

2.3 Socioeconomic Conditions

2.3.1 Political Situation

In December, 1998, the 15th presidential election was held and Hugo Chavez Frias (the MVR candidate) was elected with the overwhelming support of the poor. This outcome was understood by the public to mean an end of the traditional ruling system by the two major political parties (the AD and the COPEI).

Newly elected President Chavez was duly inaugurated in February, 1999 and commenced his administration by enforcing the Law to Provide the President with Special Powers in April. The main powers newly acquired by the president are listed below.

- (1) Power to conduct tax reform (banking tax and value added tax)
- (2) Power to allow the government to borrow
- (3) Power to reorganize the social security system
- (4) Power to reorganize and slim down administrative organizations (including the reorganization and merger of government-run financial institutions)

Using such special powers, President Chavez made a decision in May to implement tax reform consisting of the introduction of a banking tax of 0.5% and a value added tax (IVA) of 15.5% to establish financial sources to fund a 20% wage increase for public employees.

During the election campaign, Chavez criticized the proportional representation system currently used for parliamentary elections, stating that this system prompted the creation of large political parties and the centralization of power within these parties, thereby impeding intra-party democracy and providing a hot bed for corruption, resulting in the formulation of policies which do not reflect the will of the people. Accordingly, his public pledge in the election included the removal of such impediments by calling for a constitutional parliament to revise the constitution once he was elected. To maintain this pledge, President Chavez called a constitutional parliament (to debate the revision of the present administrative and judicial systems through revision of the constitution) in July, 1999, soon after his inauguration as the new president, and succeeded in having the draft revised constitution, passed by this parliament, approved by the national referendum held in December. The key points of the revised constitution are listed below.

- Reform of the parliamentary system (abolition of honorary members and change of the name of parliament, etc.);

- Reform of the judicial system (revision of the judge selection system and others);
- Approval of the re-election of the incumbent president and extension of the presidential term to six years (currently five years);
- Creation of the new position of vice-president;
- Decentralization through the introduction of the federal system;
- Approval of the re-election of incumbent state governors and extension of the governorship term to four years (currently two years);
- Creation of a bureau to control administrative irregularities (Morals Bureau);
- Use of referendums for important laws;
- Prohibition of borrowing by political parties from public financial institutions; and
- Change of the country's name (from the Republic of Venezuela to the Bolivarian Republic of Venezuela).

2.3.2 Social Condition

(1) General Social Situation

The Venezuela social situation is characterized by a much broader middle class compared to other Latin American countries as a result of the wealth generated by oil exports since 1940.

Nevertheless, there has been a decline in the middle class and a corresponding increase in the impoverished class as a result of economic stagnation with the sharp drop in oil price in 1980, and particularly following introduction by the government of economic adjustment policy in 1988.

With the earlier prosperity created by the oil industry and government economic policy with low emphasis on the agricultural sector, a large migration of population still continues today from rural areas to primarily Caracas as well as other urban centers. Establishment of social infrastructure has not been able to keep pace with this concentration of population in the cities, resulting in the rapid growth of slums due to inadequate housing and other amenities like water supply. This in turn, is the source of a range of social problems afflicting urban areas.

Furthermore, some 500,000 to 1 million Colombians are reportedly residing illegally in Venezuela, at present, and mostly are employed in the informal sector as construction labor and domestic help. Specifically, domestic law and order is a troublesome issue against this background of extensive poverty.

The first survey by the government of the indigenous population indicates 316,000 native Venezuelans account for 1.4% of the total population. Native Venezuelans are classified roughly into 20 ethnic groups, each with their own language and occupying the national border area in the states of Amazonas, Apure, Zulia, etc. An effective policy regarding the indigenous population is considered necessary in light of the competition among these peoples over industrial development in the areas in which they live.

