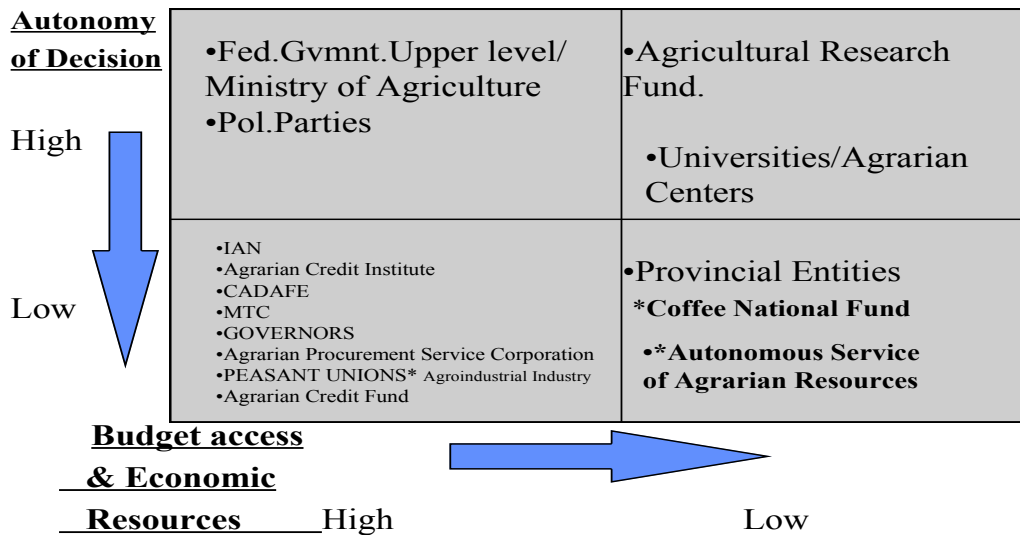


Date: 12/15/96  
 To: Merilee Grindle  
 From: Vladimir Petit Medina  
 Subject: Country Briefing Memo # 3.

- I think it is essential to focus on : **1)Special lines of credit for small farmers+ incentives for production:** by eliminating general preferential credit rates ( except to preserve agroalimentary security, to convert some areas and to stimulate the development at the border), implementing mirror policies to ad value to primary goods, credit and technical assistance attached to credits, freeing the access from all sectors to financial system, assigning 10% of the credit portfolio of Commercial Banks as mandatory, eliminating assets taxes from agricultural sectors and import duties, except for strategic goods (essential to preserve agroalimentary security ); **2)Providing Rural Roads+Efficient Ports+Rural Electrification;** **3)Promoting land reform/land tenency and titling.** This should be done in pursuit of the promotion of the agricultural productivity and rural development” in Venezuela.
- Mapping out the sector



- Budget Access as a way of measuring the effective availability of national budget assigned funds (liquidity and Treasury authorization) and economic resources as a measure of the amount of those assigned funds.

*Ministry of Agriculture:* powerful and inefficient. Always headed by the most influential Agroindustrials who have tried to preserve their privileges( subsidies)and their control over the market. In recent years, from one extremist position to another . The chronic inefficiency of this institution forced the Government to create some autonomous institutions responsible for implementing central policies. Political Parties captured those entities and the inefficiency became spread out.

**Political Parties:** they have the control over the peasant unions and every single entity connected with this area. They use those organisms as political offices and financial source. Then, credit and land distribution became weapons of political interests causing a tremendous inefficiency of the public expenditure.

**IAN:** Agrarian Reform and land tenancy institute. An important institution created to secure the progress of the reform and the elimination of land tenancy concentration. Highly bureaucratized organisms with low technical level. Most States are still waiting for an efficient land Registry and most Counties do not have an updated census of the properties owned by the state. Also the titling problem makes the expansion of some agricultural centers impossible

**Coffee National Fund:** which is supposed to promote the production of coffee.

**Agrarian Credit Institute and Agrarian Credit Fund:** which were intended to become the new credit and diversification entities. When bandagro went into Bankruptcy and its liquidation was ordered most employees were hired by the new institutions.

**CADAFE:** Electricity Company responsible for providing the energy to rural areas. A severe financial crisis made it cut down its plans and its managers decided to reduce the funds assigned to rural electrification. Then, electrification works are being made by every state and they were not prepared to assume such an important mission.

**MTC:** Ministry of Transportations and Communications, which is responsible for the construction of rural roads. This is the center of corruption itself. It usually contracts the same work twice in successive years. Then, roads are never done and the costs are higher.

**Governors and 22 Provincial Agriculture Institutes:** Governors decided to create their own Agricultural Departments and Autonomous Entities.

