entities, but obviously projections of this kind are contingent on a satisfactory termination of the negotiations that are under way and upon an efficient execution of the projects. Even more precarious are the estimations of disbursements of loans for which studies and discussions have not yet advanced very far. Nevertheless the mission feels that even for this category the figures arrived at represent useful orders of magnitude of what would seem to be a borrowing program that is both feasible and desirable.

Domestic Debt

4. The internally held debt - excluding the floating debt - at the beginning of 1965 amounted to Bs. 926 million. Almost three-fourths of this consisted of debts of the decentralized public sector, guaranteed but not incurred by the Central Government. The two largest debtors were the Centro Simon Bolivar and the IAN. The former is an entity concerned with urban problems, including the building and renting out of a large complex of buildings in which many ministries and public agencies are housed. While this debt is represented by negotiable bonds, the bulk of the IAN obligation consists in long-term, non-transferable Agrarian Reform Bonds (Bs. 140 million). The other main debtors outside the Central Government are the Banco Obrero and the Federal District, whose obligations are negotiable and for which an active

market does in fact exist. The bulk of the domestically held public debt is in the hands of the non-banking private sector; nevertheless it is the mission's impression that the possibilities of developing a market for government securities have not been sufficiently exploited, and that considerable scope for placing such paper still exists. The mission therefore has included Bs. 200 and 300 million additional domestic borrowing for general financing in 1967 and 1968, over and beyond those already included in the estimates of individual agencies and over and beyond the Bs. 100 and 300 million that the Government expects to place in 1965 and 1966 respectively. New borrowing according to present plans aside from the emission of the additional Agrarian Reform Bonds for which congressional authorization already exists, includes some bonds to be placed by MOP for acquiring land for urban expressways and freeways, some more Banco Obrero bonds, some borrowing by INOS - which has also placed securities in the past - and some BAP paper for its cocoa and coffee programs.

5. The total gross new domestic indebtedness thus envisaged for the program period is almost Bs. 1.8 billion, while repayments will amount to over Bs. 1.4 billion. Adding to this an estimated Bs. 300 million for interest, the total domestic debt service will amount to less than 4 per cent of the public sector's current revenues during the program period. Although comparable data for previous years are not available for the entire public sector, it may be noted that in 1964 the Central Government's domestic debt service (interest and amortization) amounted to 7.6 per cent of current revenues.

Table D.1 VENEZUELA - EXTERNAL MEDIUM AND LONG-TERM /1 PUBLIC DEBT OUTSTANDING
INCLUDING UNDISBURSED AS OF DECEMBER 31, 1964

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1964	
	Net of undisbursed	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT	<u>180,611</u>	<u>414,088</u>
Privately-placed debt	75,366	87,696
Suppliers' credits	<u>8,785</u>	<u>16,115</u>
Other	66,581	71,581
IBRD loans	<u>41,636</u>	<u>174,000</u>
IDB loans	<u>7,568</u>	<u>17,119</u>
U.S. Government loans	33,040	112,272
Export-Import Bank	<u>12,036</u>	<u>57,352</u>
AID	21,004	54,920
Loans from Italian Government	<u>23,001</u>	<u>23,001</u>

/1 Debt with an original or extended maturity of one year or more.

Table D.2 VENEZUELA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL
 MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED
 AS OF DECEMBER 31, 1964 /1

Debt Repayable in Foreign Currency
 (In thousands of U.S. dollar equivalents)

PAGE 1

GRAND TOTAL				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	396,528	32,873	12,399	45,272
1966	363,655	40,923	14,245	55,168
1967	322,732	28,869	13,983	42,852
1968	293,863	30,826	13,504	44,330
1969	263,038	15,995	12,427	28,421
1970	247,043	13,939	11,584	25,523
1971	233,104	13,456	10,849	24,306
1972	219,647	13,928	10,128	24,056
1973	205,719	13,803	9,406	23,210
1974	191,916	13,865	8,772	22,637
1975	178,051	14,543	8,119	22,662
1976	163,508	14,844	7,432	22,276
1977	148,665	14,351	6,764	21,114
1978	134,314	15,022	6,091	21,113
1979	119,292	15,725	5,376	21,100

PRIVATELY-PLACED DEBT - TO				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	87,696	21,031	4,987	26,018
1966	66,665	21,315	3,886	25,201
1967	45,350	21,271	2,432	23,703
1968	24,079	19,410	1,124	20,534
1969	4,669	3,524	219	3,744
1970	1,145	1,145	43	1,188

Table D.2 VENEZUELA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL
MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED
AS OF DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