(2) Population and State of Nation

The total population of Venezuela for 1998 was projected as 23,256,000 and the population growth rate is about 2.0 %by OCEI (*Oficina Central de Estadística e Informática*). Population density is low, at 21.1 persons per sq. km ,but distribution between urban and rural areas is uneven. About 86 % of the total population was located in urban areas in 1988. Rural to urban migration accelerated in the second half the century in response to the extensive development of urban centers generated by the rapid growth of the oil industry. This trend has been sustained by the inadequacy of public services in rural areas.

According to the Human Development Report in 1997 by the UNDP, the Human Development Index (HDI) of Venezuela was 0.861 (value for 1994) which is a ranking of 47 out of 175 countries. The nation is thus in the category of high human development. Venezuela is classified as a lower middle income country in the DAC List of Aid Recipients (1994), with a per capita GNP of US\$ 3,450 for 1998.

(3) Education

The adult literacy rate for 1994 was 91.0 %. The combined enrollment rate at primary, secondary and higher education levels was 68 % in 1994. However, the National Education Council reported in 1999 that the education system in Venezuela was weak in terms of quality and relevance. Absenteeism is a major problem, in which over one-third of children at pre-school level, 19 % at primary school level and three-quarters at secondary level do not attend school. A high drop-out rate and repeating of grades are common throughout the system, up to university level, with only 55 % of registered students graduating.

Investment in education was 3.8 % of GDP , which is one of the lowest in South America in relation to the overall budget.

(4) Health

During the oil boom of the 1970's extensive resources were channeled into the health sector, leading to a high standard of healthcare. Mismanagement, corruption and shrinking budgets

culminated in the near-collapse of the health service during 1994-99. In 1996-97 a number of Caracas's major hospitals were temporally shut down. Decentralization has improved health services in some of Venezuela's more economically advanced states, but overall the quality of health provision remains poor.

Venezuela's health indicator compare with major countries in Latin America and US is the following table.

Table 2.3.1 Comparative Health Indicators

	Venezuela	Brazil	Chile	Argentina	US
Life expectancy (years, 1996)	73	67	75	73	77
Infant mortality rate (per 1,000, 1996)	22	36	12	16	7
Population per hospital bed (per 1,000, 1994)	0.3	3	2.4	4.6	5.9
Access to safe water (% of population, 1995)	79	72	n/a	64	90

Source: World Bank

(5) Social Security

While the social security system is run by the Social Security Agency (IVSS), the system only covers 32% of the employed population at present, failing to achieve its objectives. The IVSS is funded by contributions made by private companies and the accumulated fund of the government. However, its operation is suffering from a large deficit because of contribution arrears, fund management failure by the IVSS and corruption as well as excessive employment at the IVSS.

In 1997, the Tripartite Committee established by the previous government and consisting of representatives of the government, business owners and workers, decided on the dissolution of the IVSS, the privatization of medical insurance and pension operations and the transfer of the unemployment insurance operation to the Ministry of Labor. However, the future of the social security is currently uncertain as there is opposition to the privatization of medical insurance and pensions in the present Chavez administration.

2.3.3 National Economic Conditions

(1) Outline of National Economy

The economic structure of Venezuela is characterized by its heavy dependence on the petroleum sector which accounts for 70 - 80% of exports, more than 50% of the government revenue and some 30% of the GDP. Consequently, the national economy is highly vulnerable to impacts of the international petroleum market.

The sluggish performance of the oil price noticeable since late 1997 rapidly worsened the fiscal balance in 1998, forcing a substantial reduction of the original budget. Against this background, speculative pressure developed for a major devaluation of the local currency towards the end of 1998 and the government was obliged to maintain high interest policy to counter-act this pressure. This led to a major recession and the national economy in 1998 recorded negative growth of 0.7% on the previous year. The first half of 1999 recorded further negative growth of 9.4%. For the whole year, negative growth of as high as 5 - 6% is anticipated even though some recovery is expected because of the upturn of the international petroleum market conditions.

Although President Chavez who won a decisive victory in the presidential election in December, 1998 and assumed the presidency in February, 1999 still enjoys strong popularity and great expectations among the public, the objective macroeconomic situation surrounding his administration does not necessarily warrant optimism. The first economic policy employed by the new president was a fiscal policy based on downward balancing for the principal purpose of reducing the fiscal deficit, leaving industrial and economic policies to indicate the planned scenario for economic revival as pending issues.

