

### **2.3.5 Development Plan**

#### **(1) Background**

Following the formulation of the First National Plan for Territorial Development in December, 1998, the new Chavez administration announced the Transitional Economic Program 1999 - 2000 in January, 2000, indicating its attempt to adopt new economic policies to improve the macroeconomic situation characterized by stagnant economic growth since 1997 and the resulting fiscal deficit. As explained earlier, a new constitution was introduced at the end of 1999 following a referendum on the grounds that revision of the old constitution, including the reorganization of government ministries and agencies and the review of parliamentary power, were necessary as preconditions for the promotion of the announced national development plan.

The basic objectives of the First National Plan for Territorial Development and the outline of the Transitional Economic Program 1999-2000 are explained in the following sections.

#### **(2) First National Plan for Territorial Development**

##### **< Basic Objectives >**

The objectives of the First National Plan are (i) to promote the revitalization of economic activities based on an appropriate population distribution, taking the socioeconomic characteristics and geographical conditions of each local area into consideration (ii) to achieve harmonious socioeconomic growth through the development of socioeconomic infrastructure, (iii) to ensure domestic law and order as well as national defense and (iv) to achieve the conservation of the natural environment.

The First National Plan adopts the following basic principles to achieve the above-mentioned objectives.

- 1) Strengthening of the linkage with the international economy by means of maintaining a liberal economic system
- 2) Consolidation of education to improve the awareness of national sovereignty among the public and to protect the socioeconomic health of local areas and the living rights of local people
- 3) Decentralization to achieve efficient economic activities, to expand administrative functions and to ensure fairness in society and reorganization of the key urban functions to create employment opportunities in local areas
- 4) New development of existing resources to increase employment opportunities

- 5) Introduction of various measures to ensure a stable economy and environment vis-a-vis emergencies and disasters caused by natural, technological and social factors.
- 6) Guidance for indigenous communities to facilitate their integration to national development through harmonious measures in line with the spirit adopted by Article 77 of the Constitution.

**(3) Transitional Economic Program 1999-2000**

In view of the present economic environment, the new administration decided to formulate a transitional program of economic policies for 1999 to 2000 to proceed with the 10th Five Year National Development Plan 2001 - 2005. As such, the program incorporates measures to stabilize the macroeconomy as a matter of urgency and measures to promote as well as vitalize non-petroleum industries which are considered to be a structural weakness of Venezuela's economy. This program is summarized below.

**1) Policy Objectives**

- a) Establishment of the principal means of reducing the fiscal deficit
- b) Downward inducement of bank interest rates
- c) Stabilization of the foreign exchange rate
- d) Review of the foreign debt repayment method
- e) Introduction of a government body to stimulate investment by the private sector at home and abroad
- f) Promotion of non-petroleum product exports
- g) Creation of new employment opportunities through public investment
- h) Implementation of promotion measures for small and medium-size enterprises
- i) Selective promotion of the privatization of public enterprises

**2) Concrete Measures**

The implementation of the following concrete measures is planned to achieve the policy objectives described in 1) above.

- a) Measures to Rehabilitate Government Finance
  - i) Reorganization and modernization of government bodies, research institutes and government-affiliated enterprises
  - ii) Improvement of the efficiency of operation and management of government bodies and increase of the transparency of government accounts

- iii) Reduction of government donations to private bodies (associations and academic societies)
  - iv) Restriction of the credit guarantee by the government for public investment, payment of wages and investment of high productivity
  - v) Modernization and rationalization of the taxation system, creation of new taxes (banking tax and consumption tax) and strengthening of the tax collection body (SENIAT)
  - vi) Revision of the Income Tax Law
    - Revision of the tax deduction method
    - Introduction of a system to encourage investment in export industries
    - Introduction of an income tax adjustment method using the rate of inflation and the foreign exchange rate
  - vii) Improvement of the operation method of the macroeconomic stabilization and investment fund
  - viii) Creation of a single social fund to solve the problem of poverty
- b) Measures to Stabilize Finance and Foreign Exchange
  - i) Strengthening of the banking control body and improvement of the control method
  - ii) Establishment of a method for the Central Bank to dispose of the debts of commercial banks
  - iii) Intensification of the control and inspection of payments by the new social security system
  - iv) Creation of a social fund to vitalize the finance market
  - v) Establishment of measures to promote loans for export industry-related enterprises
  - vi) Conversion of fiscal debts (TEM) to securities and bonds
  - vii) Creation of a medium and long-term domestic bond market
  - viii) Creation of a dollar trading market in Venezuela
  - ix) Preservation of the current band system for the foreign exchange rate
  - x) Issue of foreign currency government bonds for the repayment of foreign debts
  - xi) Issue of government bonds for investment in new production facilities to implement new projects
- c) Development Measures by Sector
  - i) Petroleum Sector