PAGE 2

SUPPLIERS CREDITS

YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD		TOTAL
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST		
1965	16,115	4,265	1,328		5,592
1966	11,851	3,539	997		4,537
1967	8,311	3,175	565		3,741
1968	5,136	2,564	268		2,832
1969	2,572	1,685	121		1,806
1970	888	888	36		923

PRIV-PLACED DEBT-OTHER

YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD		TOTAL
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST		
1965	71,581	16,766	3,659		20,425
1966	54,815	17,775	2,889		20,664
1967	37,039	18,096	1,867		19,963
1968	18,943	16,846	856		17,702
1969	2,097	1,839	98		1,937
1970	257	257	8		265

Table D.2 VENEZUELA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON INTERMEDIATE
MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED
AS OF DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

PAGE 3

IBRD LOANS				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	174,000	-	3,710	3,710
1966	174,000	1,694	6,204	7,898
1967	172,306	2,038	7,825	9,863
1968	170,268	4,632	8,972	13,604
1969	165,636	6,053	9,148	15,201
1970	159,583	6,396	8,806	15,202
1971	153,187	6,758	8,446	15,224
1972	146,429	7,141	8,065	15,206
1973	139,288	7,539	7,663	15,202
1974	131,749	7,969	7,238	15,207
1975	123,780	8,421	6,788	15,202
1976	115,359	8,898	6,312	15,210
1977	106,461	9,404	5,810	15,214
1978	97,057	9,937	5,279	15,216
1979	87,120	10,502	4,713	15,215

IDB LOANS				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	17,119	700	590	1,290
1966	16,419	1,837	918	2,755
1967	14,582	1,837	812	2,649
1968	12,744	1,837	706	2,544
1969	10,907	1,837	601	2,438
1970	9,070	1,837	495	2,332
1971	7,232	1,837	389	2,227
1972	5,395	1,826	284	2,110
1973	3,569	769	189	958
1974	2,800	400	155	555
1975	2,400	400	132	532
1976	2,000	400	109	509
1977	1,600	400	86	486
1978	1,200	400	63	463
1979	800	400	40	440

Table D.2 VENEZUELA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL
 MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED
 AS OF DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency
 (In thousands of U.S. dollar equivalents)

PAGE 4				
US GOVT LOANS - TOTAL				
YEAR	DEBT OUTST		PAYMENTS DURING PERIOD	
	UNDISBURSED	INCLUDING AMORTI-	INTEREST	TOTAL
1965	94,712	1,143	1,677	2,820
1966	93,569	3,075	2,502	5,577
1967	90,494	3,722	2,914	6,636
1968	86,772	4,946	2,702	7,648
1969	81,826	4,580	2,459	7,039
1970	77,246	4,561	2,239	6,801
1971	72,685	4,861	2,014	6,875
1972	67,823	4,961	1,779	6,740
1973	62,862	5,496	1,554	7,050
1974	57,367	5,496	1,379	6,875
1975	51,871	5,722	1,199	6,920
1976	46,149	5,546	1,011	6,557
1977	40,604	4,547	868	5,414
1978	36,057	4,685	749	5,434
1979	31,372	4,823	623	5,445

US GOVT LOANS-EXIM				
YEAR	DEBT OUTST		PAYMENTS DURING PERIOD	
	UNDISBURSED	INCLUDING AMORTI-	INTEREST	TOTAL
1965	39,792	1,083	999	2,082
1966	38,709	2,990	1,621	4,611
1967	35,719	3,572	1,990	5,562
1968	32,147	4,151	1,771	5,922
1969	27,996	3,635	1,540	5,175
1970	24,361	3,416	1,342	4,758
1971	20,945	3,416	1,148	4,564
1972	17,529	3,416	956	4,372
1973	14,113	1,915	784	2,699
1974	12,198	1,915	674	2,589
1975	10,283	1,541	564	2,105
1976	8,742	1,165	486	1,651
1977	7,577	1,166	419	1,585
1978	6,411	1,166	352	1,518
1979	5,245	1,166	285	1,451

Table D.2 VENEZUELA - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL
 MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED
 AS OF DECEMBER 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency
 (In thousands of U.S. dollar equivalents)

PAGE 5

US GOVT LOANS-OTHER				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	54,920	60	678	738
1966	54,860	85	881	966
1967	54,775	150	924	1,074
1968	54,625	795	931	1,726
1969	53,830	945	919	1,864
1970	52,885	1,145	897	2,043
1971	51,740	1,445	866	2,311
1972	50,294	1,545	823	2,368
1973	48,749	3,581	770	4,351
1974	45,169	3,581	705	4,286
1975	41,588	4,181	635	4,815
1976	37,407	4,381	525	4,906
1977	33,027	3,381	449	3,829
1978	29,646	3,519	397	3,916
1979	26,127	3,657	338	3,994

ITALIAN GOVT. LOANS				
YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD	
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST	TOTAL
1965	23,001	9,999	1,435	11,434
1966	13,002	13,002	735	13,737

/1 Includes service on all debt listed in Table 1 prepared June 9, 1964 except unallocated loans of \$17,560,000 from Export-Import Bank for which the amortization terms are not available.