Venezuela is endowed with rich mineral resources (crude oil, iron ore, bauxite and gold, etc.) and has promising long-term growth potential. What is required is structural reform of the economy and fiscal reform aimed at stable as well as sustainable economic growth which is not affected by future fluctuations of the oil price.

(2) Trend of Gross Domestic Product (GNP)

Real GNP of Venezuela in 1997 was US\$ 78.5 billion, which is the fourth highest in South America (after Brazil, Argentina and Colombia). Per-capita real GNP in 1997 was US\$ 3,450. Until 1988, the country was the wealthiest in all of South America, with the highest per-capita GNP on the continent. Per-capita GNP has subsequently dropped to fifth at present (behind Argentina, Uruguay, Chile and Brazil).

GNP sector-wise growth rates for 1997 and 1998 are as follows:

Table 2.3.2 Sector-wise GNP Growth Rates - 1997 & 1998

	(unit: %)	
	1997	1998
GNP	5.9	-0.7
Petroleum sector	9.5	-1.0
Non-petroleum sector	3.9	-0.8
Agriculture	2.5	-0.7
Mining	8.5	-2.4
Manufacturing	4.5	-4.7
Construction	9.7	-1.1
Utilities (electricity, water)	5.2	2.3
Services	2.9	0.6

(source: Central Bank)

The petroleum sector experienced 1.0% minus growth in 1998 due to a sharp drop in crude oil export price to US\$ 10.63 / barrel (a US\$ 5.69 / barrel drop compared to the previous year), and reduced crude production at 3.1 million barrels / day (a 91,000 barrel / day drop compared to the previous year). The non-petroleum sector as well exhibited 0.8% negative growth as a result of national budget cuts due to falling oil prices and reduced crude production, curtailed government investment, a drop in foreign currency earnings, high interest rates, etc. As a result, overall GNP showed 0.7% negative growth, which is a major worsening of economic performance compared to the 5.9% positive growth of the national GNP in 1997.

(3) Price and Wages

Reflecting the economic crisis since 1994, prices rose at a high rate of 70.6% in 1994 and 56.6% in 1995. This was compounded in 1996 by economic adjustment policy which among other things raised gasoline prices, tax rates on luxury items and wholesale earnings, and tariffs for public services. As a result, the rate of price increase in 1996 was the highest in Venezuelan history at 103.2%. Economic policy of the new administration aims at the containment of inflation as its primary objective, with a targeted inflation rate of 20~24% in 1999.

Further to increasing the minimum wage to 100,000 bolivars (roughly US\$ 186) in May 1998, President Chavez announced in February 1999 his intention to upgrade civil servant wages by 20% as of June 1, and urged private sector enterprises to effect a similar raise in labor wages.

(4) Employment

According to OCEI statistics, the working population at the end of 1998 was 9.91 million (65.4% of the population of 15 years of age or more), of which 8.89 million (89%) are employed. The employment ratio between the formal sector and the informal sector (less than five employees) is 50.2% to 49.8%, clearly suggesting the vulnerability of the employment situation.

The unemployment rate steadily increased from 6.3% at the end of 1993 to 8.5% at the end of 1994, 10.2% at the end of 1995 and 12.4% at the end of 1998 as a result of the economic crisis during these years. By the end of 1997, it had dropped to 10.6% but subsequently increased to 11.3% at the end of June, 1998 and 11.0% at the end of December, 1998.

(5) Fiscal Balance

The emergence of an economic crisis in 1994 resulted in a fiscal deficit of the central government of 6.8% of the GDP in 1994 and 4.8% of the GDP in 1995. However, a fiscal surplus of 0.6% of the GDP and 1.6% of the GDP was recorded in 1996 and 1997 respectively due to the steady conditions of the international oil market and the implementation of a series of fiscal reform measures (increase of the petrol tax, price adjustments in the public sector and increase of the luxury tax and the wholesale tax, etc.) In 1998, government finance again went into the red at 4.2% of the GDP because of sluggish oil prices and an unfavorable tax collection performance due to the recession.

