

1.3 International Trade

The country's exports are still dominated by crude and petroleum products, which account for 75-85% of the total value of exports during the past decade, subject to variation of crude oil price. Imports were previously dominated by raw materials (nearly 50%) and the share of machinery and equipment (including transportation machinery) is recently on the rise. Exports of industrial products still represent a relatively small share. As the economy globalizes rapidly, the manufacturing sector is expected to establish international competitiveness in terms of quality and other aspects.

In addition, the country is expected to establish its own market strategy in preparation for the establishment of FTAA (Free Trade Area of Americas) in 2005, including export promotion policies and programs. The country's export and import trends for the past five years are summarized in Figure 1.3.1. made from materials of the MPC.

1.3.1 Export

BANCOEX evaluates the export environment for the non-oil factor on the basis of five factors, namely competitiveness, foreign exchange, subsidy, domestic demand, and market access, as shown in Table 1.3.1. This reflects a major paradigm shift from protection of industrial products in the domestic market to the increased efforts for cost reduction and quality improvement to be prepared for the free trade zone in the 1990s. Nevertheless, some negative factors remain unchanged.

TABLE 1.3.1 EVALUATION OF FACTORS FOR EXPORT PROMOTION OF NON-TRADITIONAL PRODUCTS

Environmental factors	83 - 86	86 - 89	90 - 93	94 - 95	96 - 98	99 - 00
Competitiveness			-	-	-	-
Foreign exchange	+ +	+	+		-	-
Subsidy	+	+ +				
Domestic demand	+ +	+	-	+		+ +
Market access	-	-	+	+	+	+

: Very poor, : Poor, : Regular, + : Good, + + : Very good

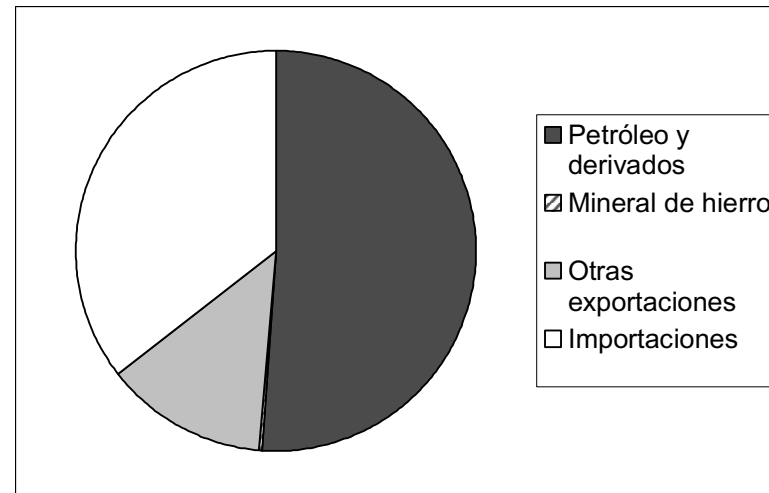
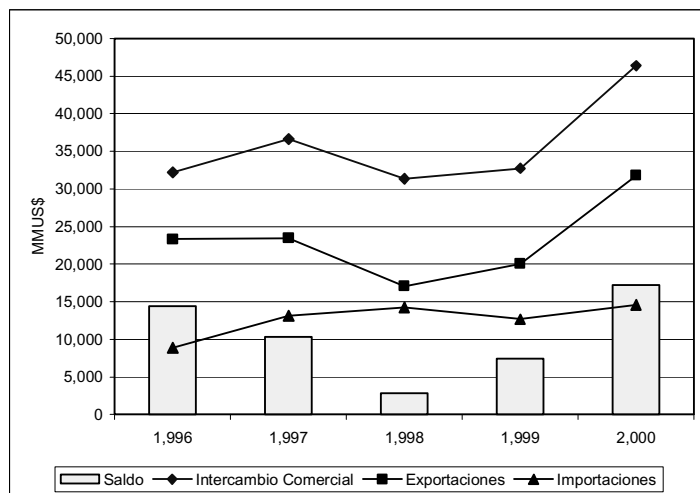
Questionnaire: BANCOEX

Source: BANCOEX

FIGURE 1.3.1 TRADE BALANCE IN VENEZUELA

(Millones de US\$)

	1,996	1,997	1,998	1,999	2,000	TOTAL	PART%	VAR 00/96
a Intercambio Comercial	32,221	36,645	31,346	32,749	46,392	179,354	100.0%	10%
b Exportaciones	23,319	23,486	17,097	20,080	31,811	115,793	64.6%	8%
c Petróleo y derivados	18,522	17,939	11,833	16,215	26,918	91,427	51.0%	10%
d Mineral de hierro	168	157	160	97	101	683	0.4%	-12%
e Otras exportaciones	4,629	5,390	5,103	3,768	4,792	23,682	20.5%	1%
f Importaciones	8,902	13,159	14,250	12,669	14,581	63,561	35.4%	13%
g Saldo	14,416	10,327	2,847	7,411	17,230	52,232		



Source

Petróleo y derivados: **Dirección de Economía de Hidrocarburos, MEM**
 Mineral de hierro: **Gerencia de Planificación y Economía Minera, MEM**
 Otras exportaciones: **OCEI**

Note:

Intercambio Comercial $a=b+f$
 Exportaciones totales $b=c+d+e$
 Saldo $g=b-f$
 Var 00/96: Variación promedio interanual entre 1996 y el 2000

The following table compares the yearly changes in the value of non-traditional exports, its growth rate, GDP and foreign exchange rate between 1996 and 2000.

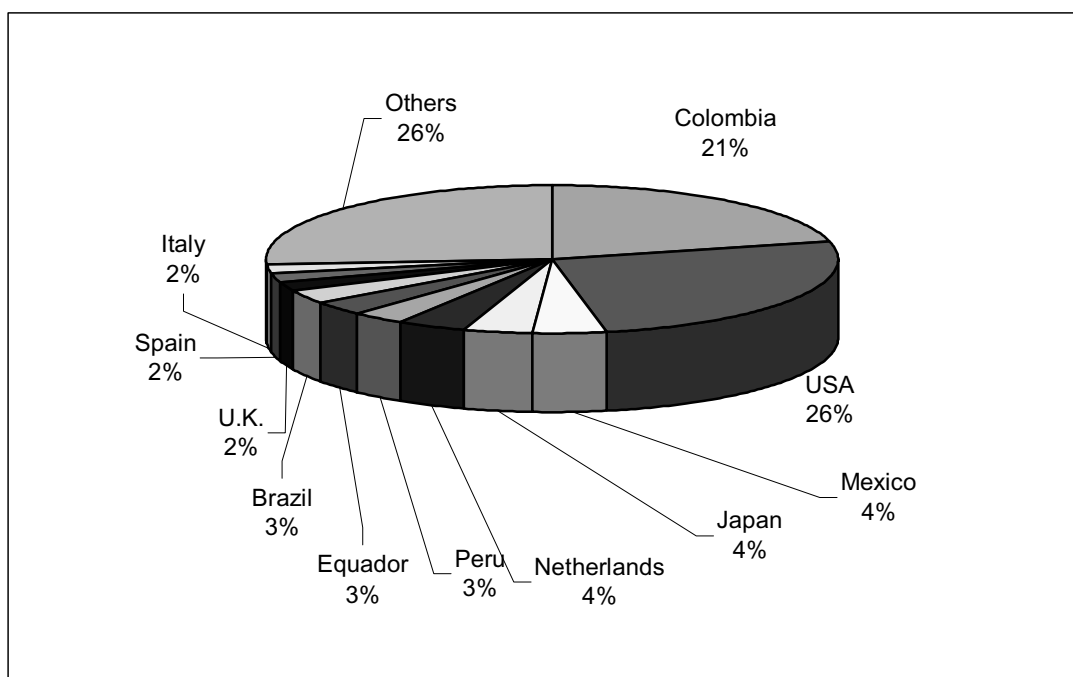
TABLE 1.3.2 EXPORT TRENDS OF NON-TRADITIONAL GOODS, AND CHANGES IN GDP GROWTH RATE AND FOREIGN EXCHANGE RATE

	1996	1997	1998	1999	2000
Export (Net MMUSD)	23,319	23,486	17,097	20,080	31,811
Growth rate (%)	-	0.7	27.2	17.4	58.4
GDP growth rate (%)	0.2	6.4	0.2	-6.1	3,583.2
Foreign exchange rate (Bs/US\$)	476.5	504.3	564.3	648.3	699.8

Source: MPC

Major export items among non-traditional products (non-oil sector) are non-ferrous metals and metal products, followed by chemical products, transportation equipment, plastics, food, farm and dairy products, and machinery and equipment. Figure 1.3.2 tabulates export values in the first quarter in 2001, their growth rates over a year ago, and percentage composition, on the basis of SENIAT's latest data. Exports of manufactured goods grew by 15.4% over the previous year, and general non-ferrous metals and metal products account for 32% of the total, followed by mineral products 22% and chemical products 17%. The country's largest export market is the U.S., which continues to account for majority of total exports, including crude and petroleum products and non-traditional products account for 26% of the total exports. The largest export market of non-traditional products is the U.S., followed by Colombia accounting for 21% of the total exports. In addition, the country's exports to Mexico and Spain grew at the highest annual average growth rate of 18% for the past five years, followed by Japan, 11%, Italy, 5% and the U.S., 4%. On the contrary, its exports to the U.K., the Netherlands and Colombia showed negative double-digit growth rates.

FIGURE1.3.2 VENEZUELA'S NON-TRADITIONAL EXPORT MARKETS

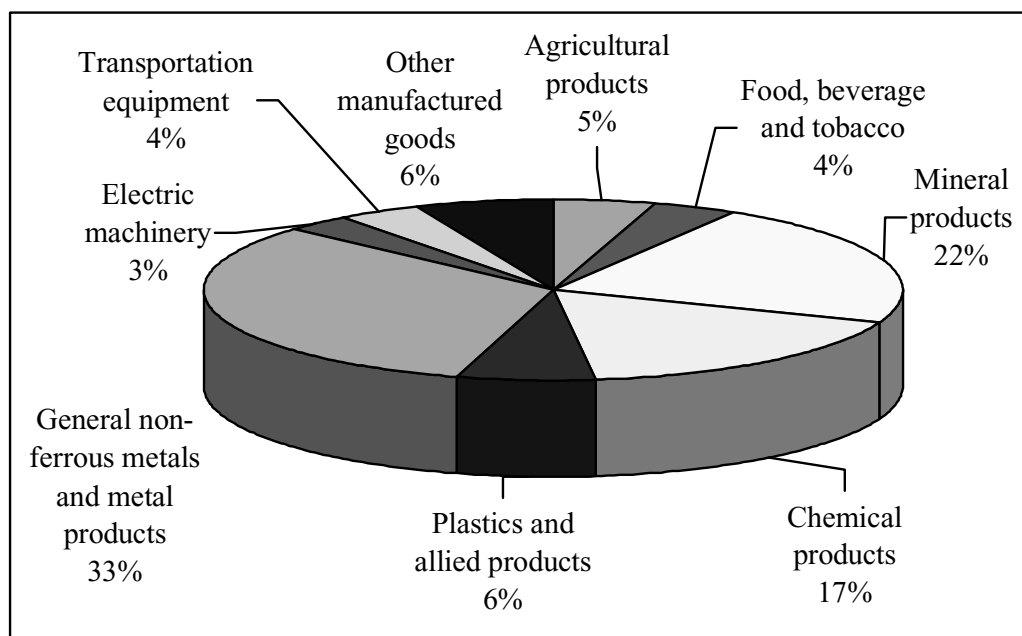


(Unidad: Millón de dólares)

Países	1996	1997	1998	1999	2000	Total 96/00	Part%	Var% 00/96
TOTAL	4,629	5,390	5,103	3,768	4,792	23,682	100%	1%
USA	1,189	1,190	1,140	1,254	1,396	6,169	26%	4%
Colombia	1,152	1,236	1,290	671	742	5,090	21%	-10%
Mexico	139	185	204	172	274	974	4%	18%
Japan	145	220	184	201	220	970	4%	11%
Netherlands	289	193	134	85	143	844	4%	-16%
Peru	148	178	141	138	139	744	3%	-2%
Ecuador	142	183	172	80	143	719	3%	0%
Brazil	140	142	138	89	123	632	3%	-3%
UK	143	34	293	47	43	559	2%	-26%
Spain	68	80	105	113	134	500	2%	18%
Italy	85	82	81	88	103	439	2%	5%

Source: Instituto Nacional de Estadística (INE), Programa de Comercio Exterior

FIGURE 1.3.3 NON-OIL PRODUCT EXPORTS (COMPARISON BETWEEN THE FIRST QUARTER OF 2000 AND THAT OF 2001)



(US\$ million)					
Manufactured Products	2000 MINUS\$ 3	Part % 2	2001 MINUS\$ 3	Part % 4	Var % 01/00 3/1
Total	2,238	100.0	2,582	100.0	15.4
Agricultural products	151	6.7	119	4.6	-21.2
Food, beverage and tobacco	107	4.8	104	4.0	-2.8
Mineral products	277	12.4	573	22.2	106.9
Chemical products	293	13.1	447	17.3	52.6
Plastics and allied products	182	8.1	166	6.4	-8.8
General non-ferrous metals and metal products	913	40.8	828	32.1	-9.3
Electric machinery	65	2.9	77	3.0	18.5
Transportation equipment	100	4.5	106	4.1	6.0
Other manufactured goods	150	6.7	162	6.3	8.0

(1) In 2000, it was decided to include crude oil and petroleum products exported by the private sector in mineral products.

(2) These included products, as well as tools, made from iron, copper, nickel, aluminum, lead and zinc.

Note: Figures in 2000-2001 are tentative.

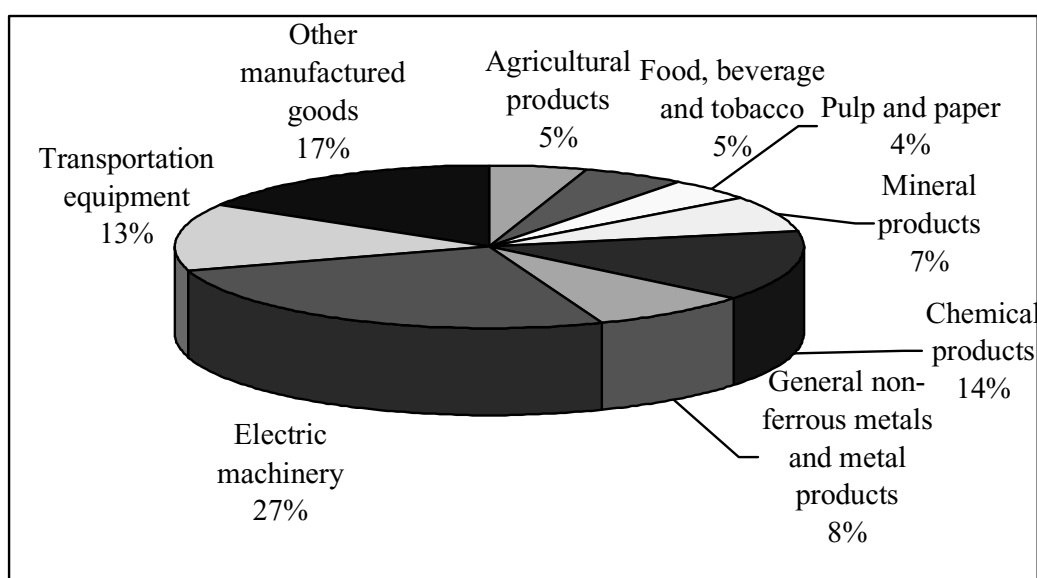
1/: Grade oil and petroleum products exported by the public sector are not included.

Source: SENIAT/INE

1.3.2 Import

With regard to imports in Venezuela, consumer products including electronics, transportation equipment and chemical products account for more than 50% of the total imports. In comparison between the first quarter of 2000 and that of 2001 as shown in Figure 1.3.4, mineral products, transportation equipment, and food, beverage and tobacco grew largely, accounting for 15.5% of the total imports.