Table D.3 PUBLIC SECTOR FOREIGN BORROWING, 1965-1968
(In millions of Bolivares)

APPENDIX D
Page 9

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total 1965-68</u>
<u>Total</u>	672.6	764.9	801.1	824.2	3062.8
<u>Loans already contracted</u>	<u>579.6</u>	<u>340.4</u>	<u>167.9</u>	<u>10.0</u>	<u>1097.9</u>
Roads I	84.0	-	-	-	84.0
Roads II	63.2	53.6	17.8	-	134.6
Orinoco Bridge	14.0	30.0	32.4	-	76.4
Rural Housing	30.0	15.0	-	-	45.0
Rural Water Supply	22.5	22.5	-	-	45.0
Bonds, N.Y.	67.5	-	-	-	67.5
Housing, Centro Simón Bolívar	12.0	10.5	-	-	22.5
CVG - EDELCA	65.0	121.6	107.7	-	294.3
CVG - Industry	23.3	-	-	-	23.3
IAN	34.8	22.2	-	-	57.0
BAP	12.1	10.0	10.0	10.0	42.1
Fundacion Desarrollo Com.	52.0	52.0	-	-	104.0
Banco Obrero	36.0	-	-	-	36.0
CADAFE	29.5	3.0	-	-	32.5
LAV	29.7	-	-	-	29.7
Universidad de Oriente	4.0	-	-	-	4.0
<u>Loans to be contracted^{1/}</u>	<u>93.0</u>	<u>424.5</u>	<u>633.2</u>	<u>814.2</u>	<u>1964.9</u>
Puerto Cabello	-	7.0	11.0	5.0	23.0
Sur del Lago (Zulia)	-	18.0	30.0	38.0	86.0
Roads III	14.0	14.0	18.0	41.0	87.0
Roads IV	-	-	27.0	41.0	68.0
Rural Housing	-	20.0	25.0	-	45.0
CANTV	39.0	78.0	54.0	26.0	197.0
INOS - Caracas (incl.ranchos)	15.0	45.0	75.0	70.0	205.0
INOS - Other	-	25.0	65.0	55.0	145.0
CVG - EDELCA	-	-	28.2	28.2	56.4
CVG - Iron and steel	-	10.0	114.0	116.0	240.0
IVP	15.0	62.0	65.0	103.0	245.0
CVF	10.0	20.0	30.0	30.0	90.0
Rural feeder roads	-	-	5.0	40.0	45.0
Banco Obrero	-	50.0	50.0	35.0	135.0
Education	-	-	14.0	13.0	27.0
Irrigation	-	5.0	12.0	19.0	36.0
Livestock	-	3.0	8.0	11.0	22.0
Agricultural credit	-	-	-	22.5	22.5
Delta Amacuro	-	-	2.0	43.0	45.0
Bonds ^{2/}	-	67.5	-	77.5	145.0

Source: CORDIPLAN and mission projections.

^{1/} Including some items of which the mission was able to take note in a general manner, some which should be developed on the basis of the program adjustments suggested and some which are in an advanced stage of project preparation and/or financial negotiations.

^{2/} As unutilized Congressional borrowing authorization still exists for Bs. 45 million.

Table D.4 PUBLIC SECTOR DOMESTIC BORROWING, 1965-1968
(In millions of Bolivares)

APPENDIX D
Page 10

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total</u> <u>1965-68</u>
<u>Total</u>	<u>521</u>	<u>571</u>	<u>463</u>	<u>468</u>	<u>2023</u>
BAP (Coffee and cocoa program)	48	-	-	-	48
MCP (Urban expressways)	50	-	-	-	50
B.O.	76	110	140	120	446
INOS	-	46	50	18	114
IAN (Agrarian Reform Bonds)	100	80	53	30	263
Ministry of Finance					
(General public debt bonds)	100	300	200	300	900
(General Municipal Debt)	88	-	-	-	88
Sub-total	<u>468</u>	<u>536</u>	<u>443</u>	<u>468</u>	<u>1915</u>
Loans from commercial banks	38	15	-	-	53
States and municipalities	15	20	20	-	55
Sub-total	<u>53</u>	<u>35</u>	<u>20</u>		<u>108</u>

Source: CORDIPLAN and mission projection.