Table 2.3.3 Fiscal Balance

	(Unit: billion bolivars)	
	1997	1998
Total Revenue	10,142	8,633
- Petroleum-Related Revenue	5,758	3,255
- Non-Petroleum-Related Revenue	4,284	5,378
Total Expenditure	9,349	10,796
- Current Expenditure	7,503	8,373
- Capital Expenditure	1,691	2,146
- Others	155	277
Fiscal Balance	693	-2,164
Percentage to GNP	1.6	-4.2

The official balance of foreign debt has been rather steady at US\$ 26.9 million at the end of 1995, US\$ 24.73 billion at the end of 1996, US\$ 23.84 billion at the end of 1997 and US\$ 23.17 billion at the end of 1998.

(6) Foreign Trade

Export and import amounts in 1998 were US\$ 17.3 billion (26.1% decrease compared to the previous year) and US\$ 13.9 billion (7.7% increase compared to the previous year), respectively. In contrast to the export of non-petroleum products which exhibited a modest drop of 2.1%, oil exports fell off significantly by 33.3%. Despite stagnation of the domestic economy, imports increased due to inflation and the bolivar being excessively valued against the dollar.

Trends in the international balance of payments and foreign currency reserves are as follow

Table 2.3.4
Trends in the International Balance of Payments and Foreign Currency Reserves

	(unit: million US\$)		
	1996	1997	1998
Export (FOB)	23,400	23,445	17,320
Import (FOB)	9,810	12,895	13,889
Trade balance	13,590	12,895	3,431
Invisible trade balance	-4,766	-5,866	-5,146
Current account balance	8,824	4,684	-1,715
Capital account balance	-2,224	387	111
Error, etc.	-75	-1,815	-2,703
Overall balance	6,525	3,256	-2,703
Year-end foreign currency reserves	15,229	17,817	14,849

(source: Central Bank)

As can be seen from the above table, there was a significant deterioration in macro-economic conditions from 1997 to 1998. The new administration is accordingly expected to encounter difficulties in guiding the national economy.

2.3.4 Regional Socioeconomic Conditions

(1) Outline of Regional General Conditions

The administrative areas related to the subject watershed of the Study are Delta Amacuro State, Monagas State and Bolivar State. The general conditions of these states are outlined below.

1) Delta Amacuro

Delta Amacuro located in the northeastern extremity of the country, the area of state is 45,000km², and the population in 1995 was 110,838. It is subject to a tropical climate, with an annual average temperature of 28°C, high relative humidity, and annual

precipitation between 900 and 2,000mm. Mangrove swamps dominate vegetation, part of which comprises the Mariusa-Orinoco Delta National Park.

The myriad forested islands which make up the delta are the home of the Warao indigenous people who have built their dwellings on stilts in the water (*palafitos*), with walkways connecting one dwelling to another. At present, about 15,000 Warao people live in the Orinoco delta.

The capital of state Tucupita is located 110 km from the coast on the right bank of the broad Manamo canal at its junction with the Tucupita canal, which connects to the Atlantic Ocean. Tucupita has piers for small boats, and good potential for commercial and fishery development.

The regional economy is based on the cultivation of bananas, cassava, maize, rice, beans and cocoa, together with fishing and animal husbandry.

2) Bolivar

Bolivar is a state occupying a vast area which extends in the southern part of the middle reaches of Orinoco River. Its area of 218,997 km² accounts for 26.2% of the country's total area and its population was 968,695 in 1995. It is subject to a tropical climate with an average annual temperature of 26.5°C. The mean annual precipitation varies from 1,000 mm to 2,500 mm, showing a gap between the northern and southern parts of the state. Belt-like flat land is found along Orinoco River. The mountainous area to the south of Embalse de Guri, which is a reservoir formed by the Guri Dam, forms special topography commonly called the Guayana Plateau (Le Gran Sabana).