- Maintenance of the production volume required for the economic development of the country and also for preservation of the international price, in turn determined by the international supply-demand situation, while strengthening the relationship with the OPEC.
- Establishment of the state capital as much as possible while promoting the inward investment of public as well as private foreign capitals.
- Attraction of capital investment in not only upstream industries but also downstream industries as much as possible.
- Further promotion of the production and utilization of natural gas with a view to its export to neighboring countries via a pipeline network.

#### ii) Electricity Sector

While enhancement of the generation volume is required from the medium and long-term perspectives, the current pressing problems lie with the transmission and distribution operation, necessitating the implementation of the following measures.

- Enactment of a new law to facilitate national electricity supply and establishment of market consent for the future integration of the electricity supply market.
- Modernization of the subsidy system for power generation and distribution businesses and introduction of a new electricity tariff.
- Integration and reorganization of regional electricity distribution companies.
- Materialization of a plan to supply electricity to Brazil.
- Development of power generation using natural gas.
- Construction of the Caruachi Power Station

#### iii) Mining Sector

- Enactment of a new law to facilitate the development of the mining sector and creation of a supervisory power
- Attraction of investment in the mining sector by private capitals
- Promotion of coal mining
- Promotion of gold and diamond mining

- Multilateral development of the metal mining industry

#### iv) Agricultural Sector

Venezuela is endowed with huge and fertile land and a rich supply of water, providing huge agricultural production potential. Agriculture was, in fact, the main industry of the country until the early years of the 20th century. The discovery of petroleum, however, has led to a government policy of favoring an economic structure dependent on the petroleum industry with a subsequent decline of agriculture to the present situation where even main staple foods are imported. In 1998, the agricultural sector only accounted for 4.7% of the GDP and recorded negative growth of 0.7%. The trade of agricultural products in the same year recorded a deficit of some US\$ 1 billion.

The new administration has embarked on the new challenge of creating a new golden age of agriculture, adopting the target of putting the GDP output of agriculture on the growth track in two years on the grounds that the revival of agriculture is the key to the transformation of the oil-dependent economic structure to achieve sustainable economic development.

The following measures are put forward for systematic implementation to facilitate structural reform and the expansion of agricultural production areas, to create a balanced industrial structure and to achieve the long-term security of food supply.

- Establishment of highly efficient production methods through the extension of new farming techniques
- Development of new agricultural production areas
- Extension of various technologies at the distribution, marketing, export and consumption stages
- Development of agricultural infrastructure and provision of information as a public service
- Provision of financial assistance and attraction of new investment
- Strengthening of agricultural technology research organizations and training facilities
- Improvement of the living environment and living standard in rural areas

Based on the above measures, the agricultural production targets for two years, i.e. 1999 and 2000, are set as shown in the tables below.

**Table 2.3.9 Grain Production**

Item	Cultivation Area (ha)	Production Volume (tons)
Grains	646,000	1,945,000
Leguminous Plants	40,700	29,194
Fibrous Plants	25,667	35,000
Oil Plants	40,000	381,000
Root Plants	93,314	1,096,702
Fruits	103,698	1,230,554
Vegetables	44,187	672,365
Coffee	220,599	53,387
Cocoa	60,800	17,465
Sugar	99,000	6,300,000

**Table 2.3.10 Livestock Production**

Item	Production Volume
Milk (liters)	1,508,000,000
Beef (heads)	2,112,774
Pork (heads)	2,112,774
Chickens (heads)	454,431,000
Eggs (number)	2,686,904,000

**Table 2.3.11 Fisheries Production**

Item	Production Volume (tons)
River Fish	454,689
Ocean Fish	51,669
Cultured Fish	10,334

v) **Manufacturing Sector**

The strategic target for the manufacturing sector is the promotion of non-petroleum industries in a free, competitive market environment in order to transform Venezuela's industrial structure. The following strategic policies will be adopted to achieve this target.