FIGURE 1.3.4 VENEZUELA'S IMPORTS (FIRST QUARTER OF 2000 AND THAT OF 2001)

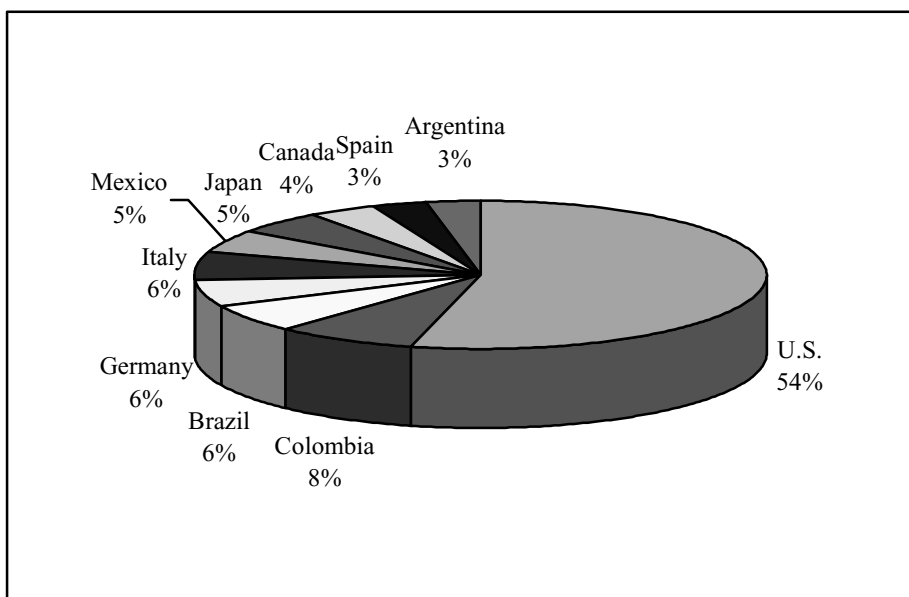


Manufactured Products	2000 MINUS\$ 3	Part % 2	2001 MINUS\$ 3	Part % 4	Var % 01/00 3/1
Total	4,278	100.0	4,491	100.0	15.5
Agricultural products	253	5.9	243	4.9	-4.0
Food, beverage and tobacco	212	5.0	270	5.5	27.4
Pulp and paper	191	4.5	210	4.3	9.9
Mineral products	175	4.1	366	7.4	109.1
Chemical products	555	13.0	687	13.9	23.8
General non-ferrous metals and metal products	331	7.7	408	8.3	23.3
Electric machinery	1,471	34.4	1,292	26.1	-12.2
Transportation equipment	401	9.4	662	13.4	65.1
Other manufactured goods	689	16.1	803	16.3	16.5

Note: Figures are tentative. Source: INE

With regard to Venezuela's imports from different countries for the past five years, the value of imports from the U.S. has been the largest, accounting for 42% of the total, followed by Colombia, 7 %, and Brazil, Germany, Italy, and Japan, 4% respectively. Annual average growth rate of Venezuela's imports for the past five years has been 13%. Its annual growth rates of imports from Brazil and Spain have averaged 19% respectively, followed by Italy, 18%, Mexico, 15%, and Japan, 14%.

FIGURE 1.3.5 VENEZUELA'S IMPORTS BY COUNTRIES



(US\$ million)

	1996	1997	1998	1999	2000	Total 96/00	Part %	Ave. of growth rate %
TOTAL	8,902	13,159	14,250	12,669	14,581	63,561	100%	13'
U.S.	3,975	5,785	6,291	5,204	5,485	26,740	42%	8%
Colombia	682	835	797	737	1,083	4,133	7%	12%
Brazil	362	619	618	456	727	2,782	4%	19%
Germany	401	528	687	309	522	2,746	4%	7%
Italy	331	458	558	733	641	2,721	4%	18%
Mexico	357	515	609	495	627	2,603	4%	15%
Japan	300	576	633	439	500	2,448	4%	14%
Canada	295	399	275	373	406	1,744	3%	8%
Spain	185	240	322	405	365	1,517	2%	19%
Argentina	292	305	332	225	227	1,380	2%	-6%

Source: INE

1.3.3 Trade Agreements

In the Americas, the move to form a free trade zone, after a stationary period in the 1980s, was accelerated since the early 1990s. Today, various regional economic zones exist, including NAFTA in North America, MERCOSUR in South America, and CAN, CACM and CARICOM in between. Venezuela participates in CAN, forms Group-3 (G-3) with Mexico and Colombia, and has entered a free trade agreement (FTA) with Chile.

In 2000, the country's exports of non-oil products grew by 27%, compared with the previous year due to recoveries of two major markets other than the U.S., namely Colombia (CAN) and Brazil (MERCOSUR). Imports also surged 15% due to some signs of economic recovery, including increased production of family-size cars due to the revived market. In the meantime, South America is moving ahead of FTAA toward a continental free trade zone, as the summit meeting of South American nations held in early September 2000 (Brasilia Summit) resolved the integration of MERCOSUR and CAN, targeted in 2002. In particular, Venezuela and Brazil expressed a clear intent to expand their mutual trade and promote close cooperation in the areas of energy and infrastructure development, as evidenced by President Chavez of Venezuela who actively approached President Caldozo of Brazil to discuss these matters. Since then, Venezuela has been exploring closer ties with its southern neighbor, which is positioned as a destination of its decentralization and rural development plan.

Furthermore, FTAA has also moved one step further to reality. The difference between the U.S. as the leader of NAFTA and Brazil as the leader of MERCOSUR in relation to the "comprehensive agreement based on a fast track method" was resolved in the declaration of ministries at the FTT's Sixth Meeting of Trade Ministers of the Americas, which was held in Buenos Aires, Argentina, on April 7, 2001. The fast track method was confirmed and a proposal to complete the negotiation by January 2005 and effectuate the agreement by December 2005 was made. The proposal was endorsed at the American Summit held in Quebec, on April 21-22, 2001. It was agreed to start the FTAA tariff negotiation by May 15, 2002. More importantly, the April 7 declaration gives consideration to regional disparity that must face FTAA and sets forth the following actions:

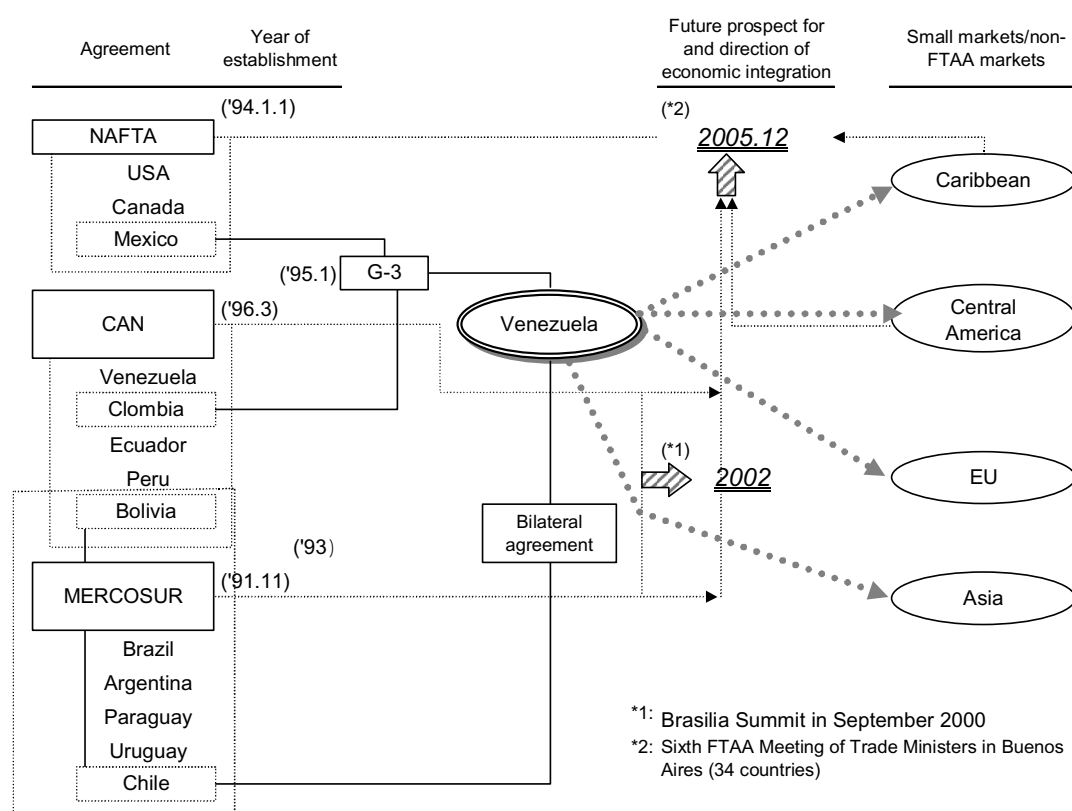
- a. To create opportunity for full participation of small economies in the FTAA process;
- b. To recognize the need for special provision to address the needs for countries with different development levels and varying economy sizes, including the special needs of small economies, together with the need for technical assistance; and
- c. To continue negotiation for special treatment requested by small economies.

In this conjunction, an important strategy for Venezuela is to align development and export promotion strategies for SMEs with the future moves in the region by selecting small economies in Central America and the Caribbean as the target markets for SME exports. More precisely, it has to be confirmed that Venezuela will be able to expand its exports to these markets by taking advantage of geographic proximity and a close relationship with AEC, including preferential treatment of these countries in crude oil supply under the San Jose Agreement.

In the future, research and study should be carried out to coordinate indirect participation of SMEs and identify opportunities for their direct participation in the economic operation agreements joined by Venezuela.

Economic cooperation agreements within the Americas, which involve Venezuela, are summarized as follows.

FIGURE 1.3.6 ECONOMIC COOPERATION AGREEMENTS AND RELATIONS INVOLVING VENEZUELA



Fuente: Misión de JICA

Venezuela is currently under agreements with the concerned countries and regions regarding trade and investment and those are summarized in Table 1.3.3.

TABLE 1.3.3 AGREEMENT FOR TRADE AND INVESTMENT

Name of country	Date of signature/official gazette	Contents of agreements
I. Bilateral agreements on economy and trade		
El Salvador	10.03.86 Official gazette No. 3.839, 09.07.86 Revision (Official gazette No. 34.675, 14.03.91) Revision (Official gazette No. 4.475, 09.10.92)	Preferential tariff
Costa Rica	21.03.86 Official gazette No. 3.899, 09.07.86	Preferential tariff
Honduras	20.02.86 Official gazette No. 33.469, 14.05.86 Revision (Official gazette No. 4.475, 09.10.92)	Preferential tariff
Nicaragua	15.08.86 Official gazette No. 4.390, 26.02.92 Revision (Official gazette No. 4.475, 09.12.92)	Preferential tariff
Guatemala	30.10.85 Official gazette No. 33.406, 06.02.86 Revision (Official gazette No. 4.475, 09.10.92)	Preferential tariff
Chile	Official gazette No. 4.585, 01.06.94	Economic complement
Cuba	14.11.95 Official gazette No. 5112, 26.11.96	Preferential tariff
Trinidad & Tobago	14.08.89 Official gazette No. 34.295, 31.08.89 Revision (Official gazette No. 4536, 09.03.93)	Preferential tariff
Guyana	27.10.90 Official gazette No. 4.331, 22.10.91	Preferential tariff
Paraguay	Official gazette No. 3.560, 03.06.85	Preferential tariff
Uruguay	Decree No. 1.640 & 1.641, 15.09.82	Preferential tariff
Peru	Official gazette No. 36, 425, 21.03.94 Addition (Official gazette No. 4.854, 08.02.95) Addition (Official gazette No. 36.148, 18.02.97)	Trade agreement
II. Regional agreements		
CARICOM	13.10.92 Official gazette No. 4.508, 30.12.92	Trade and investment (Preferential tariff)
CAN-Argentina	Official gazette No. 5.535, 05.067.01	Economic complement (Preferential tariff)

CAN-Brazil	Official gazette No. 5.404, 24.11.99	Economic complement (Preferential tariff)
TLC-G3	Official gazette No. 4.833, 29.12.94	Free trade
CAN	26.04.69 Official gazette No. 3033, 18.10.82	Common tariff
SGP-Andino	Official gazette No. 4.725, 23.05.94	SGP (Sistema Generalizado de Preferencias)
<CAN-EU>		Dissemination of tariff system
III. Agreements with other countries and region except Latin American countries		
Bulgaria	Official gazette No. 34.806, 04.11.88	Trade agreement
Rumania	Official gazette No. 36.023, 16.08.99	Trade and economic cooperation
Yugoslavia	Official gazette No. 34.015, 26.07.88	Trade agreement
Russia	Official gazette No. 33.216, 06.05.85	Trade agreement
Algeria	Official gazette No. 33.262, 11.07.85	Trade agreement
Senegal	Official gazette No. 31.376, 06.12.77	Economic cooperation
China	Official gazette No. 33.370, 12.12.85	Trade cooperation and economic and technical cooperation
Hungary	Official gazette No. 33.968, 18.05.88	Trade agreement
Czecho	Official gazette No.5.063, 23.04.96	Trade agreement
Saudi Arabia	-	Comprehensive agreement on economy, technology and finance
Israel	-	Trade agreement
Korea	-	Promotion of trade
Malaysia	Official gazette No. 4.365m 03.08.90/11.91	Economic, trade and technical cooperation
IV. Agreements on investment promotion		
Holland	22.10.91 Official gazette No. 35.269, 06.08.93	Protection and promotion of investment
Argentina	16.11.91 Official gazette No. 4.801, 01.11.94	Protection and promotion of investment
Swiss	18.11.93 Official gazette No. 4.801, 01.11.94	Protection and promotion of investment
Chile	02.04.93 Official gazette No. 4.830, 29.12.94	Protection and promotion of investment
Barbados	15.07.94 Official gazette No. 4.835, 08.02.95	Protection and promotion of investment
Portugal	17.06.94 Official gazette No. 4.846, 26.01.95	Protection and promotion of investment
Czecho	27.04.95 Official gazette No. 36, 002, 17.07.95	Protection and promotion of investment

British	15.03.95 Official gazette No. 36, 010, 30.07.96	Protection and promotion of investment
Denmark	28.11.94 Official gazette No. 5.080, 23.07.96	Protection and promotion of investment
Lithuania	24.04.95 Official gazette No. 5.080, 2307.96	Protection and promotion of investment
Peru	12.01.96 Official gazette No. 36.266, 11.08.97	Protection and promotion of investment
Spain	02.11.95 Official gazette No. 36.304, 29.09.97	Protection and promotion of investment
Paraguay	05.09.96 Official gazette No. 35.281, 01.09.97	Protection and promotion of investment
Sweden	25.11.96 Official gazette No. 5.192, 18.12.97	Protection and promotion of investment
Canada	01.07.96 Official gazette No. 5.207, 20.01.98	Protection and promotion of investment
Germany	14.05.96 Official gazette No. 36.383, 28.01.98	Protection and promotion of investment
Costa Rica	17.03.97 Official gazette No. 36.383, 28.01.98	Protection and promotion of investment

Source: CEPAL, "APEC and NAFTA," Yuhikaku, 1995

TABLE 1.3.4 ALADI'S PREFERENTIAL TARIFF SYSTEM

		Countries receiving preferential treatment			
		A	B	C	D
Countries granting preferential treatment	A	20	12	8	24
	B	28	20	12	34
	C	40	28	20	48

Note:

A – Less developed countries (Bolivia, Ecuador and Paraguay)

B – Countries in the intermediate development stage (Colombia, Chile, Peru, Uruguay, Venezuela)

C – Relatively developed countries (Argentina, Brazil, Mexico)

D – Less developed, inland countries (Bolivia and Paraguay)

Source: CEPAL, "APEC and NAFTA," Yuhikaku, 1995

For one example, Venezuela has been boosting merchandise trade with Chile, her bilateral FTA partner, and the value of trade doubled between 1992 and 1998.

(US\$ million)								
Trade partner	1992	1993	1994	1995	1996	1997	1998	1999
Venezuela/Chile (Agreed in April 1993)	206	216	213	362	454	431	413	406

Source: IDB, December 2000

At present, Venezuela is making active efforts to participate in MERCOSUR. It is now required to diversify its products and improve their competitiveness by promoting manufacturing industries on the basis of the strategy focusing on the effective use of natural resources as a strategy of mutual complement. Finally, impacts of economic liberalization in the Americas on merchandise trade are measured by exports and imports between 1990 and 1999 as percentage of GDP in each economic region.

