Venezuela: Country Assistance Strategy

We welcome the opportunity of discussing this CAS for Venezuela and would like to commend staff for preparing a well written document explicating the economic challenges and development strategies of the country. We note the CAS has been prepared in close consultation with the government, built on the previous CAS and incorporates the Bank’s partnership with other multilateral institutions.

After two years of sustained growth, the Venezuelan economy is facing high inflation rate and recession caused by unprudent economic management including poor project implementation. As a result, in 1996 the overall GDP fell by about 1.6 percent, increasing the incidence of poverty and worsening the already highly unequal income distribution in the country.

We are pleased, therefore, that the Administration’s program - the Agenda Venezuela - has contributed to the significant progress achieved in restoring economic stability in a relatively short period. The free market policies of the program such as liberalization of foreign exchange, privatization, improvement of the banking system and subsidy reductions together with the comprehensive tax reform implemented previously should bring the economy to a sounder footing for sustained growth.

The three themes of the government’s development agenda: a) enhancing sustainable growth with stability through the private sector; b) promoting social development; and c) modernizing the public sector are appropriate enough to put Venezuela on a more stable development path. An important element of the program, an action plan to improve the performance of its MDB portfolios, is very much welcome in view of the very poor implementation of the Bank’s projects in Venezuela.

We support the CAS which is designed to help the government achieve the objectives of its development strategy. We particularly welcome the Bank’s efforts to help increase savings and productivity through strengthening the banking system, establishing legal and institutional
framework and enhancing competition. Other efforts such as improving income and social conditions of the poor and enhancing the quality and coverage of basic services are important steps towards poverty alleviation in the country.

The adoption of Portfolio Improvement Plan (PIP) and provision of non-lending services such as studies on poverty, labor market, and income distribution are important measures to improve project implementation and policy formulation. And in view of the Bank low exposure and the potential rewards that may arise from its assistance, the past implementation experience and the forthcoming governmental transition should not deter the Bank from providing the assistance to Venezuela.

Having said that I have a couple of observations to make.

First, we welcome the Bank’s effort to improve the Venezuelan authorities’ capability in managing oil “booms and busts”. However, in order to achieve the goal of poverty reduction more rapidly, the country needs to reduce its dependence on oil by restructuring its economy toward broad-based growth. This will not only protect it from the volatility of the oil market but also enable much greater participation of the people, including the poor in economic development and increase their chances of improving their lives. We note the CAS has not paid sufficient attention to the diversification efforts of the economy.

Second, in view of the fragile social and political environment and the upcoming elections, there is a possibility that the reforming process undertaken by the government will lose public support as the impact of the austerity measures becomes more visible. In this regard, we recommend that the Bank together with other MDBs actively encourage and assist the government to broaden and deepen the discussion on reform with important elements of the society to seek their support. This will strengthen the reform efforts of the government now underway as well as in the future.