- Emphasis on the fostering of small and medium-size companies and diversification of the industrial structure for the purpose of increasing the employment capacity of the sector

- Emphasis on and promotion of the linkage between manufacturing industries
- Creation of a business environment to vitalize investment in the manufacturing sector by the private sector at home and abroad

The following measures will be implemented to successfully achieve the strategic target described above.

- Measures to foster small and medium-size companies
  - Improved and smooth finance through the creation of a mutual guarantee system for small and medium-size companies
  - Preferential measures for export industries
  - Preferential measures in terms of income tax for investment in new industries and education/training of engineers and workers
  - Flexible application of the land use plan regarding the obtaining of land for manufacturing businesses
- Measures to promote industrial linkage
  - Increase of added value in production by companies designated by the government through the promotion of industrial linkage, in turn boosted by the fostering of supporting industries
- Measures to promote private sector investment
  - Abolition of laws/regulations restricting investment by private capital
  - Review of the income tax system, including prevention of the dual taxation of overseas capital
  - Speeding up of the procedure to permit investment by overseas capital, adoption of a transparent tender procedure and elimination of corruption
- Promotion of technology transfer
- Development of human resources
- Improvement and expansion of research organizations
- Strengthening and standardization of quality control and unification of the weights and measures systems
- Information gathering on and publicity of the export market

#### vi) Construction Sector

The consolidation of nationwide infrastructure is essential for sustainable economic development. In this context, strengthening of the construction sector is more urgent than the efficient management of public works expenditure. The priority target in this sector during the Program period is housing development to achieve the housing policy of the government. The following measures will be implemented for this purpose.

- Revision of the public land utilization system of the government to enable the use of optimal sites for housing development plans
- Transfer of government land to assist the urban development plans of local governments
- Promotion of the construction of rental accommodation in urban areas and revitalization of the real estate market

The Program also calls for the implementation of the following measures to address the urgent issue of developing a legal framework to promote capital investment by the private sector in public facilities run by the government in view of the government's efficient use of public works expenditure.

- Revision of the Decree-Law on National Public Works and Service Concessions
- Enactment of laws/regulations designed to protect private capitals and to facilitate investment by the private sector
- Improvement of the Tender Law to improve the transparency and efficiency of the tender procedure, guaranteeing the maintenance of fair competition in government procurement

#### vii) Tourism Sector

The promotion of tourism demands policy priority in the sense that the development of tourism has strong follow-on effects on related industries. The immediate requirement is upgrading of the quality of existing tourist areas in Venezuela to match that of international tourist areas. It is highly desirable to develop tourism by means of (i) the attraction of foreign capital and (ii) the active operation of small and medium-size domestic companies engaged in tourism with the assistance of financial institutions in response



to such investment by foreign companies during the process of the implementation of the various measures listed below.

- Review of the relationship between local public bodies and tourism promotion bodies in tourist areas to ensure more efficient business development, followed by the instruction of 160 municipalities in Venezuela to formulate their own tourism development plans
- Inclusion of culture, flora, fauna and landscape, etc. as tourism resources in tourism development plans while paying proper attention to ensuring the conservation of the social as well as natural environments
- Preparation of tourism promotion measures, including the construction of hotels, etc., as part of the medium to long-term strategy

#### viii) Employment

A stable macroeconomic environment is essential for the expansion and creation of employment. The government intends to stabilize the macroeconomy by means of fiscal as well as financial measures and to create and expand employment by means of the implementation of the following measures.