TABLE 1.3.5 RECENT TRENDS IN EXPORTS AND IMPORTS OF MAJOR ECONOMIC REGIONS IN THE AMERICAN CONTINENT (1990 – 1999)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Imports/GDP										
W.Hemisphere	9.9	9.5	10.2	10.5	11.2	11.7	11.9	12.4	12.5	13.3
NAFTA	10.2	9.8	9.3	9.7	9.9	11.0	11.2	11.3	11.9	11.9
LAC	10.1	8.2	10.2	11.3	10.8	12.0	12.3	12.5	14.9	19.7
LAC excepto México	25.5	25.0	25.8	26.0	28.6	52.8	48.0	46.9	43.8	31.1
Mercosur	4.7	4.2	6.3	6.9	7.5	7.6	7.7	8.7	8.6	9.6
Comunidad Andina	12.5	13.7	16.4	16.9	15.3	15.8	15.2	15.8	15.4	12.8
Comunidad Caribeña	36.3	40.2	41.3	35.9	40.5	45.3	39.5	45.5	n.a.	n.a.
CACM	24.2	24.6	23.6	26.6	25.8	24.6	27.6	25.4	27.7	33.9
Exports/GDP										
W.Hemisphere	8.5	8.3	8.5	8.5	9.4	10.3	10.5	10.8	10.6	10.6
NAFTA	8.1	8.2	8.3	8.2	9.2	10.3	10.5	10.9	10.3	10.3
LAC	12.3	9.9	11.3	11.2	11.6	13.2	13.8	14.0	13.4	17.9
LAC excepto México	11.3	8.8	10.8	10.5	10.5	10.2	10.4	10.6	9.5	13.3
Mercosur	7.5	5.7	7.8	7.8	7.5	7.1	7.0	7.3	7.3	8.9
Comunidad Andina	23.0	18.9	17.1	16.9	17.1	15.8	18.8	17.2	13.5	15.7
Comunidad Caribeña	30.5	28.0	27.4	21.9	32.6	32.0	27.9	28.5	16.9	n.a.
CACM	15.9	16.1	15.5	14.7	15.0	16.5	17.7	17.0	19.8	20.9

Source: IDB Integration and Regional Programs Department

Notably, LAC's imports as percentage of GDP soared from 10.1% in 1990 to 19.7% in 1999, whereas Andean Community showed no significant increase. On the other hand, LAC's exports grew from 12.3% to 17.9% during the same period, and those of Andean Community dropped from 23.0% to 15.7%. As for share of each economic region in total exports and imports in Western Hemisphere during the same period, LAN as a whole gained share in exports (Table 1.3.6) but MERCOSUR and CAN lost share due to the Asian economic crisis. As for imports, LAC's share reached its peak at 22% in 1997 and dropped to 19.1% in 1999. MERCOSUR remained at 5.2% and CAN 2.3%. Comparing the average growth rates of intra- and inter-regional trade by economic regions, MERCOSUR recorded the highest growth of 19% in intra-regional trade, followed by CAN 18% and CACM 15%. On the other hand, CACM registered the highest growth in inter-regional trade, 12%, followed by MERCOSUR 9%, NAFTA 7%, and CAN and CARICOM 6.5%.

TABLE 1.3.6 EXPORTS AND IMPORTS OF ECONOMIC REGIONS AS SHARE OF WESTERN HEMISPHERE TRADE

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Exportación										
NAFTA	84.9	85.9	85.8	85.9	86.0	85.9	85.6	85.9	87.1	88.1
EE.UU.	58.7	60.5	60.3	59.2	59.7	58.8	58.1	58.4	58.7	57.2
LAC	21.5	20.6	20.8	21.3	21.3	22.2	23.3	23.5	23.0	23.2
LAC excepto México	15.1	14.1	14.2	14.1	14.0	14.1	14.4	14.1	12.9	11.9
Mercosur	7.3	7.0	7.2	7.4	7.2	7.1	7.0	7.0	7.0	6.1
Comunidad Andina	5.0	4.4	4.0	4.0	4.0	3.8	4.3	4.0	3.3	3.6
Comunidad Caribeña	0.7	0.6	0.6	0.4	0.6	0.6	0.5	0.5	0.3	n.a.
CACM	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.9	0.9
Importación										
NAFTA	91.0	89.6	88.7	88.4	88.3	86.6	86.8	86.1	87.1	90.2
EE.UU.	69.4	67.1	66.5	66.7	66.3	65.7	65.6	64.2	64.0	66.9
LAC	15.0	17.3	18.8	18.8	19.4	19.8	20.4	22.0	21.7	19.1
LAC excepto México	9.0	10.4	11.3	11.6	11.7	13.4	13.2	13.9	12.9	9.8
Mercosur	3.9	4.5	4.9	5.3	6.0	6.7	6.9	7.3	6.7	5.2
Comunidad Andina	2.3	2.8	3.2	3.2	3.0	3.4	3.0	3.2	3.1	2.3
Comunidad Caribeña	0.7	0.8	0.7	0.6	0.6	0.7	0.6	0.7	0.5	n.a.
CACM	0.9	0.9	1.1	1.1	1.0	1.1	1.0	1.1	1.3	1.2

Source: IDB Integration and Regional Programs Department

Andean Community

In the 1990s, five countries in CAN (Venezuela, Colombia, Ecuador, Peru and Bolivia) gained consensus on reforms toward free trade. Building on the revision of the Cartagena agreement in the form of Quito Protocol in 1988, they agreed to establish a free trade zone consisting of four countries (excluding Peru) in 1993, form a partial customs union consisting of Venezuela, Colombia and Ecuador in 1992, extend the membership to all the five countries in 1997, and integrate them into the Andean Free Trade Zone in 2005.

TABLE 1.3.7 TRAFFIC RATES OF CAN COUNTRIES

	Year	Average	Standard deviation	Minimum	Maximum
Venezuela	1999	12.0	6.1	0	35
Colombia	1999	11.6	6.3	0	35
Ecuador	1999	11.5	7.8	0	99
Peru	1999	13.7	4.8	12	68
Bolivia	1999	9.7	1.3	0	10

Source: IDB, December 2000

Note: (1) The unweighted average Most Favored Nation applied tariff.

(2) The standard deviation measures the “absolute” dispersion of the distribution of the Most Favored Nation applied tariff rates.

**TABLE 1.3.8 INTRA-REGIONAL TRADE IN CAN
(AVERAGE OF 1995 – 1999 DATA)**

(Thousand dollars)

Export to Export from	Venezuela	Colombia	Ecuador	Perú	Bolivia	Total
Venezuela	-	1246767	211819	319045	5004	1782635
Colombia	951962	-	455724	485415	36999	1930090
Ecuador	55033	281873	-	140870	5440	483216
Peru	121140	124191	75058	-	97740	418129
Bolivia	7452	95419	20588	129038	-	252497
Total	1135578	1748250	763188	1074368	145183	4866567

Source: IDB, December 2000

Exports of manufactured goods

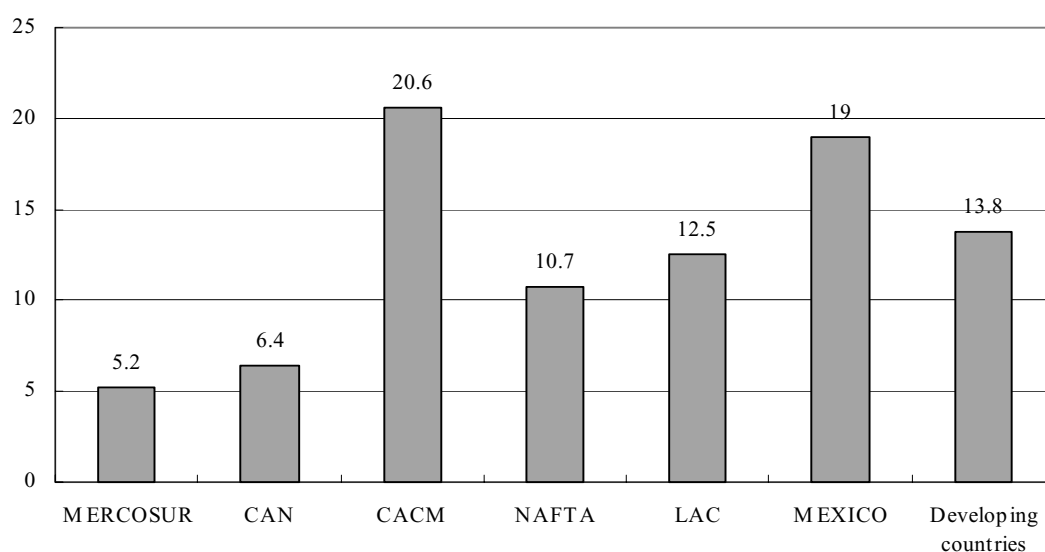
For sustainable growth of the manufacturing sector and promotion of industrial exports, it is important to reinforce the industrial foundation, raise value added, and improve competitiveness. At present, however, manufactured goods account for a very small percentage of total exports in the CAN region, as shown in the table below, which remained more or less unchanged in the recent decade. This indicates most CAN countries rely on exports of primary products, which are subject to international market prices, and fail to foster manufacturing industries effectively.

TABLE 1.3.9 CHANGES IN PERCENTAGE SHARE OF MANUFACTURED GOODS IN TOTAL EXPORTS (1989 – 1999)

Economic region	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
MERCOSUR	48.5	44.5	46.7	48.5	51.3	41.3	39.6	38.3	40.2	41.3	40.7
CAN	14.6	13.5	15.5	16.0	19.1	15.6	16.7	13.9	14.8	18.8	15.5
CACM	24.0	23.3	24.5	26.4	28.0	27.1	24.8	27.6	27.0	43.1	52.0
NAFTA	66.7	69.7	71.2	72.4	73.9	73.4	72.7	73.3	75.6	77.8	n.a.
LAC	43.5	40.3	44.0	46.5	50.3	45.7	45.5	45.3	47.8	54.8	56.7
LAC excepto México	34.5	30.4	30.4	35.1	38.0	30.3	29.1	26.4	27.8	32.4	31.2

Source: IDB, December 2000

FIGURE 1.3.7 EXPORTS OF MANUFACTURED GOODS BY ECONOMIC REGIONS (AS PERCENTAGE OF TOTAL EXPORTS) (AVERAGE OF 1990 – 1999)



Source: IDB

Comparing CAN, CACM and Mexico, exports of manufactured goods from CACM and Mexico grew rapidly, while those from CAN showed moderate growth. Clearly, CACM enjoys benefits from preferential tariff treatment by the U.S., and Mexico benefits from NAFTA. In fact, CAN countries (Bolivia, Colombia, Ecuador and Peru) and the Caribbean countries receive preferential treatment from the U.S. under the ATPA program, but they do not obviously take advantage of the privilege.

1.3.4 Trade policy

The country's trade policy under the current President Chavez administration has the following objectives.

(1) Political and economic framework for successful growth of Venezuela in the world economy

1) Strategy

To reinforce the effective vehicles related to promotion of non-traditional trade, specially to leverage the existing skills in the field of energy sources and the means to use them.

- a. To start trade negotiations with different countries and economic blocs in pursuit of more favorable commercial opportunities, which should be expanded to countries and areas with which Venezuela has not have close relations so as to unleash economic dynamism.
- b. To evaluate advantages of trade agreements signed and entered by Venezuela in order to complete and pursue the national objective of production promotion.
- c. To support the establishment of new international alliance strategy and diversification of commerce, followed by verification their effects. The strategy should address the important of the Asia/Pacific area and emphasize alliances with India, Malaysia and China in the context of WTO.
- d. To enable the domestic market to expand into the Andean and Caribbean markets in the context of open and supplemental relations. It is important to check the market environment in the Caribbean and Andean regions.
- e. To determine strategy to establish the relations with MERCOSUR, particularly Brazil, in order to study the objective to create a free trade zone. Note that negotiation with Brazil on expansion of commercial relations should include the issues related to energy, which is of mutual interest for both countries.
- f. To define special concerns of Venezuela and incorporate them into agenda for multilateral and western hemisphere negotiations. In particular, it is desirable to incorporate them into the framework for negotiations at FTAA and WTO.
- g. To upgrade skills of bureaucrats who are engaged in the above negotiation process, and to define the country's arguments and propositions on important negotiation scenarios. It is important for both the government and private sectors to develop a proposal in the context of international economic relations when they implement the above strategies.

(2) Protection of commercial interest of Venezuela in domestic and international markets

1) Strategy

- a. To check common tariff rates of CAN. At present, four tariff rates (5%, 10%, 15% and 20%) are established according to product grade, as designated under Decree 989 dated December 20, 1995.
- b. To allocate agricultural items in order to allow consideration of Venezuela's proposals at WTO. Auxiliary tariff standards for products are established in List L36 under gazette No.36.831 dated November 17, 1999, as a result of the agriculture negotiation at the Uruguay round.
- c. To correct corruptive practice in customs clearance procedures, while improving organizational accountability.

(3) Promotion of export diversification and development

1) Strategy

- a. To raise value added in the domestic production process and reinforce competitiveness of goods and services for export diversification and development. As international trade rapidly changes and develops, the markets are liberalized and globalizing. Also, international trade practices??? are changing and competition is intensifying.
- b. To reinforce financial support for export; to provide financial support for non-traditional product exports via commercial banks; to provide policy risk mitigation and contingency measures for exporters (insurance, etc.); to implement export promotion, advice and information service; to provide credit line for exporters; to provide financial assistance investment in exports and infusion of working capital by BANCOEX for export service; to provide credit line for purchasers (importers) in the country; to support the issuance of letter of credit; and BANCOEX's insurance service for exporters via La Mundial, C.a. Venezolana de Seguros De Credito.
- c. To provide resources and means to promote exports of non-traditional products in expert markets. MPC will establish Fond Fideicomiso de Promocion for export promotion purposes, and actual export promotion activities will be carried out by Contrato de Fideicomiso.
- d. To apply free trade zone standards and special tariffs to industrial development projects that involve the development of hubs for export promotion. MPC is expected to work jointly with the Ministry of Finance, SENIAT and related ministries

to devise policies and programs to provide export assistance measures and adjust tariff standards. As for the free trade zone, export incentives and measures to attract foreign investment should be developed. As part of policy of the Ministry of Production and Trade (MPC), the following actions appears to be mandated:

- Review and amendment of the legal system
- Establishment of conditions to approve the free trade zone
- Evaluation of the WTO agreement related to subsidy and compensation
- Evaluation on payment of direct tax

(4) Others

a. To modernize the customs office under concerted efforts of related ministries and agencies; and to ensure, promote and assist reforms of customs management, including human resource development, and automation of service including service providers and forwarders. Venezuela has committed to development and improvement of the following business facilities related to customs service within the framework of FTAA:

- Temporary import and transit approval
- Streamlining of procedures for shipment of low-cost products
- Implementation of the EDI system and configuration of general data
- Establishment of operation codes for customs officers

b. To promote upgrading of statistical information systems related to trade and investment operated by various ministries. It is important to perform timely analysis of statistical data on foreign trade, thereby to allow effective linkage to policymaking processes.

1.3.5 Infrastructure related to foreign trade

In a questionnaire survey of companies by BANCOEX in CAN, responses of Venezuelan companies related to the future expectation for CAN and its market are summarized as follows:

- 94% feels that CAN brings benefits to each country and expand business opportunities.
- 88% expects business expansion within CAN in the next three years and 71% expansion of the domestic market.
- The percentage of “high expectation” for increased exports form CAN to other countries is 40% on the CAN average, compared to 17% of Venezuelan companies. 50% of Venezuelan companies have “moderate expectation” and 17% “do not have any expectation.”

Nevertheless, most respondents share recognition on the economic effects of CAN on the region and each country, including market expansion to third party countries and growth of exports and sales.

Therefore, further study and analyses on this subject are to be contemplated.