**Peasant Unions:** strictly controlled by political parties (AD & COPEI).

**Agroindustrial industry:** It has been protected by the current Ministry who is one representative of the sector. Just few industries are very efficient the rest survive due to subsidies and protectionism.

**Agrarian Procurement Service Corporation:** a spectacular center of corruption and inefficiency that is the vehicle

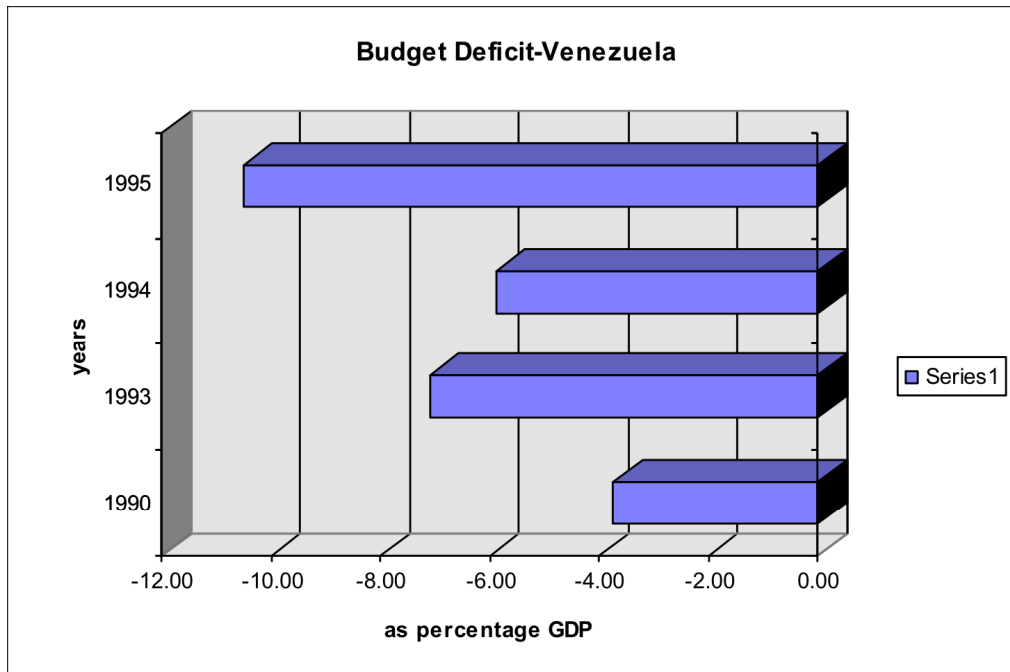
political parties use to control the Cooperative Markets.

**Agricultural Research Fund and Agrarian Centers at the Universities:** are experimental high quality entities with no sufficient support.

- **Constraints and implications**

**Financial:** The current recession affected the level of public cash flow. In fact, as a way to face the unprecedented inflation rate (caused by printing money and devaluating as attempts to overcome an increasing fiscal deficit) the government is implementing some measures intended to stop it and to decrease the level of the public expenditure and the budget deficit (11% of the GDP)