While the state capital of Bolivar is Ciudad Bolivar, the center of the local economy is Ciudad Guayana which is located at the confluence point between Orinoco River (140 km point) and Caroni River. At present, Ciudad Guayana has an iron ore refinery, steel and aluminum plants, sawmills and other factories and has a port on the banks of Orinoco River to ship local products to both domestic and overseas markets. The population of this city has increased by 15 times in the last 40 years, totaling some 570,000 in 1995 to become the fifth largest city in Venezuela.

The local economy of Bolivar State specializes in industrial production based on the above-described mining resources.

3) Monagas

Monagas State is located to the west of Delta Amacuro on the other side of the Manamo Canal and its southern border is marked by Orinoco River. The state has an area of 28,900 km² and a population of 526,559 in 1995. Some 90% of the land is flat except for a hilly area in the north. Areas along the Manamo Canal are swampy. The average annual temperature except for the northern highland area is 24 - 27°C and the mean annual precipitation varies from 800 mm to 2,000 mm with the southern part recording a higher level of precipitation.

The state capital is Maturin which is the administrative center and the commercial as well as industrial center of the state. The main industry in Monagas is agriculture which includes stock raising and forestry. The main products are maize, tomatoes, tobacco, coffee and cacao. Accordingly, the industrial products produced in Maturin are mainly processed food products.

Crude oil production bases are located in this state and the future exploitation of heavy Orinoco oil (Orimulsion) is said to be promising. In addition, there is good potential for the development of afforestation businesses on the vast public land in the southern part of the state.

(2) Regional Socioeconomic Situation

1) Population Changes

The OCEI has published its estimated population growth based on the population trends from 1990 to 1995 and the estimated figures for the three states are shown in the table below.

Table 2.3.5 Estimated Population

State	1995	1996	1997	1998	1999	2000	Average Growth Rate
Delta Amacuro	114,390	115,888	123,491	128,201	133,022	137,939	3.7%
Bolivar	1,142,210	1,174,771	1,207,527	1,240,466	1,273,586	1,306,651	2.7%
Monagas	555,705	564,925	573,967	582,807	591,449	599,764	1.5%
Total	1,812,305	1,858,584	1,904,985	1,951,474	1,998,057	2,044,354	2.4%

Source: OCEI

The total population of these states at present (2000) is estimated to be just above two million with an average annual growth rate of 2.4% which is slightly higher than the national figure of 2.2%. The annual growth rate, however, considerably varies from one

state to another. The highest figure is 3.7% for Delta Amacuro, followed by 2.7% for Bolivar while the figure of 1.5% for Monagas is far below the national average. Such discrepancies are believed to be the result of the ease or difficulty of population migration determined by the geographical and transport conditions of each state. In other words, there appears to be a population outflow from Monagas to cities located in the central part of Venezuela.

2) Historical Changes of Industrial Production Activities

Except for Bolivar, agriculture forms the industrial basis in Delta Amacuro and Monagas. In addition, few industrial activities are observed in Delta Amacuro. Historical changes of the industrial production in these three states are summarized in the tables below.

a) Delta Amacuro

Table 2.3.6 Historical Changes of Industrial Production Activities in Delta Amacuro

(Units: persons; '000 bolivars)

Type of Industry	Item	1991	1992	1993	1994	1995
Food Processing	No. of Employees	46	84	50	42	60
	Amount Shipped	1,079	2,180	1,160	879	2,214
Textiles	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Wood	No. of Employees	7	17	13	0	0
	Amount Shipped	427	683	902	0	0
Paper	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Chemicals	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Ceramics	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Metals	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Machinery	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Others	No. of Employees	0	0	0	0	0
	Amount Shipped	0	0	0	0	0
Total	No. of Employees	53	101	63	42	60
	Amount Shipped	1,506	2,863	2,062	897	2,214