(1) Current state of transportation hubs for physical distribution in South America

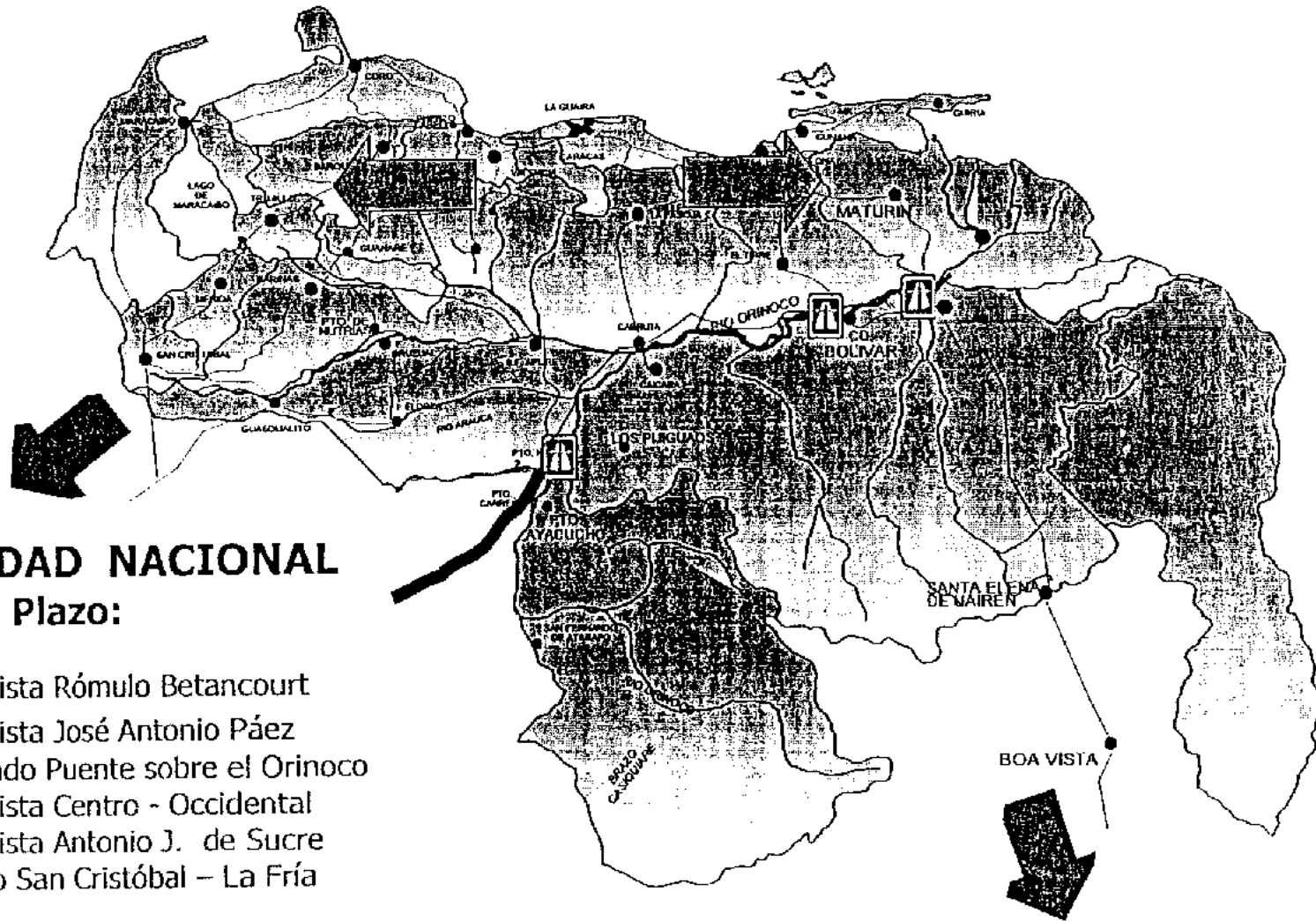
Figure1.3.8 shows international physical distribution routes that are widely recognized and designated by IDB for infrastructure development. Among them, two physical distribution routes are important for Venezuela and its trade, namely the Venezuela-Colombia route and the Atlantic route. In addition, infrastructure development plans are proposed or implemented in the countries within CAN and MERCOSUR, and sub-regional infrastructure projects are planned to establish or upgrade physical distribution routes between neighboring countries.

FIGURE 1.3.8 PRINCIPAL CURRENT HUBS IN TERMS OF THE VOLUME OF FLOWS IN SOUTH AMERICA



Source: IDB, Dec., 2000

FIGURE 1.3.9 INTEGRATED INLAND INFRASTRUCTURE DEVELOPMENT PROJECTS



VIALIDAD NACIONAL a Corto Plazo:

- Autopista Rómulo Betancourt
- Autopista José Antonio Páez
- Segundo Puente sobre el Orinoco
- Autopista Centro - Occidental
- Autopista Antonio J. de Sucre
- Tramo San Cristóbal - La Fría

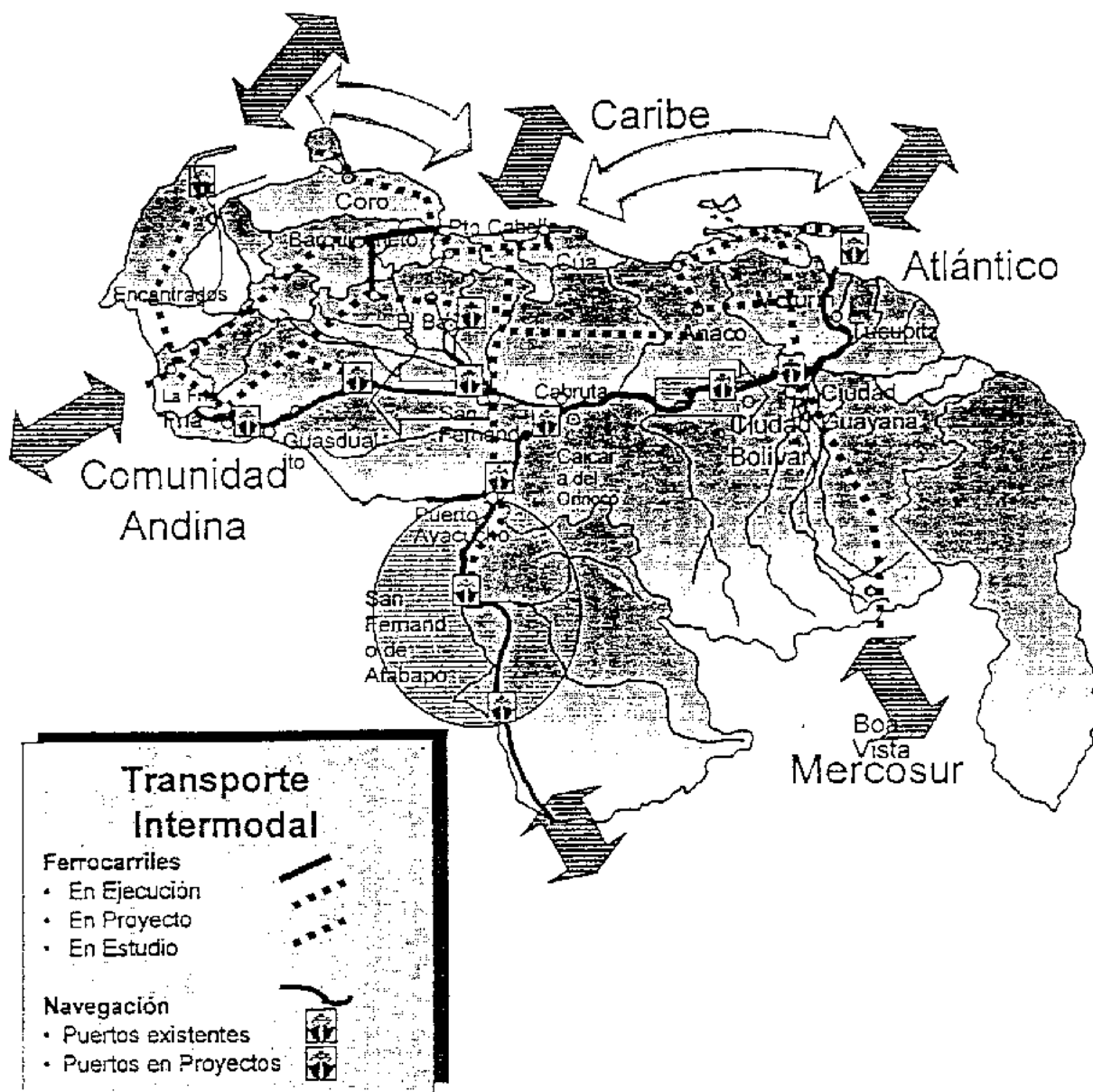
Source : Ministry of Infrastructure

(2) Infrastructure development plan for physical distribution in trade in Venezuela

The country's infrastructure for physical distribution service consists of land (roads and rails), river and marine transport. According to the infrastructure development plan of the Ministry of Infrastructure, 6 road integration projects are planned. In the south-east area, a route from Santa Elena de Uairen to Boa Vista, northern Brazil, is planned and expected to help link the country with the MERCOSUR region. The project is also linked to a infrastructure development plan in Brazil, "Avanca Brasil." In the south-west area, a project connecting San Cristobal and Colombia is being planned.

Furthermore, the "Regional Decentralized Development Plan" in the country envisages the upgrading of river and marine transportation systems and the construction and expansion of rail transport networks, for the purpose of promoting functional linkages among regions and enhance physical distribution services connecting adjacent economic regions. The focal point of the plan is placed on the linkage between two major rivers (Orinoco and Apure) in order to allow transportation of inland resources and manufactured goods (future) to the eastern seaboard, while the upgrading of transportation routes from major cities along the rivers to ports in the northern part, in consideration of access to the Caribbean area, as well as expansion of feeder transportation routes along the coast.

FIGURE 1.3.10 DIVERSIFIED TRANSPORTATION SYSTEM PLAN



Source : Ministry of Infrastructure

Finally, Puerto Cabello, a major port located in the north-western part of the country and serving as a center for physical distribution from nearby industrial areas and Colombia to the Caribbean area, is evaluated in terms of functions and handling capacities. The port is rated by many users (private companies) as “functionally efficient” and it has been handling more and more cargos. It is expected to become a hub port in the north side of South America and enhance feeder transport service to and from coastal areas and the Caribbean countries. Furthermore, it will handle more cargos to and from Asia under the linkage with a new container terminal in Panama. Now, it is imperative to promote modernization projects for the port and its facilities, which will serve as infrastructure for foreign trade activities as discussed in 1.3.4 (4)a and b.

TABLE 1.3.10 PRESENT CONDITION OF PUERTO CABELLO PORT**1. Port and Harbor Facilities**

Land area	:	153 ha
Water area	:	136 ha
Expandable area	:	142 ha
Nominal water depth	:	10.5 m
Water depth	:	12.0 m
Total length of berth	:	5016 m

2. Annual Operation Record

Ships entered and cleared	:	2722 barcos
Containerized cargo handled (TEUs)	:	550807 TEU
Number of containers handled	:	345843
Gross cargo tonnage	:	8636396 TM
(Composition)		
Containerized cargo	:	4472695 MT
Bulk cargo	:	3310884 MT
General cargo	:	852917 MT

3. Container Handling Operation by Commercial Type

	TEU	Unidad	TM
Import	225953	141377	2.204253
Export	206213	130391	1021809
Transfer	117716	73506	1077
Feeder	925	569	1245318
Total	550807	345843	4472457

4. General and Bulk Cargos

	General cargo (TM)	Bulk cargo (MT)
Import	751797	311399
Export	60388	1938431
Transfer	2896	0
Feeder	37808	3050
Total	852889	3310884

5. Imported cargo**5.1 Pre-arrival cargo information reporting system**

Shipping and customs agents submit shipping documents to the customs office prior to the entry of the respective ship.

Year	Packing List	Shipping Document
2000 (actual)	19868	75593 (bill of lading)

5.2 Payment of Customs Duties

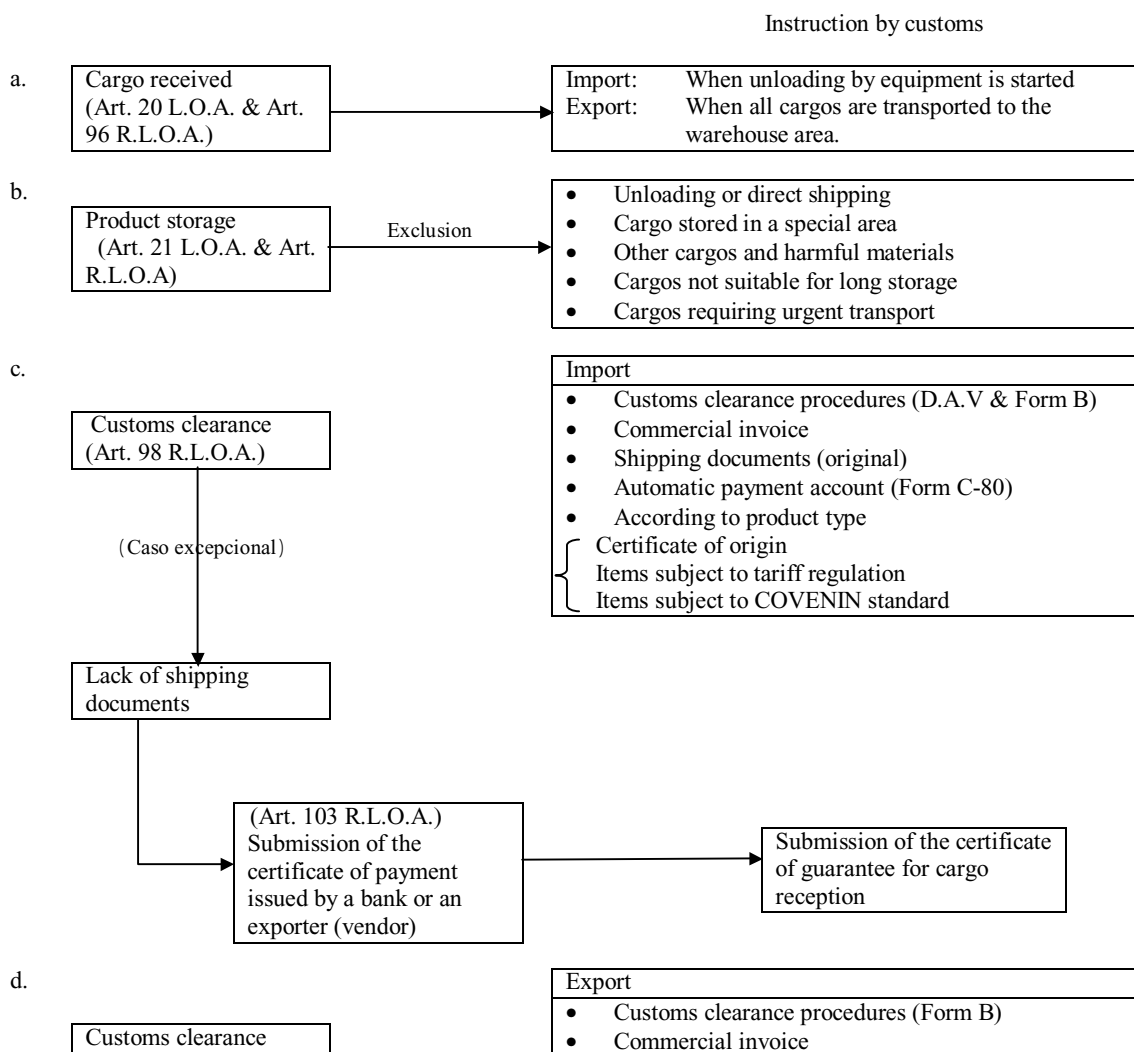
Tariff rates are applied according to the agreement on CAN's common tariff rates.

5-20% of declared value

35 %	:	Except for automobiles
3 %	:	Automotive assembly parts and components
0 %	:	Products related to social service, books, and etc
Customs service fee	:	1 %
Value added tax (IVA)	:	14.5 %

5.3 Documents Submitted to Customs

(1) Product acceptance and storage



(Art. 98 R.L.O.A.)

- Shipping documents (original)
- According to product type
 - Export license
 - Approval for quarantine (animal/plant)
 - Gold export license
 - Hydrocarbon product export license

(2) Customs clearance record (2000)

Import	91720
Export	29959
Inland transit	1370
Foreign transit	30
Inland transfer	1610
Foreign transfer	1008

(3) Cargo distribution system

- a. Cargos are handled by customs agents, shipping agents, warehousing companies, and similar service providers, who serve as the agent of a product consignee.
- b. Each cargo, before customs clearance, is stored in a warehouse located in a bonded area approved by SENIAT.