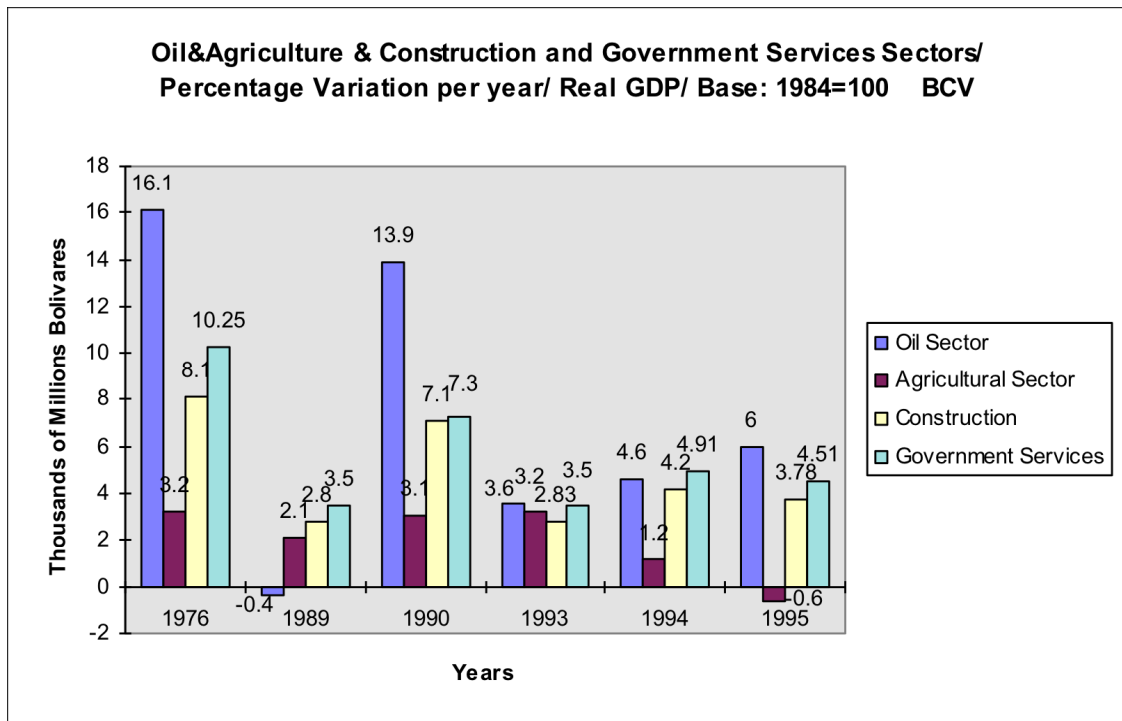
It also affected the liquidity and financial capacity of the state, in general, and the agricultural sector, in particular. In 1995, 48,01% of the national budget assigned funds to agricultural productivity promotion were not executed. It proves efficiency and liquidity problems and it also brings out the idea that agriculture is not a priority for the national treasury, although the high level of the said funds (and agricultural credit is basically a public activity so far). Finally, as a consequence of the inflation, the new costs of some works are almost 100% higher, making the rural development less possible in the short or medium term. Then, a priority itself is to launch a program to reestimate the strategic value of the agriculture.



***Political*** : the centralization of agricultural policies and the control over the peasant unions and agrarian departments characterized the influence of political parties top national levels. They were the founders of those unions after the last dictatorship overthrow and the most important promise of the new democratic government was : land, bread and job. The public agricultural system of financing is the current teller of main parties at the time the process to acquire the right over a land or to legitimate the tenency of it as well as the construction of rural roads or the supply of electricity to certain places or getting the credit require the approval of top level partisan leaders. Their influence might be insulated to ensure the efficiency of any new policy .

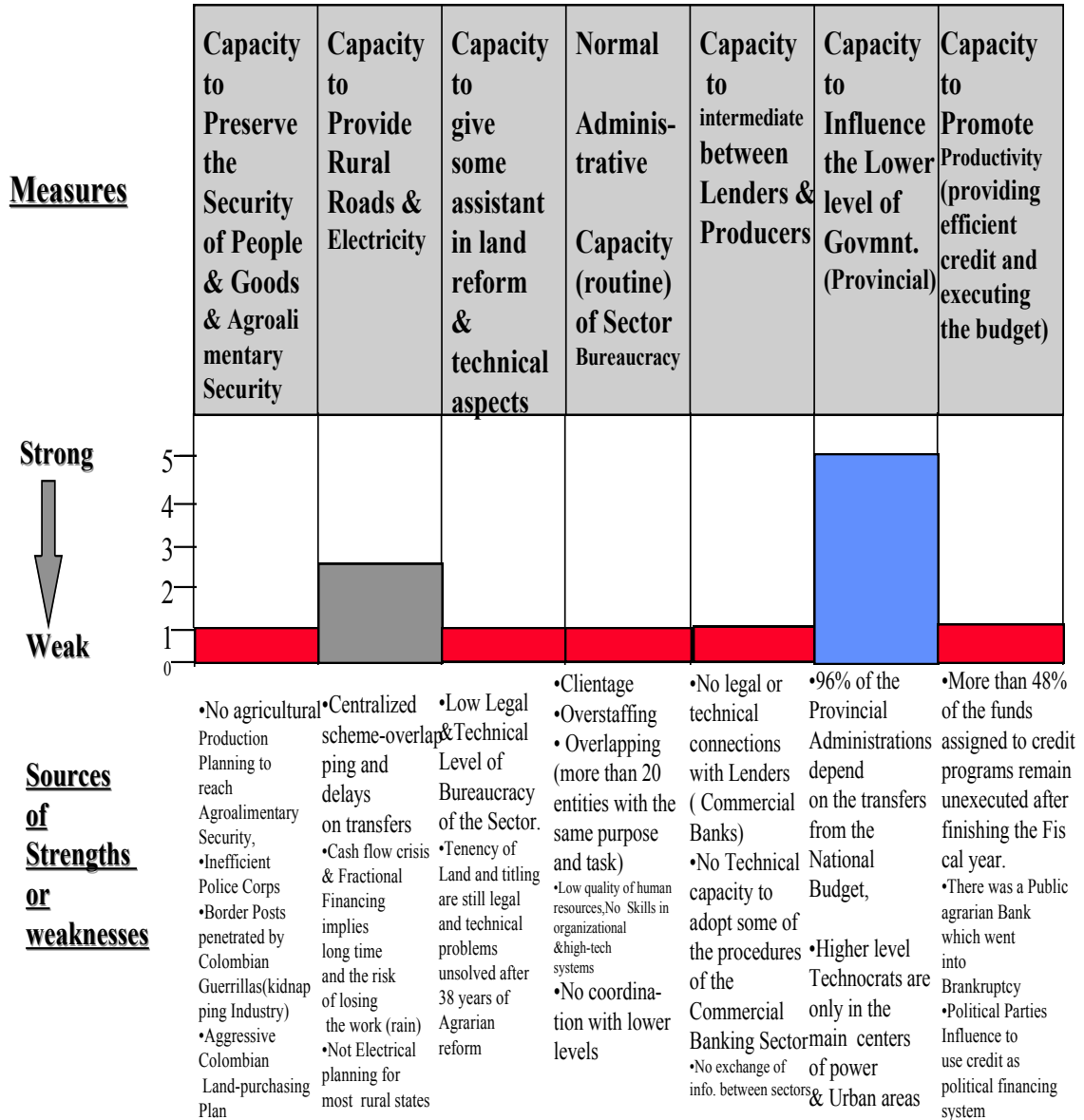
Political Parties have been allies to Agroindustrial sectors. In fact, those have been established with their consent and support. In gratitude, the agricultural sector is a secure source of financing .Then, as partners, people from the agroindustrial sector head the Ministry of Agriculture . And the cycle remains the same. A recent problem emerged when the newly elected Minister attempted to drastically open the whole sector to international competitiveness as a measure to liquidate the competence of his company.Governors decided to create regional institutes. The outcome: no coherence, no coordination and overlapping and overstaffed institutes. The madness: an increasing and inefficient public expenditure.