Source: OCEI

As the above table shows, the only industrial production in Delta Amacuro involves food processing, indicating that the local economic structure is specialized in agriculture. In fact, the production scale is within the framework of self-sustaining production, reflecting the undeveloped socioeconomic situation of this state.

b) Bolivar

Table 2.3.7 Historical Changes of Industrial Production Activities in Bolivar

(Units: persons; '000 bolivars)

Type of Industry	Item	1991	1992	1993	1994	1995
Food Processing	No. of Employees	1,474	1,647	1,119	1,440	1,851
	Amount Shipped	146,503	180,948	253,764	250,723	644,971
Textiles	No. of Employees	578	529	568	528	478
	Amount Shipped	60,323	75,229	64,359	122,432	63,819
Wood	No. of Employees	907	1,075	731	664	880
	Amount Shipped	63,346	72,722	67,063	47,974	60,768
Paper	No. of Employees	235	206	239	63	333
	Amount Shipped	19,778	92,371	26,187	7,216	34,838
Chemicals	No. of Employees	408	330	264	307	346
	Amount Shipped	111,947	70,138	38,273	69,123	85,411
Ceramics	No. of Employees	1,991	2,056	1,382	1,327	1,382
	Amount Shipped	275,629	280,328	211,286	226,820	349,756
Metals	No. of Employees	25,604	23,079	21,533	21,252	23,015
	Amount Shipped	13,290,979	12,462,367	10,759,106	13,158,137	21,141,320
Machinery	No. of Employees	3,630	3,210	2,810	1,317	3,832
	Amount Shipped	467,580	440,287	866,764	449,859	708,423
Others	No. of Employees	25	23	30	12	22
	Amount Shipped	1,548	1,921	2,179	100	541
Total	No. of Employees	34,852	32,155	28,653	26,909	32,139
	Amount Shipped	14,437,633	13,676,311	12,288,981	14,332,384	23,089,847

Source: OCEI

As shown in the table above, industrial production based on mineral resources is the main industrial activity in Bolivar and the local economic structure is specialized in ore refining, steel-making, aluminum refining and machinery. Metal mining accounts for more than 90% of the industrial production, characterizing the socioeconomic situation of this state.

c) Monagas

Table 2.3.8 Historical Changes of Industrial Production Activities in Monagas

(Units: persons; '000 bolivars)

Type of Industry	Item	1991	1992	1993	1994	1995
Food Processing	No. of Employees	1,165	1,411	892	749	1,076
	Amount Shipped	206,611	246,957	316,951	191,853	288,058
Textiles	No. of Employees	24	10	8	0	19
	Amount Shipped	1,152	1,077	328	0	2,240
Wood	No. of Employees	137	143	163	841	816
	Amount Shipped	17,214	13,700	8,228	53,439	53,427
Paper	No. of Employees	128	151	109	113	98
	Amount Shipped	4,812	10,601	4,980	5,543	8,607
Chemicals	No. of Employees	244	152	136	129	124
	Amount Shipped	60,123	33,897	31,243	15,557	12,648
Ceramics	No. of Employees	534	505	531	472	546
	Amount Shipped	99,460	436,463	261,384	470,492	750,569
Metals	No. of Employees	10	6	3	39	0
	Amount Shipped	9,058	10,227	1,429	2,420	0
Machinery	No. of Employees	432	436	381	323	318
	Amount Shipped	28,105	39,031	50,512	78,159	70,151
Others	No. of Employees	5	34	27	6	0
	Amount Shipped	78	988	421	765	0
Total	No. of Employees	2,679	2,848	2,270	2,672	2,997
	Amount Shipped	426,613	792,941	675,476	818,228	1,185,700

Source: OCEI

At present, agriculture, stock raising and forestry are the main industries in the state and the food processing, beverages, sewing and furniture industries using primary products are in operation in and around Maturin, the state capital. The main feature of this state is its underground resources, particularly crude oil, and the actual production of crude oil has recently commenced. As heavy Orinoco oil (Orimulsion) is attracting international attention as industrial fuel, the advancement of the economic structure of the state in the coming years is hoped for.