6. Operation Policy

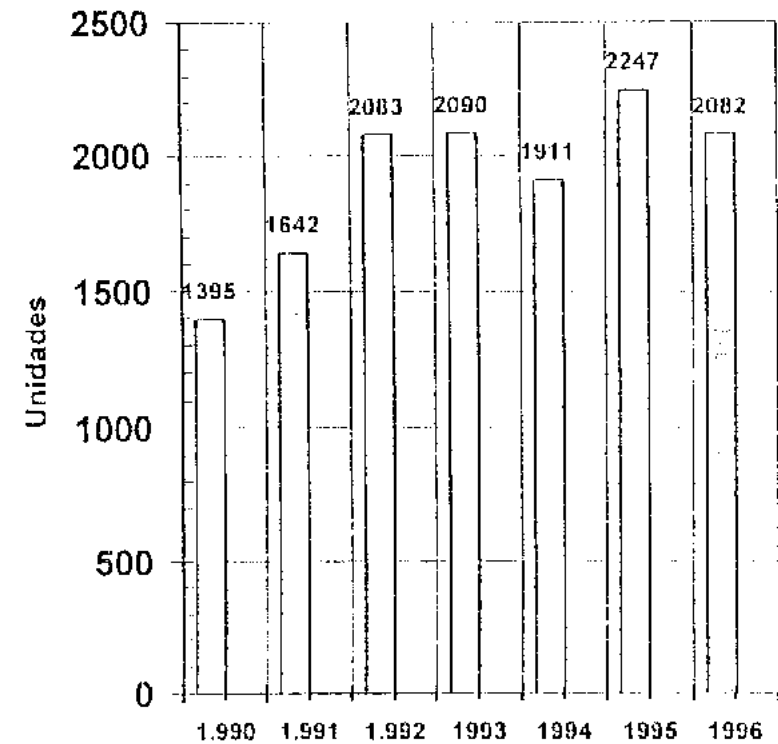
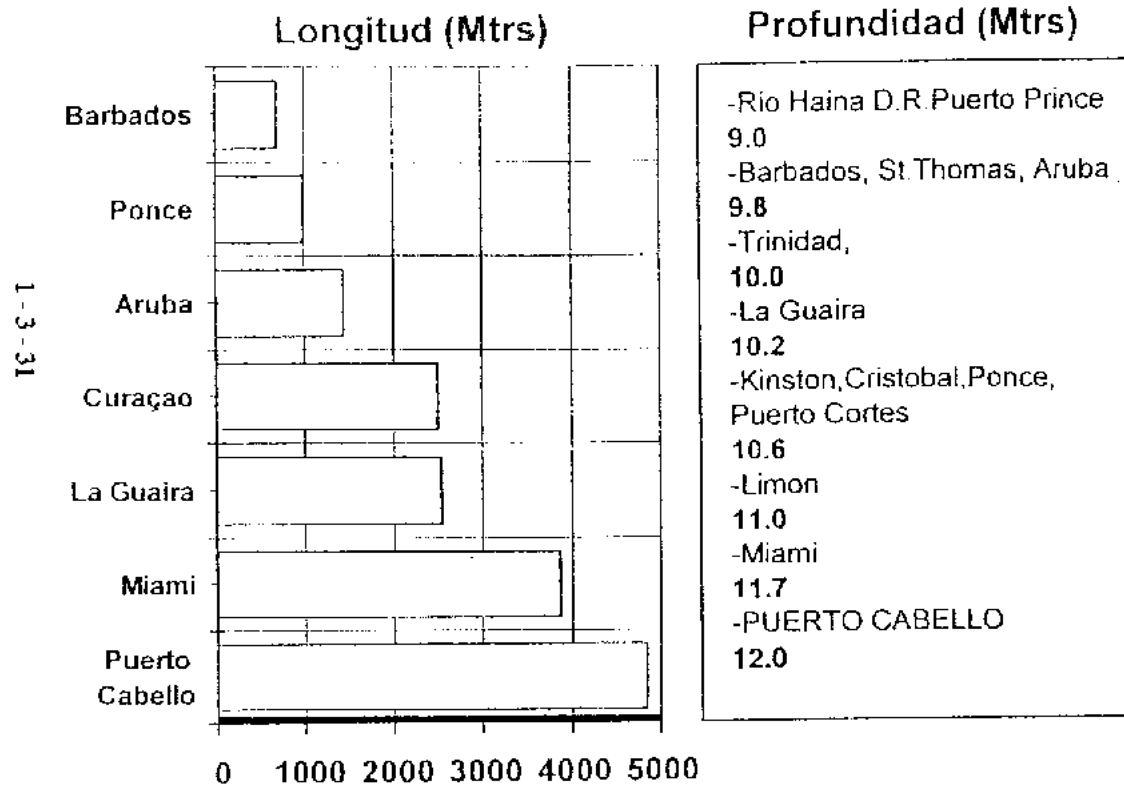
- (1) The use of private contractors and service providers is promoted to streamline port and harbor services as part of the government's decentralization policy.
- (2) Cargo handling, storage and auxiliary services are carried out by private stevedoring and terminal companies on a concession basis.
- (3) Private companies are generally customer-oriented and set their own fees and charges.
- (4) Organizations
 - a. Autoridad de puerto :IPAPC (Instituto Puerto Autónomo de Puerto Cabello del gobierno regional) (state government)
 - b. Autoridad marítima y de pilotaje :Capitanía de Puerto de Puerto Cabello

Source: SENIAT

FIGURE 1.3.11 PRESENT SITUATION ON OCEAN PORTS IN CARIBBEAN AREA

Buques Atendidos 1990-1996

Profundidad y longitud de algunos Puertos del Caribe



Source: IPAPC

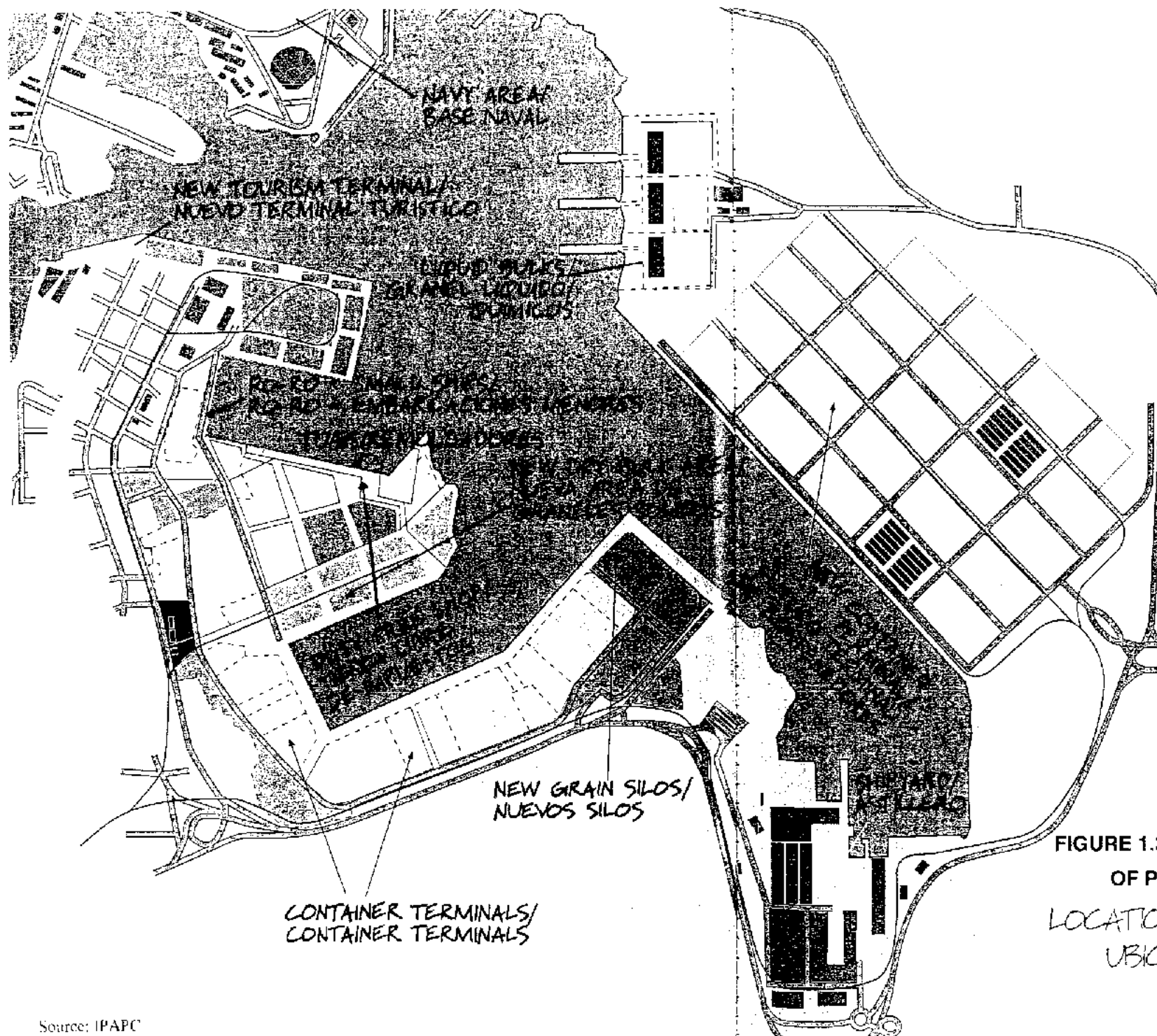


FIGURE 1.3.12 GEOGRAPHIC LOCATION
OF PUERTO CABELLO PORT
LOCATION PUERTO CABELLO
UBICACION GEOGRAFICA

1.4 Investment

1.4.1 Recent trend

Table 1.4.1 shows invest trends by sector between 1993 and 1998. The mining sector received the largest amount of investment, followed by manufacturing, banking/real estate, and trade and hotel. Another foreign direct investment data between 1991 and 1999 were obtained from SIEX and are presented in the table below. In 1998, \$15,510 million were invested. Of total, 80% was related to investment in two former state companies, SIDOR (steel mill) and Andino (cement), which were in the process of privatization. Measured by the accumulated total since 1979, the manufacturing sector received the highest share of 61.6%, followed by the banking and real estate sector 22.4% and hotel, restaurant and commercial service 5.0%. By country of origin, the U.S. ranked first with a 38.6% share, followed by the Netherlands 8.3%, Mexico 6.0%, Panama 4.3%, Argentina 2.3%, and Brazil 1.3%. In 1999, total investment plummeted to \$515,750,000, one third the amount in the previous year. Bahamas ranked first, followed by the Netherlands, the U.S., Colombia, the Cayman, and South Korea. By sector, the manufacturing sector accounted for one half, followed by commerce, construction, banking and real estate, and electricity, gas and water. In 2000, the figure grew 13.5% to \$585.5 million. By country, the U.S. came first, followed by the Netherlands, Bermuda, Spain, Japan, Switzerland, and the Cayman.

TABLE 1.4.1 FOREIGN INVESTMENT TRENDS BY SECTOR

(US\$)

Sector	1993	1994	1995	1996
Agriculture	12647526	3921690	16335256	14120638
Mining	52374564	38806115	38274047	254987993
Manufacturing	275936415	339936049	122724171	228411857
Electricity	719227	108325051	5317647	112311000
Construction	4848825	9904412	3939252	7085865
Trade/hotel	23710909	40934774	31691132	64764623
Transportation/communication	20093430	128332956	28078479	13941854
Bank/real estate	58697558	45409810	105303401	728391569
Public health/recreation	141219	560551	159298	4089147
Total	449169673	716131408	351822683	1428104546
Sector	1997	1998 (Jan-June)	Total	Annual average (Total)
Agriculture	49246677	154034	96425821	63521349
Mining	2214197203		2598639922	2469185196
Manufacturing	361376967	1262814689	2591200148	1852603513
Electricity	3982738	30314703	260970366	1490608441
Construction	32665065	6720202	65163621	46471132
Trade/hotel	70641893	7633270	239376601	1430395786
Transportation/communication	16516985	5129572	212084276	35579411
Bank/real estate	311426511	11761576	1260990425	1051579656
Public health/recreation	4089147	267215	6266401	5405333
Total	3064143186	1325568017	7331117581	5813993817

Source: SIEX

By sector, the manufacturing sector topped the list, including the largest investment project valued at \$1,080 million for acquisition of EDC's electricity department by AES Corporation of the U.S., followed by commerce, transportation and communication, construction, banking and real estate, and electricity, gas and water. In the future, foreign investment is expected to be directed to the telecommunications sector that will be deregulated as well as natural gas projects. In 2001, the telecommunications sector will receive \$2 billion. \$3 billion will be invested for natural gas development projects in 11 concessions over five years. In addition, major investment projects are expected in the oil and electricity sectors and for infrastructure development. Note that foreign direct investment (FDI) in Venezuela is shown in official statistics when it is invested as "capital." "Foreign credit" that is made to foreign corporations is not included in statistics.

TABLE 1.4.2 REGISTERED FOREIGN DIRECT INVESTMENT FOR 1991-1999 IN VENEZUELA

(Unit: US\$)

Country & Region	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Bahamas, Islas	19,400,650.00	692,310.00	0.00	0.00	0.00	1,430,037.87	2,023,179.02	0.00	75,483,197.11	99,029,374.00
Colombia	39,650.00	360,050.00	3,025,520.00	2,627,168.36	8,057,772.70	4,454,820.63	9,717,671.28	54,316,670.31	55,898,272.42	138,497,595.70
Korea	0.00	7,670.00	0.00	0.00	0.00	11,163.21	49,601,000.00	0.00	31,899,989.52	81,519,822.73
Costa Rica	0.00	0.00	0.00	0.00	5,096,944.51	0.00	0.00	0.00	9,437,544.58	14,534,489.09
Espana	494,520.00	2,528,320.00	14,840,880.00	75,461,137.50	3,355,195.50	346,303.44	118,282,545.93	14,896,849.45	19,666,708.17	249,872,459.99
Francia	1,831,820.00	41,762,720.00	6,165,270.00	5,225,788.76	254,173.20	14,877,488.38	5,897,192.22	3,783,914.78	4,336,271.69	84,134,639.03
Italia	1,319,950.00	1,169,650.00	3,694,310.00	206,589.99	3,919,789.11	2,515,592.09	1,573,981.06	159,343.97	7,398.70	14,566,604.92
Japan	20,224,110.00	23,612,490.00	2,403,710.00	2,326,222.22	6,867,262.57	53,468,908.49	14,783,410.10	13,304,817.66	3,140,000.00	140,130,931.04
Mexico	4,600.00	202,101.00	7,160.00	8,699,624.35	28,279.44	403,802.61	10,703,047.92	10,785,707.78	1,270,736.80	32,105,059.90
Paises Bajos Holanda	32,764,680.00	376,481,870.00	96,359,610.00	63,023,653.93	6,460,009.68	66,969,712.41	16,552,033.88	26,504,043.60	65,555,760.67	750,671,374.17
Panama	7,403,890.00	68,390,300.00	34,683,570.00	13,031,845.77	7,443,759.66	11,140,921.46	35,109,126.34	28,547,286.59	14,790,497.65	220,541,197.47
Reino Unido Inglaterra	33,668,550.00	86,767,840.00	108,900.00	6,099,213.48	70,242.92	3,366,342.78	17,900,183.03	3,549,503.16	14,442,920.31	165,973,695.68
Suiza	5,340,530.00	18,078,170.00	12,132,330.00	131,474,831.31	15,808,671.85	29,648,475.03	8,627,002.79	16,182,252.53	31,034,073.50	268,326,337.01
USA	71,080,460.00	1,213,816,270.00	37,965,170.00	45,065,406.42	26,192,225.55	54,444,000.47	143,684,892.38	122,151,905.90	58,290,486.17	1,772,690,816.89
Virgenes Britanicas	2,132,070.00	4,680,060.00	660,990.00	21,525,070.91	60,701,326.88	7,622,556.85	25,970,720.70	17,766,547.27	263,025.47	141,322,368.08

Source: SIEX

TABLE 1.4.3 REGISTERED FOREIGN DIRECT INVESTMENT BY SECTOR OR 1991-1999 IN VENEZUELA

(Unit: US\$)

Country & Region	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Agriculture & Stock Raising	19,056,110.00	18,301,590.00	3,961,140.00	846,027.71	1,667,104.47	14,120,639.06	49,246,680.84	206,147.59	16,679,971.06	124,085,410.73
Industrial Manufacturing	184,638,680.00	372,219,850.00	164,716,660.00	311,204,567.47	99,117,814.32	218,056,451.55	253,908,732.62	1,358,542,015.82	254,403,018.49	3,216,807,790.27
Construction	2,845,620.00	19,479,550.00	4,261,450.00	9,904,428.61	3,939,263.56	7,085,871.58	32,669,867.76	19,235,781.86	42,529,623.32	141,951,456.69
Commercials	11,945,830.00	47,251,720.00	23,704,550.00	38,225,819.71	31,691,149.27	32,351,784.54	23,010,188.32	41,207,592.45	79,966,382.55	329,355,016.84
Transportation, Warehousing, Communication	414,800.00	22,357,520.00	20,099,540.00	123,347,304.95	27,934,960.89	1,231,859.50	4,696,993.76	9,319,877.26	38,111,817.06	247,514,673.42
Services, Finance & Immovable	5,352,240.00	1,452,417,670.00	39,640,230.00	43,921,370.11	75,477,228.62	38,175,559.76	163,372,848.81	90,505,272.07	40,400,637.19	1,949,263,056.56
Social Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,655,833.09	6,644,038.04	8,299,871.13
Electricity, Gas and Water	0.00	0.00	0.00	108,325,052.66	5,317,650.61	771,000.00	3,982,738.42	30,388,090.40	37,017,344.14	185,801,876.23
Total	224,253,280.00	1,932,027,900.00	256,383,570.00	635,774,571.22	245,145,171.74	311,793,165.99	530,888,050.53	1,551,060,610.54	515,752,831.85	6,203,079,151.87