***Economical:*** In Venezuela the agricultural economy has become a “port activity”. Why? First, because the inefficiency of the public performance in the sector made it possible. Secondly because of the Dutch Disease. In the 70s and the early 90s, the oil booms affected both economic planning and activity itself. In fact, oil booms led to a shrinkage of the agricultural sector by decreasing its competitiveness and, therefore, its private creditworthiness ( potential private lenders rather invest in more competitive activities). A shift to non-tradables ( as construction and government spending-causing its expansion regardless of the efficiency) was caused by the search for consumption which only could be met by a higher domestic production of non-tradables, squeezing other sectors ( Sachs, Jeffrey) . Then, tradables ( agricultural sector) declined to increase non-tradable production. In the reversal both sectors, tradables and non-tradables, became severely damaged by artificial growth and depression.



In the current year, a new oil boom affected the economy . Its effect is expected to reinforce the previous tendency: to squeeze labor force and money from Agriculture to invest in non-tradables and to squeeze labor force and money from Agriculture ( Sachs & Larrain).

**Organizational** ( the apparatus limited capabilities especially in rural areas) : The State invests a lot but money supports the bureaucracy maintenance instead of promoting the sector . It also happens at the level of the new regional entities and they have the same origin of funds: national budget. Then multiple managers and supervisor are responsible for identical activities increasing the costs. Peasants and agriculture as an activity do not perceive the higher percentage of the assigned funds because the state is captured by the said interests.



- **Strategy:** The *first step* shall be the *consensus building process* and the bargaining itself and there is an implicit challenge in the *monitoring process*. 1) Previous institutional strengthening program specially focused on the need to increase the administrative capacity of the potential implementers; 2) Selectivity and deregulation: not to produce all but those products which are essential to ensure the agroalimentary security and those which have competitive advantages and directing the public and private credit to promote their production ; 3) The simplification of the structure: coordinating efforts and eliminating the overlapping, and redundant offices; 4) Decentralization program of the decision and centralization of the accountability ensuring the participation of local and regional governments ; 5) Using the people who are closer to the problem and giving them a sort of clear responsibilities; 6) establishing a new organizational culture: setting decision solving systems; 7) Insulating political parties influence : learning from the previous process of the national oil company, it is necessary to reach a national agreement based on this priority; 8) Incentives to stimulate creativity and new designs of solutions regarding anticipation to possible implementation problems, 9) A permanent program to get uninterrupted support from policy elites and influential actors to the reform itself; 10) Setting the corresponding timeframe to each implementation step;