- Increase of the employment demand by means of the implementation of social infrastructure development projects supported by public sector investment and the acceleration of public housing construction projects
- Implementation of a special program designed to promote self-employed businesses and cooperative businesses
- Creation of a special fund and organization to provide vocational training for the unemployed, employees in the informal sector, employees of very small businesses and employees of cooperatives
- Strengthening of employment information supply and employment assistance work at job centers
- Modernization and standardization of the remuneration standards of companies

#### ix) Privatization

Investment opportunities will be provided for private companies if it is deemed that the transfer of management to private companies from state enterprises which are facing financial difficulties and which are incapable of solving such difficulties will restore healthy business management and earn profits through international operation. In this context, the feasibility of privatization will be continuously examined in the following areas.

- Electricity
- Aluminum
- Natural resources
- Construction and concession of public facilities

### 3) Economic Transitional Program 1999 - 2000

#### a) Background

This investment program plans government investment to meet currently essential costs while giving priority to eliminating the accumulated fiscal deficit caused by the implementation of non-productive projects reflecting unbalanced government investment in the past. The rarely seen scale of fiscal deficit in Venezuela must be offset by (i) increased added value originating from vitalization of the economic structure due to new, efficient public investment and (ii) export earnings. The heavy burden of eliminating the fiscal deficit will be inherited by not only the government budget for 1999 and 2000 but also by government finance for the next five years, undoubtedly having significant impacts on the development of social infrastructure and the performance of production sectors.

#### b) Scope of Public Investment

The targets of social infrastructure improvement through public investment are those public facilities which directly assist the elimination of poverty and the creation of a free competitive environment for production activities by the private sector, thereby facilitating the vitalization of the national economy. Accordingly, the concrete targets are transport facilities (roads, ports and airports), irrigation facilities and electricity transmission and distribution facilities, etc. The development of social infrastructure, including market function development, will be pursued to achieve the following objectives.

- i) Food security
- ii) Nationwide spread of public services and rectification of regional gaps

- iii) Development of infrastructure which contributes to the vitalization of production activities, particularly the enhancement of international competitiveness
- iv) Development of social infrastructure in poor areas
- v) Environmental conservation
- vi) Law and order in local areas
- vii) Development of infrastructure through joint investment by the public and private sectors

c) Scale of Public Investment

1999: 1,716 billion bolivars (US\$ 2.7 billion)

2000: 2,227 billion bolivars (US\$ 3.5 billion)

The public investment amount of 1,716 billion bolivars in 1999 is equivalent to some 2.4% of the GDP, reversing the trend of a long-term decline of public investment to the level of 15 years ago. It is estimated that the injection of such public money in 1999 will lead to a favorable upturn of the fiscal situation, facilitating the planned public investment in 2000 without much difficulty.

d) Achievement of the Program

The Economic Transitional Program 1999 - 2000 aims at establishing national infrastructure to achieve self-reliant and sustainable economic growth. It is basically designed for macroeconomic stabilization in order to facilitate the vitalization of the economy and, at the same time, to create new employment opportunities through lowering of the inflation rate.

It is believed that the macroeconomic stabilization policy of the new administration will rationalize the management of the government budget, resulting in the control of inflation. Therefore, the target inflation rate is approximately 22% for 1999 and 17% for 2000. In addition, the minimum target amount of foreign reserves at the end of 1999 or 2000 is set at US\$ 14 billion to stabilize the foreign exchange market.

**(4) Regional Development Plan (Orinoco-Apure Axis Development Plan)**

The Orinoco-Apure Axis Development Plan is one of the major projects of the new administration, reflecting the belief of President Chavez that diverse regional development efforts and decentralization of the administration are essential for reform in Venezuela.

This plan aims at facilitating social development in the vast Orinoco-Apure watershed using the main channels of Orinoco and Apure Rivers as development axes so that production activities in the target area are vitalized to increase the flow of goods, to stimulate the spread of public services and to promote the creation of local employment opportunities.

1) Current Situation and Development Potential of Target Area

The target area of the plan encompasses 10 states, i.e. Tachira, Barinas, Apure, Cojedes, Guarico, Bolivar, Anzoategui, Monagas, Delta Amacuro and Amazonas.

The target area has a total area of some 300,000 km<sup>2</sup>, approximately 80% of the national land area, and the population density is extremely low. San Cristobal, Ciudad Bolivar and Guayana are relatively developed three key cities. The total population of the target area accounts for only some 12% of the national population and economic activities are generally dull except in the three above-mentioned cities.