Source: SIEX

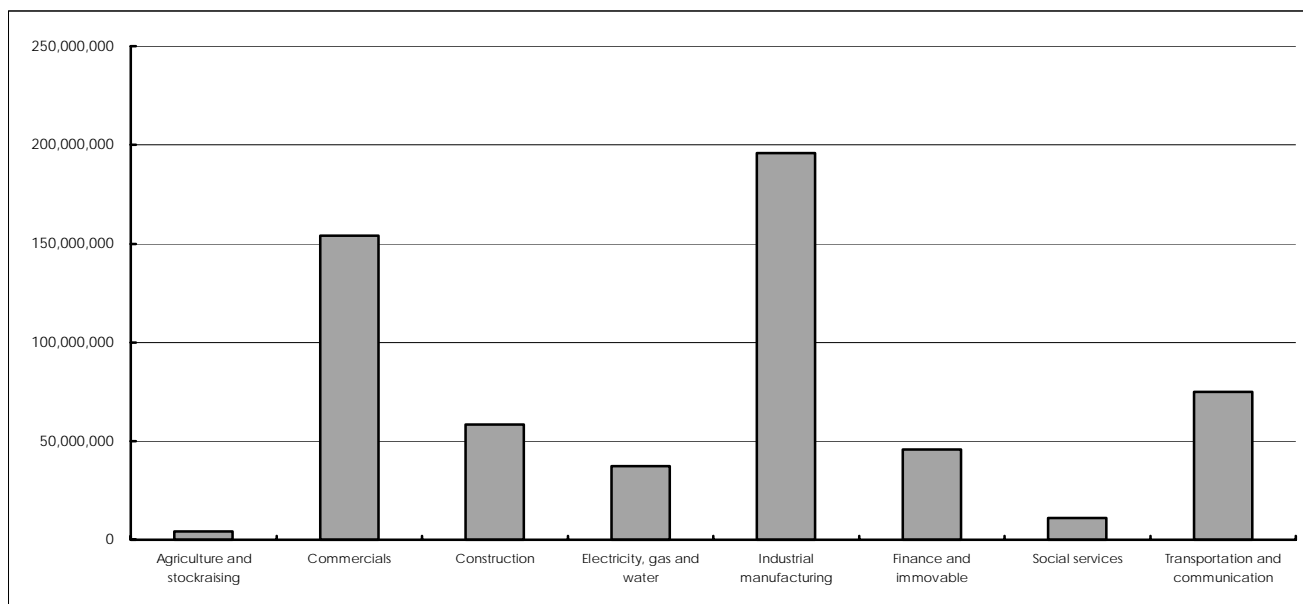
TABLE 1.4.4 REGISTERED FOREIGN DIRECT INVESTMENT BY COUNTRY/SECTOR FOR 2000 IN VENEZUELA

(Unit: US\$)

Country & Region	Agriculture stockraising	Commercials	Construction	Electricity, gas & water	Industrial manufacturing	Services, finance & immovable	Social services	Transportation communication	Total
Alemania	0.00	9,195.59	0.00	0.00	2,448,728.65	9,060.26	0.00	189,713.31	2,656,697.81
Argentina	0.00	14,685.00	0.00	0.00	357,256.31	2,304.94	0.00	0.00	374,246.25
Aruba, Isla	0.00	0.00	0.00	0.00	0.00	169,984.66	18,126.68	407.71	188,519.05
Austria	0.00	0.00	0.00	0.00	18,593.35	0.00	3,621,545.69	0.00	3,640,139.04
Bahamas, Islas	0.00	5,218,525.61	0.00	5,747,000.00	0.00	65,343.88	0.00	0.00	11,030,869.49
Belgica-Luxemburgo	0.00	0.00	58,660.60	0.00	3,633,964.40	0.00	0.00	0.00	3,692,625.00
Bermudas, Islas	0.00	30,000,000.00	0.00	0.00	29,340,262.41	7,441,440.67	0.00	10,000.00	66,791,703.08
Brasil	0.00	20,000.00	0.00	0.00	0.00	0.00	0.00	0.00	20,000.00
Caiman, Islas	2,012,206.46	0.00	0.00	2,953,823.33	0.00	0.00	6,787,202.57	22,959,201.86	34,712,434.22
Canada	0.00	0.00	0.00	0.00	110,702.88	0.00	434.85	0.00	111,137.73
Chile	0.00	0.00	0.00	0.00	38,430.74	0.00	0.00	0.00	38,430.74
China	0.00	0.00	0.00	0.00	4,533.58	0.00	0.00	0.00	4,533.58
Colombia	1,006,621.00	43,965,896.19	0.00	0.00	5,585,759.89	734,000.00	0.00	35,437.63	51,327,714.71
Korea	0.00	0.00	11,200,000.00	0.00	0.00	0.00	0.00	0.00	11,200,000.00
Cuba	0.00	47,644.73	0.00	0.00	0.00	0.00	0.00	0.00	47,644.73
Curazao, Isla	0.00	0.00	0.00	0.00	18,503.28	691,776.79	0.00	593,392.97	1,303,673.04
Dinamarca	892,020.00	0.00	0.00	0.00	642.00	427,350.42	0.00	0.00	1,320,012.42
Ecuador	0.00	15,248.62	375,820.39	0.00	468.38	23,854.79	0.00	0.00	415,392.18
Espana	0.00	792,446.92	1,026,707.99	0.00	19,579,566.25	463,644.82	0.00	37,800,976.47	59,663,342.45
Francia	0.00	41,318.90	3,009,101.62	0.00	1,031,449.32	2,849,550.23	0.00	7,592.00	6,939,012.07
Grecia	0.00	92,514.06	0.00	0.00	0.00	0.00	0.00	0.00	92,514.06
Italia	37,458.26	270,011.72	0.00	0.00	385,578.23	13,493.98	0.00	0.00	706,542.19
Japan	0.00	0.00	46,546,000.00	0.00	4,267,053.36	0.00	0.00	0.00	50,813,053.36
Malaysia	0.00	8,650.50	0.00	0.00	0.00	0.00	0.00	0.00	8,650.50
Mexico	0.00	0.00	19,055.18	0.00	100,000.00	0.00	0.00	0.00	119,055.18
Noruega	0.00	229,640.92	0.00	0.00	0.00	0.00	0.00	0.00	229,640.92
Países Bajos-Holanda	98,806.09	47,264,313.53	1,845.63	22,500,000.00	106,391.66	2,463,084.78	17,984.00	11,073,345.00	83,525,770.69
Panamá	0.00	17,213,413.55	0.00	0.00	8,295,310.18	1,443,748.82	0.00	0.00	26,952,472.55
Paraguay	0.00	0.00	0.00	0.00	99,875.14	0.00	0.00	0.00	99,875.14
Peru	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,930.81	3,930.81
Portugal	0.00	0.00	0.00	0.00	3,169.58	0.00	0.00	4,904.35	8,073.93
Reino Unido-Inglaterra	0.00	763.72	0.00	4,500,000.00	884,481.86	10,477.35	0.00	502,947.52	5,898,670.45
San Martín	0.00	6,443,359.12	0.00	0.00	0.00	0.00	0.00	0.00	6,443,359.12
Suecia	0.00	0.00	0.00	0.00	2,997,563.71	0.00	0.00	0.00	2,997,563.71
Suiza	0.00	19,039.17	0.00	0.00	42,768,632.86	0.00	0.00	0.00	42,787,672.03
Uruguay	0.00	0.00	0.00	0.00	1,359,554.88	6,802,070.62	0.00	0.00	8,161,625.50
USA	0.00	1,443,277.93	2,551,628.36	39,977.91	67,565,927.91	10,272,447.53	108,091.43	3,939,203.11	85,920,554.18
Virgenes Británicas, Islas	52,482.33	536,736.32	0.00	0.00	5,899,501.35	8,742,966.84	0.00	0.00	15,231,686.84
Total	4,099,594.14	153,646,682.10	64,788,819.77	35,740,801.24	196,901,902.16	42,626,601.38	10,553,385.22	77,121,052.74	585,478,838.75

Source: SIEX

FIGURE 1.4.1 REGISTERED FOREIGN DIRECT INVESTMENT FOR 2000 BY SECTOR IN VENEZUELA



Source: SIEX

According to CEPAL's Latin America and Caribbean Foreign Investment Report, foreign direct investment made in ALADI member countries reached \$67 billion in 2000, accounting for approximately 90% of total investment in Latin America. On the other hand, Central America and the Caribbean countries represented only 6%.

**TABLE 1.4.5 FOREIGN DIRECT INVESTMENT IN LATIN AMERICA AND
CARIBBEAN (NET INFLOW, 1990- 2000, US\$ MILLION, %)**

	1990-94 a)	1995	1996	1997	1998	1999	Percentage share (1999)	2000 ^{b)}
1. Central America and Caribbean	1406	1984	2106	4212	6112	5351	5,7	4500
2. Tax havens	2506	2427	3119	4513	6398	2599	2,8	2500
3. South America (LAIA member nations)	14249	27789	41301	61125	66025	85571	91,5	6719
Argentina	2982	5315	6522	8755	6670	23579	25,2	11957
Bolivia	85	393	474	731	957	1016	1,1	695
Brazil	1703	4859	11200	19650	31913	32659	34,9	30250
Chile	1207	1207	2957	4634	6219	4638	9,9	3676
Colombia	818	968	3113	5638	2961	1140	1,2	1340
Ecuador	293	470	491	625	814	690	0,7	740
Mexico	5430	9526	9186	12831	11312	11786	12,6	12950
Paraguay	99	103	136	126	164	229	0,2	180
Perú	796	2056	3225	1781	1905	1969	2,1	1193
Uruguay		157	137	233	196	95	0,1	100
Venezuela	835	985	2183	5536	4495	3187	3,4	4110
Total (1+2+3)	18162	32200	46526	69850	78535	93521	100,0	74191

Source: Prepared by ECLAC on the basis of data published by IMF, UNCTAD and central banks of the above countries/Asia Economic Research Institute

Note: a) Annual average; and b) estimated by ECLAC's Investment and Corporate Strategy Department from data published by central banks of the above countries.

Within the region, Brazil and Mexico are the largest receivers of foreign direct investment and accounted for a combined total of 60% in 2000. Investment in Brazil, totaling \$30 billion, was mostly directed to the service sector. On the other hand, investment in Mexico was divided into the manufacturing and financial sectors. Among the CAN countries, Colombia and Peru received less investment in 2000 than the average in the past few years, due to political and economic turmoil. On the other hand, investment in Venezuela went up due to participation of foreign capital in the service sector.

1.4.2 Investment climate

(1) Geographical concentration of population and industry and the current state of industry

According to OCEI's 1997 data, the manufacturing sector in Venezuela has very small presence, 0.6 establishments per 1,000 population. This is symbolized by the meager textile industry. In the country, there are reportedly around 500,000 companies, of which only 10,000 companies are classified in the manufacturing industry and represent 2% of industrial activities in the country. The government plans to increase manufacturing establishments to 200,000 with the 5% share. According to the OCEI report, 12,741 companies registered as of 1997 have 467,000 employees and generate valued added of 6,518,000 Bv. (\$10 million), representing 52% of the total industrial output. Table 1.4.6 summarizes exports and imports made by the domestic industrial sector.

TABLE 1.4.6 FOREIGN TRADE STRUCTURE IN VENEZUELA

(Unit: MMUSD)

	1993 ~ 97 average	1997	1998
Imports	10,601	13,158	14,366
Exports of non-traditional goods	4,383	4,790	4,971

Source: INE

Under the small size of export industries and the difficult situation for the government to take import control measures, the number of firms in the domestic industrial sector declined between 1994 and 1997. Exports are dominated by the traditional sector and natural resources account for major portions of exports on a value basis, as shown in Table 1.4.7.

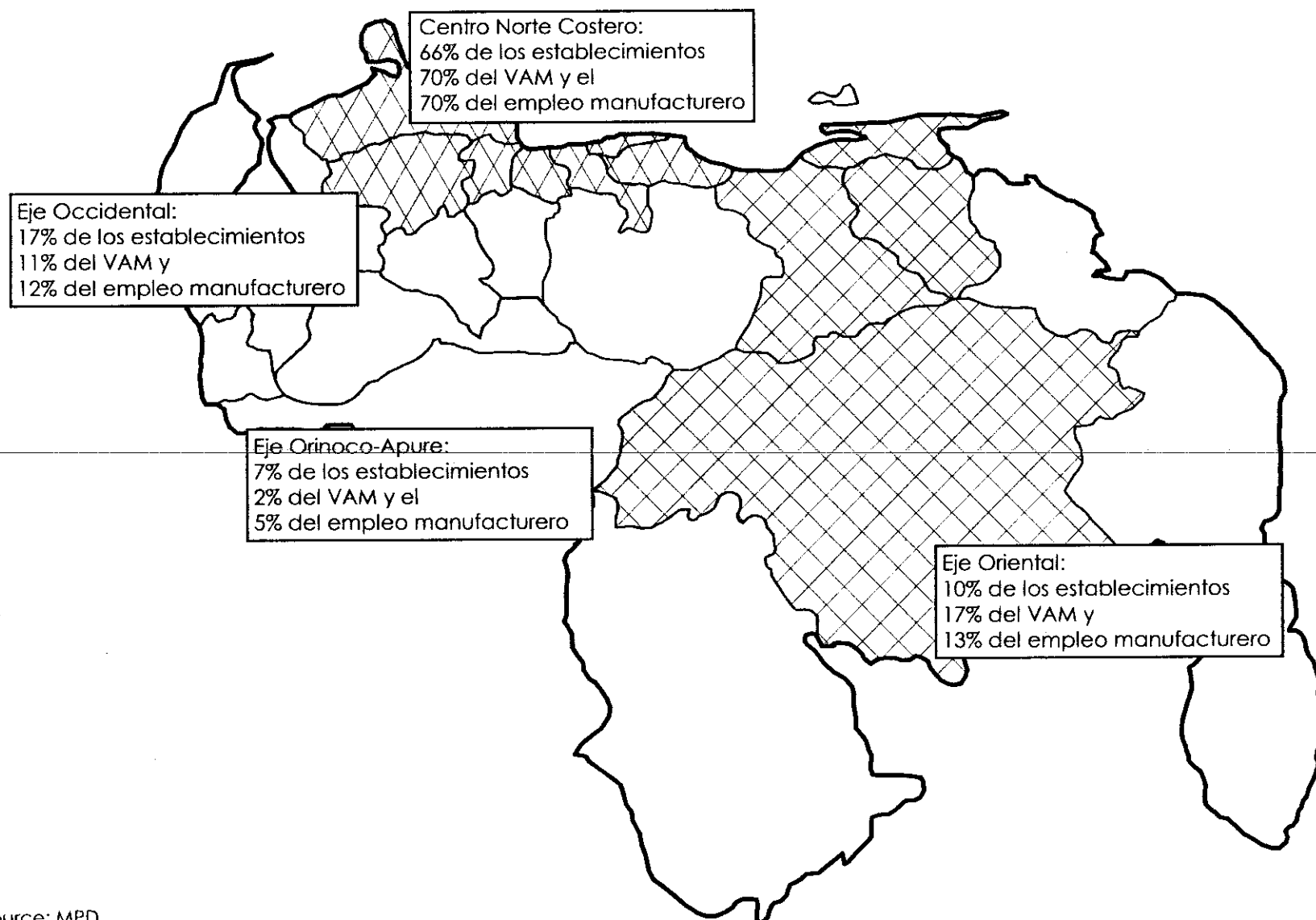
TABLE 1.4.7 EXPORT BY SECTOR IN VENEZUELA

(Unit: MMUSD)		
Item	1997	1998
Aluminum products	877	803
Iron and copper products	814	625
Automobile	388	392
Chemical products	355	296
Pearls and jewelry	13	262
Plastics products	240	232
Mineral fuels	126	162
Tobacco and substitutes	131	155
Sub-total	2,944	2,929
Share of total (%)	61.46	58.8

Source : MPC

Figure 1.4.2 shows uneven distribution of industries and employment in the manufacturing sector in strategic development areas in Venezuela.

**FIGURE 1.4.2 UNEVEN DISTRIBUTION OF INDUSTRIAL ACTIVITIES AND EMPLOYMENT
IN VENEZUELA AND STRATEGIC DEVELOPMENT AREAS**



Source: MPD

The country is divided into four regions, showing the number of companies per population, the value added ratio of the manufacturing industry, and share of employment in the manufacturing industry. Between 1994 and 1997, the textile industry declined 22% in the Orinoco-Apure area and 9% in the Centro Norte-Costero area, suggesting the outflow of industries from the development areas. The number of manufacturing establishments and employment in key sectors are summarized as follows.

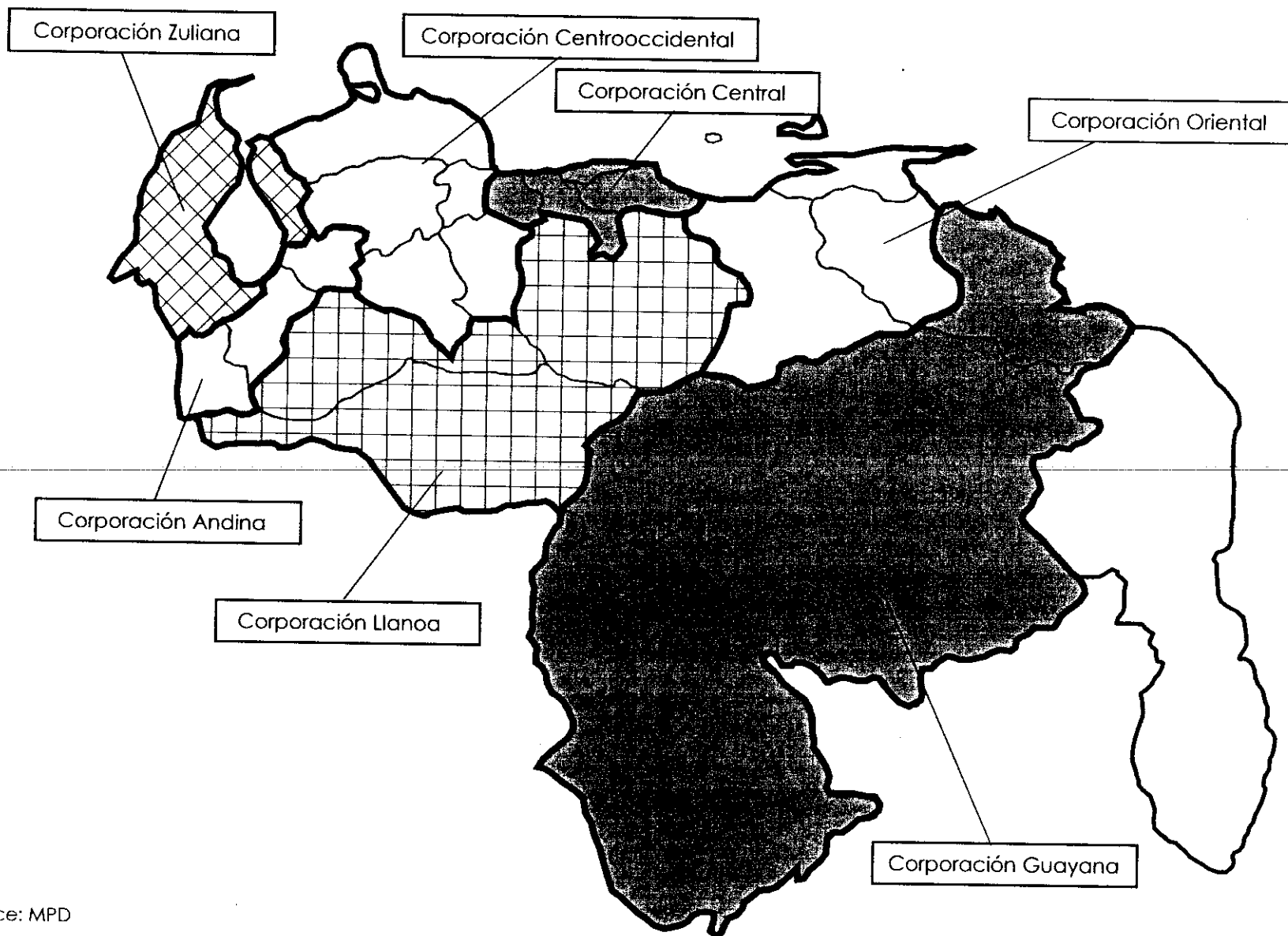
- 1) Traditional sector (54% in the number of establishments and 42% in the number of employees)
 - Food, beverage, tobacco
 - Textile, apparel, leather
 - Woodworking (including furniture)
- 2) Intermediate sector (7% in the number of establishments and 16% in the number of employees)
 - Chemical products, oil derivatives, coal, plastics
- 3) Machinery sector (24% in the number of establishments and 27% in the number of employees)
 - Base metal, metallic products, machinery and equipment
- 4) Other sectors (15% in the number of establishments and 15% in the number of employees)
 - Pulp and paper, printing, publishing
 - Non-ferrous metal
 - Other manufacturing

(2) Decentralized regional development plan

In December 1999, the Ministry of Planning and Development announced its “regional decentralization policy” (“hub strategy”), entitled “Base para la Elaboración del Plan Nacional de Desarrollo Regional 1999-2004, Descentralización Desconcentrada: Hacia un Desarrollo Sostenible para Venezuela” (Basis of Implementation of National Plan Related to Regional Development in 1999 – 2004: Anti-concentration and Decentralization for Sustainable Development of Venezuela). Essentially, the development plan divides the country into three regions, “West Hub

(Eje Occidental),” “East Hub (Eje Oriental)” and “Orinoco-Apure Hub (Eje Orinoco-Apure),” which will be developed by seven development corporations. General profiles of each hub region (states) and development are summarized below. The existing development corporations will be responsible for implementation of the development plan.

FIGURE 1.4.3 REGIONAL DEVELOPMENT CORPORATIONS AND THEIR JURISDICTION (STATE AND AREA)



Source: MPD

1) Eje Occidental (West Hub)

States: Zulia, Táchira, Merida, Trujillo

Infrastructure: Construction of a deep port in the Bay of Venezuela

Supplementa:

- For the Carribean and Colombian markets
- To the Atlantic via Orinoco-apure
- Eje Abejales-La Pedrera: Development of phosphor mines and cotton plantation
- Eje Guasdualito-El Amparo: Development based on river transport

Resources:

Hydrocarbon, hydropower generation, coal, phosphor ore, agriculture and cattle raising, agricultural products, forestry, tourism

2) EjeOriental (East Hub)

States: Nueva Esparta, Sucre, Anzoategui, Monagas, Bolivar, Isla de Margarita

Industries:

Orinoco oil belt, petroleum refining, petrochemical, base industries in Guyana district (aluminum and steel), and urban complex (Guyana city/Bolivar city)

Resources:

Petroleum, gas, aluminum, iron, phosphor ore, cattle raising, fishery, wood, uranium, gold, diamond

Problems:

- Rapid growth of poverty due to reliance on oil-based industrial production
- Need for the irrigation system to promote soil improvement
- Protection of aboriginal people as part of environmental protection

3) Eje Orinoco (Orinoco-Apure Hub)

States:

Tàchira, Barinas, Apure, Protuguesa, Cojedes, Guàrico, Anzoategui, Amazonas, Managas, Bolivar, Delta Amacuro

- Land area of 300,000 km², representing 30% of national land and 12% of population
- San Cristobal in west and Cd.Guayana in east

Resources: Agriculture, cattle raising, forestry, heavy oil, water, fishtry

- Heavy oil: 200,000MM BBLS
- Natural forest: 25 MM ha (83% of total), and opportunity for pulp production by reforestation of 1 million ha

- Water resources (90% of total), and hydropower generation potential 95% (Caroni, Caura, Orinoco)
- Soil suitable for cattle raising, 50% of total
- Fishery resources: 40,000 – 100,000 tons/year
- Mineral resources: Coal 50 MM T/Y; phosphor 1,000MM T/Y; bauxcite 200 MM tons (reserves); iron ore 200 MM tons

Positioning and development strategy:

Prompt buildup of development strategy as the region that significantly affects regional decentralization and industrial diversification

- a. Supporting inter-regional economy and physical distribution using two major rivers of Orinoco and Apure, and water transport
- b. Promotion of agricultural and industrial production contributing to the improvement of standards of living of local people
- c. Promotion of integration of different industries using a geographical space in the area
 - Supply of phosphorous fertilizer produced in the Táchira area using river transport
 - Promoted development of middle-sized cities: Guasdualito, El Amparo, El Nulo, La Victoria, Mantecal, Elorza, Bruzual, Puerto Nutrias, San Fernando, Pueroto Paéz, Caicara, Cabruta, Mapire, Barramca, Tucupita
 - Orientation to local people and need for development of surrounding areas
 - A support mechanism for farming activities in intermediate areas
 - Need for industrial cooperation related to forest development
 - Eco-tourism and adventure tour using river transport
- d. Priority
 - Agriculture and cattle raising: Uribante-Aragua, Caparo-Urbante, Módulos de Apure, Guanare-Masparro, Biruaca-Achaguas, Sur del Guarico, Vegas Adel Orinoco, La Paragua-El Crsto y Delta
 - Forestry: Use of recyclable resources - Sur de Monagas, Anzoategu; mid-term plan
 - Cinaruco-Capanaparu
 - Mining and manufacturing: Phosphor ore, coal, metal and machinery (San Cristobal), bauxcite, iron and steel, basic industry, metal and machinery (Cd. Guayana), agriculture and industry (national), and pulp and paper (Sur de Anzoategui)

- e. Infrastructure: Inter-regional river transport (Orinoco-Apure)
 - Multimodal transportation system: First improvement of transportation – coal, iron ore, bauxite (40MM tons/year)
 - River transport contributes to social and economic integration

TABLE 1.4.8 DISTRIBUTION OF ENTERPRISES BY STATE AND INDUSTRIAL SECTOR

Estado	Food Industry					Textile & Aparent					Forestry Products					Pulp & Paper					Chemical Products				
	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)
Amazonas	0	0	12	12	0.4	0	0	0	0	0	0	0	2	2	0.1	0	0	0	0	0	0	0	0	0	0
Anzoategui	9	20	160	189	5.9	1	1	10	12	0.9	0	6	82	88	5.9	1	1	34	36	5.1	6	7	19	32	3.7
Apure	0	2	23	25	0.8	0	0	0	0	0	0	0	7	7	0.5	0	0	2	2	0.3	0	0	0	0	0
Aragua	29	41	160	230	7.2	18	39	54	111	7.9	2	3	65	70	4.7	18	11	44	71	10.1	30	61	56	147	16.8
Barinas	3	5	50	58	1.8	0	2	1	3	0.2	1	12	28	41	2.8	0	2	4	6	0.9	0	1	0	1	0.1
Bolivar	3	8	118	129	4.0	2	2	9	13	0.9	2	13	55	70	4.7	0	0	1	1	0.1	0	7	8	15	1.7
Carabobo	25	19	336	380	11.9	11	59	68	138	9.9	0	18	184	202	13.6	14	14	79	107	15.3	40	61	101	202	23.1
Cojedes	1	3	17	21	0.7	0	1	1	2	0.1	0	0	6	6	0.4	0	0	3	3	0.4	2	5	4	11	1.3
Delta Amacuro	0	1	8	9	0.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Distrito Federal	5	44	336	385	12.1	30	192	301	523	37.3	0	10	104	114	7.7	12	16	84	112	16	12	21	23	56	6.4
Falcon	1	10	67	78	2.4	0	1	1	2	0.1	0	1	20	21	1.4	0	4	8	12	1.7	1	5	2	8	0.9
Guarico	5	8	55	68	2.1	0	5	5	10	0.7	0	1	0	1	0.1	0	3	4	7	1.0	0	2	0	2	0.2
Lara	20	19	231	270	8.5	3	21	51	75	5.4	0	14	139	153	10.3	1	3	25	29	4.1	11	12	44	67	7.6
Merida	4	9	92	105	3.3	1	2	17	20	1.4	0	1	57	58	3.9	0	2	19	21	3.0	2	3	4	9	1
Miranda	29	64	264	357	11.2	26	88	214	328	23.4	5	55	270	330	22.2	10	62	105	177	25.3	54	82	86	222	25.3
Monagas	3	7	53	63	2.0	0	0	0	0	0	1	5	15	21	1.4	0	0	11	11	1.6	0	0	7	7	0.8
Nueva Esparta	2	3	18	23	0.7	0	0	1	1	0.1	0	0	5	5	0.3	0	0	3	3	0.4	0	1	0	1	0.1
Protuguesa	10	13	85	108	3.4	2	0	2	4	0.3	0	12	37	49	3.3	0	1	9	10	1.4	2	3	1	6	0.7
Sucre	11	15	87	113	3.5	1	0	4	5	0.4	0	0	32	32	2.2	0	4	10	14	2	0	2	2	4	0.5
Tachira	2	7	77	86	2.7	1	20	50	71	5.1	0	1	2	3	0.2	0	1	16	17	2.4	1	0	8	9	1.0
Trujillo	6	34	86	106	3.3	0	1	8	9	0.8	0	2	24	26	1.8	0	2	11	13	1.9	0	0	3	3	0.3
Yaracuy	6	4	78	90	2.8	1	5	9	15	1.1	0	1	34	35	2.4	2	0	10	12	1.7	2	9	9	20	2.3
Zulia	27	37	224	288	9.0	2	14	43	59	4.2	0	18	133	151	10.2	5	5	26	36	5.1	17	19	18	54	6.2
Total Average	203	373	2617	3193	100	99	453	849	1401	100	11	173	1301	1485	100	61	131	508	700	100	180	301	395	876	100

Estado	Non-metal Mining					Base Metal Products					Metal Products & Machinery					Other Products					Total/Average				
	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)	L	M	S	Ttl	Av (%)
Amazonas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14	14	0.1
Anzoategui	1	9	48	58	6.9	2	6	26	34	13.4	3	18	97	118	4.9	0	1	2	3	1.6	23	69	478	570	5.0
Apure	0	2	3	5	0.6	0	0	0	0	0	0	0	6	6	0.2	0	0	0	0	0	0	4	41	45	0.4
Aragua	9	20	24	53	6.3	6	10	9	25	9.9	39	76	137	252	10.5	3	3	6	12	6.3	152	264	555	971	8.6
Barinas	0	1	9	10	1.2	0	0	1	1	0.4	0	0	22	22	0.9	0	0	0	0	0	4	23	115	142	1.3
Bolivar	4	9	57	70	8.3	15	8	8	31	12.3	5	18	44	67	2.8	0	0	4	4	2.1	31	65	304	400	3.5
Carabobo	13	27	72	112	13.2	13	21	33	67	26.5	49	108	297	452	18.7	0	4	22	26	13.7	165	329	1192	1686	14.8
Cojedes	0	1	1	2	0.2	1	4	0	5	2	2	6	3	11	0.5	0	0	0	0	0	6	20	35	61	0.5
Delta Amacuro	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	8	9	0.1
Distrito Federal	2	7	9	18	2.1	1	1	3	5	2.0	3	15	130	148	6.1	0	7	15	22	11.6	65	313	1005	1383	12.2
Falcon	1	9	21	31	3.7	0	0	0	0	0	0	9	26	35	1.5	0	0	0	0	0	3	39	145	187	1.6
Guarico	0	2	11	13	1.5	0	0	0	0	0	0	2	1	3	0.1	0	2	0	2	1.1	5	25	76	106	0.9
Lara	5	9	143	157	18.6	7	8	15	30	11.9	4	45	201	250	10.4	0	3	22	25	13.2	51	134	871	1056	9.3
Merida	0	3	17	20	2.4	0	0	9	9	3.6	0	4	51	55	2.3	0	0	1	1	0.5	7	24	267	298	2.6
Miranda	11	37	72	120	14.2	2	6	17	25	9.9	37	160	345	542	22.5	6	14	50	70	36.8	180	568	1423	2171	19.1
Monagas	2	5	8	15	1.8	0	0	0	0	0	2	5	8	15	0.6	0	0	3	3	1.6	8	22	105	135	1.2
Nueva Esparta	0	2	3	5	0.6	0	0	0	0	0	0	0	10	10	0.4	0	0	0	0	0	2	6	40	48	0.4
Protuguesa	0	2	13	15	1.8	0	1	0	1	0.4	1	4	62	67	2.8	0	2	1	3	1.6	15	38	210	263	2.3
Sucre	0	2	23	25	3	0	1	0	1	0.4	4	32	21	27	1.1	0	0	0	0	0	16	26	179	221	1.9
Tachira	2	4	5	11	1.3	0	0	0	0	0	2	13	45	60	2.5	0	5	3	8	4.2	8	51	206	265	2.3
Trujillo	3	1	14	18	2.1	0	0	0	0	0	0	5	25	30	1.2	0	0	2	2	1.1	9	45	153	207	1.8
Yaracuy	1	6	26	33	3.9	0	2	0	2	0.8	1	5	32	38	1.6	0	0	0	0	0	15	32	198	245	2.2
Zulia	5	21	29	55	6.5	3	6	8	17	6.7	21	36	146	203	8.4	0	1	8	9	4.7	80	157	635	872	7.7
Total Average	59	179	608	846	100	50	74	129	253	100	173	529	1709	2411	100	9	42	139	190	100	845	2255	8255	11355	100