In general, agriculture and livestock are the two main industries. However, the commercialization of their products is still immature. Forestry development is currently at the infant stage. However, the area has rich natural resources and the planning of many projects to effectively utilize these resources is in progress. For example, a large heavy oil deposit with an estimated exploitable volume of 270 billion barrels has been discovered in the Orinoco oil strip and a plan to exploit this largest world-class deposit is currently being formulated.

The eastern part of the target area has some 25 million ha of producible natural forests as well as more than 1 million ha of land where afforestation is possible. It is said that production and processing activities in this area will provide a sufficient supply of raw materials for the domestic textile industry.

Caroni, Caura and Orinoco Rivers which run through the target area account for 90% of the country's water resources and 95% of the country's electricity generation capacity.

In the upperstream of San Fernando in the western part of the target area lies some 1,200 ha of land where vegetables and tropical fruits can be cultivated. Moreover, stock raising (beef cattle) is conducted in some 50% of the area. There are as many as 450 or more fish species in this western part and some 40,000 tons of fish, including cultured fish, are currently landed each year.

The target area is also endowed with rich iron as well as non-ferrous metal resources, including 58 million tons of coal, 1 million tons of phosphate and more than 200 million

tons of bauxite for the production of aluminum, in the western part and more than 2,000 million tons of iron ore in the eastern part. These mineral resources are transported on Orinoco and Apure Rivers while a local refining industry has begun to emerge. The geographical location of the target area is of strategic importance as it borders the Atlantic and Brazil to the east and Andean countries to the west as shown in Fig. 2-3-1. This location increases the importance of the program.

## 2) Future Development Strategy

The components of the future development strategy for the target area are listed below.

- a) Maintenance of the optimal river transportation conditions of Orinoco and Apure Rivers to ensure the transportation of products and to enhance inter-regional linkage;
- b) Further promotion of agricultural and industrial production activities to stimulate stable population growth;
- c) Creation of an industrial zone at San Cristobal located at the westernmost point of the envisaged development axis, making the best use of its advantage of local coal production for steel making, to support steel-making and aluminum refining at Guayana and also development of phosphate fertilizer production at San Cristobal to facilitate agricultural production on both banks of Apure River;
- d) Fostering of such medium-size cities as Guasdusto, El Amparo, El Nula, La Victoria, Mentecal, Elorsa, Bruzual, Puerto Nutras, San Fernando, Puerto Paez, Caicara, Cabruta, Mapire and Barrancas, etc. to promote agriculture and agro-industries using river transportation and establishment of bridgeheads to develop surrounding undeveloped areas through the development of these cities;
- e) Promotion of forestry development as well as the development of other local industries, including tourism, using both land and river transportation systems;
- f) Planning of a clear development direction and policies at the initial stage of plan implementation to secure local consent to the plan; and
- g) Fostering of the machinery industry in the central area of the agricultural development zone at the intermediate stage of development.

## 3) Priority Local Industries for Development

The Orinoco-Apure Axis Development Plan must be implemented to ensure inter-synergy effects throughout its vast target area. For this purpose, the priority development of certain industries in specific areas as described below is essential.

- a) Agriculture should be promoted in such areas as Uribante, Aragua, Caparo Uribante, Apure Modules, Guanare Masparro, Biruaca Achaguas, Sul de Giarico, Orinoco Vegas, La Paragua, El Cristo and Delta.
  - b) Forestry should be promoted in Monagas and Anzonategui States. Cinaruco and Capanaparo are also target areas for forestry development from the short-term perspective.
  - c) The mining and industrial activities to be promoted should include phosphatic fertilizers, coal and metal machinery at San Cristobal and steel-making, aluminum refining and metal machinery at Guayana. The southern part of Anzonategui State should see the development of agro-industries and the paper industry.
- 4) Orinoco-Apure Axis River Transportation

Apart from the continuation of the existing bauxite transportation from Pijiguaos to Guayana, secured river transportation along the Orinoco-Apure axis should prove to be the vital key for the success of the development plan as this axis is essential for (i) the most likely transportation of coal and coke between Guasdualto and Guayana and (ii) the mass transportation of an estimated 40 million tons of local products resulting from the future development of the target area.