Source: CAF, April 2001 and arranged by JICA Study Team

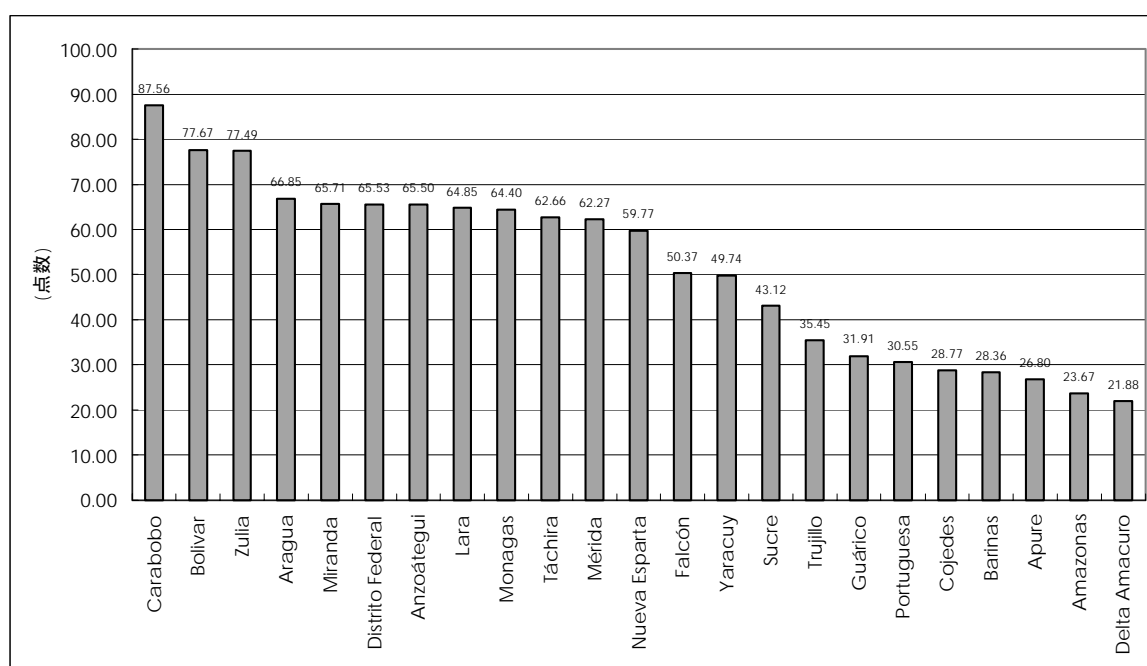
The national SME survey conducted by CAF (OBSERVATORIO PYME) rates the states with regard to SME promotion by applying the following three criteria:

- 1) National policy to support SMEs (35 points)
- 2) Human resource development strategy for SME development (30 points)
- 3) Organization, creation and responsibility of the private sector (35 points)

Note that the criteria in 1) includes expandability and quality of institutions and plans required for development of individual companies, and quality of infrastructure. 2) includes the current state of human resource development in each state, the literacy rate, and development of higher education. 3) contains importance of guidance to the private sector and its organization, and deployment of support policy related to responsibility of the local private sector.

As a result of rating, three states (Carabobo, Bolivar and Zulia) received over 70 points, confirming their role as center of the country's production activities. Then, 9 states received over 60 points and show future growth potential under industrial support focusing on strengths of each state and region. The remaining 11 states were rated between 20 – 50 points. For these states, it is desirable to identify industries which can be fostered to support the intermediate states (60 points or over) in the context of policy support or the regional hub strategy.

FIGURE1.4.4 RANKING OF STATES IN TERMS OF SME PROMOTION ENVIRONMENT



Source: CAF

**TABLE 1.4.9 DETAILED SCORING OF STATE RANKING IN TERMS OF SME
PROMOTION ENVIRONMENT**

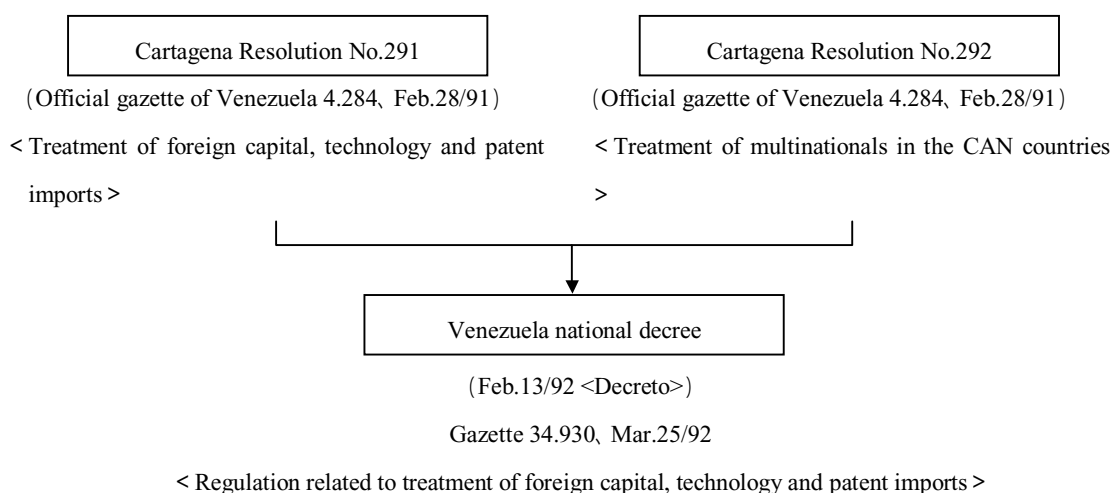
Ranking	State	(1) <35points>	(2) <30points>	(3) <35points>	Total <100point>
1	Carabobo	34.26	22.50	30.80	87.56
2	Bolivar	32.77	22.50	22.40	77.67
3	Zulia	29.79	22.50	25.20	77.49
4	Aragua	23.83	20.63	22.40	66.85
5	Miranda	20.11	22.50	23.10	65.71
6	Distrito Federal	17.13	22.50	25.90	65.53
7	Anzoátegui	20.85	18.75	25.90	65.50
8	Lara	21.60	18.75	24.50	64.85
9	Monagas	21.60	22.50	20.30	64.40
10	Táchira	20.11	18.75	23.80	62.66
11	Mérida	25.32	18.75	18.20	62.27
12	Nueva Esparta	18.62	18.75	22.40	59.77
13	Falcón	17.87	15.00	17.50	50.37
14	Yaracuy	14.89	18.75	16.10	49.74
15	Sucre	14.15	9.38	19.60	43.12
16	Trujillo	10.43	13.13	11.90	35.45
17	Guárico	5.96	11.25	14.70	31.91
18	Portuguesa	6.70	11.25	12.60	30.55
19	Cojedes	8.19	9.38	11.20	28.77
20	Barinas	5.21	11.25	11.90	28.36
21	Apure	6.70	7.50	12.60	26.80
22	Amazonas	0.74	13.13	9.80	23.67
23	Delta Amacuro	2.23	11.25	8.40	21.88

Source : CAF

1.4.3 Investment promotion policies and programs

(1) Legal framework

The legal framework for investment promotion is based on non-discriminatory treatment of local and foreign capitals. It is structured as “major standards for foreign investment and technology licensing” based on Cartagena Resolution Nos.291 ad 292 among the CAN countries, as follows.



Decrees and regulations :

- Decree (Decreto) No.1,103, Sep.06/90; (Gazette 34,548, Sep.7/90)
Regulation for hydro carbon related investment under jurisdiction of MEM
- Resolution 2.912 (Resolución No. 2,912, Sep26-95); (Gazette 34,807, Sep.29/95)
Control of investment registration based on sales of securities
- Decree 2,449, Mar.11/98; (Gazette 36,424, Mar.30/98)
Supplemental Regulation for the Privatization Law Related to Investment for Privatization Executed by FIV
- Decree 356, Oct.03/99; (Gazette 5,390, Nov.18/99)
Investment Protection and Promotion Reinforcement Law

(2) Decree 2,095 (legal treatment of foreign investment)

Based on information furnished by SIEEX (Foreign Investment Supervisory Agency) and CONAPRI (Venezuela Investment Promotion Council), the legal framework for foreign investment control policy, as issued in Decree 2,095, is summarized as follows.

1) Key foreign investment control rules

- a. Equal treatment: Foreign and local investors are treated equally.

- b. General principle: Foreign investment accompanied by commercial activities is permitted for most economic sectors, except for special services regulated by law, such as newspaper, television and radio stations in Spanish language.
- c. Exempt from prior approval: Foreign investment does not require government approval, except for cases described in the National Security Law (LOSD). Under Article 15 of LOSD, the following border security zones are designated by presidential decree, dated January 20, 1994.

Border Security Zones	Width of the Border Security Zone (1) <i>Municipalities</i>	Width of the Border Security Zone (1) <i>Parishes</i>
Apure State (2)	AM Páez. AM Muñoz: The territory W. of Highway main road 4. FM Quintero FM San Vicente. Páez AM Rómulo Gallegos. MA Achaguas FM El Yagual: The territory S. of the Arauca River. FM Guachara AM Pedro Camejo FM Cunaviche: The territory S. of the Canaparo River FM Codazzi.	
Zulia State	Mara. Jesús Enrique Lossada Rosario de Perijá Machiques de Perijá Catatumbo Páez	José Ramón Yépez El Rosario Libertad Jesús María Semprún Udón Pérez
Barinas State	Ezequiel Zamora (excluding the parish of Pedro Briceño Méndez) Pedraza	Páez. Ignacio Briceño
Tachira State	García de Hevia Ayacucho Michelena. Pedro María Ureña Lobatera Bolívar. Libertador. Junín. Códiva.	

- d. Free remittance of capital and dividend: The foreign investor may remit proceeds from sales of securities, interest income, and profits after settlement to overseas, provided that neither of them becomes legally valid until relevant registration is

approved by SIEX according to the regulations pursuant to Cartagena Resolution 291 and 292.

- e. Credit negotiation: The foreign investor is basically free to negotiate credit service in or outside the country.
- f. Benefits under the Andes Liberalization Program: Any foreign company may, by participating in the Andes Liberalization Program, make exports within the subregion under the same terms and conditions applied to local companies.
- g. Classification of investment: Investment is classified by decree into three types: foreign direct investment, domestic investment, and subregional investment.
 - Foreign direct investment: Investment made by a foreign individual or entity in a freely exchangeable currency, clear assets, the domestic currency as the fund transferable to overseas, or reinvestment made pursuant to Decree 2,095. Other types of investment include debt/equity conversion and technology investment (trademark, etc.)
 - Domestic investment: Investment by an individual, an entity and a state that is deemed to be a Venezuelan national by law; investment made by a foreign individual, which has obtained the “Domestic Investor Certificate” from SIEX by meeting specific requirements; and investment made by subregional investors in the CAN countries.
 - Subregional investment: Investment by a person (national) of any of the CAN countries, namely Bolivia, Colombia, Ecuador, Peru and Venezuela.
 - Indirect investment: Investment made by obtaining shares from the Stock Exchange pursuant to the provisions of Item 27, Article 1, Decree 2,095.
- h. National Regulatory Agencies: Item 11, Cartagena 291 requires each member country to establish an organization or a government agency responsible for application of foreign investment rules. Under Decree 2,095, this authority is granted to SIEX under the Ministry of Finance. However, for some sectors, other organizations control the foreign investment rules.
 - Banking and insurance sector: Regulatory agencies for banking and insurance services
 - Hydrocarbon, petrochemical, coal and other industries: Ministry of Energy and Mining

- Public credit operation: Public Finance Management, Ministry of Finance (Article 2 of Public Credit Law)
- i. Registration of foreign investment: Every foreign direct investment must be registered with SIEEX within 60 days after its commercial registration. The following documents must be submitted with the application for registration:
- A certificate of foreign currency registration or a certificate of assets as payment of shared capital
 - A copy of the certificate of the articles of incorporation of the foreign company or a public notification
 - The articles of incorporation must be translated to Spanish, with certification by the Venezuelan consulate in a given country
 - The power of attorney to a local agent of the investing company
 - The application for corporate classification

Registration for foreign direct investment must be renewed annually by the foreign investor. For this purpose, the foreign investor must submit the following documents within 120 days after the end of each fiscal year.

- Application for registration renewal (revision)
 - A copy of the certificate to show corporate classification
 - A financial report for the latest fiscal year, audited by an independent accountant
 - The minutes of shareholders' meeting that adopts a resolution to change the capital, if any
 - The minutes of shareholders' meeting that declares a dividend, together with collection of withdrawal tax
- j. The real value of foreign investment: Registration rules state as follows:
- Contribution related to foreign currency: A freely exchangeable foreign currency
 - Physical assets or scientific contribution
 - Reinvestment of profits
- k. Assessment of the real value of investment according to execution
- Payment in foreign currency
 - Payment in kind
 - Acquisition of shares by a domestic investor, a joint venture or a mixed company
 - Purchase of shares at the stock exchange

- Reinvestment: To be registered in the value converted by applying the foreign exchange rate effective at the time of investment.
 - Payment of unpaid capital
 - Capitalization of the creditor's right
- l. Areas in which domestic investors retain the exclusive right: The following areas are designed under Article 6 of Decree 2,095.
- Television and radio stations, and newspapers in Spanish language
 - Professional services which practice is regulated by law: Lawyer, corporate manager, accountant, economist, engineer, physician, veterinarian, dentist, journalist, and psychologist
- m. Special cases
- Article 1 of Decree 2,095 states that foreign investment in the fields related to hydrocarbon, iron ore, banking and insurance service is regulated by the decree and the applicable laws that are listed below:
- Decree on National Title and Ownership of Commerce and Industry in the Field of Hydrocarbon (Article 5 of Organic Law)
 - Decree on National Title to Iron Ore Mining (December 16, 1974)
 - General Decree on Banks and Other Financial Institutions (foreign investment in this sector was opened on November 2, 1993)
 - Decree on Insurance and Reinsurance ((foreign investment in this sector was opened on September 23, 1994)
 - Decree on Development and Protection of National Maritime Trade (Articles 7 and 9 of Organic Law)
 - Regulation for Registration of Private Aircraft (Articles 4 and 5 of Organic Law)
- n. Corporate classification
- Certification of corporate registration: Issued by SIEX as the act of management
 - Considerations in issuing the certification
 - * Percentage share of local and foreign capitals
 - * Reflection of capital: Technology, commerce, administration, and financial management
 - Appointment of the foreign investor to management position of the company
 - Investment by the joint venture
 - Reconfirmation of classification: Reconfirmation by SIEX
- o. Settlement of dispute: Venezuela participates in the following international agreements on dispute and settlement:
- Panama Convention on Commercial Arbitration

- The New York Convention on Recognition of Enforcement of Arbitration Awards
 - The dispute settlement mechanisms of the Group of Three (G-3)
 - The agreement on membership of the International Center for Settlement of Investment Dispute (ICSID).
- p. Subsidies, joint ventures and branches: Item 8, Article 2 of Decree 2,095 defines the subsidy and the joint venture as follows:
- A foreign company controlled in all aspects by other company which capital (share) or management (voting right) is mandated by its parent company
 - A company separately controlled in terms of capital and management for any purpose, regardless of the parent company
 - When a company holds 50% or more of capital (share) of other company, the former is a parent company and the latter is a subsidy.
 - The foreign company is authorized to establish a branch office in Venezuela according to the commercial code.
- q. Technology licensing, license and franchise agreement: Article 1 of Decree 2,095 states that contractual provisions concerning the trademark, patent, license and royalty must comply with Cartagena Resolutions Nos. 291 and 292. General Resolution No.344 concerning “industrial property rights” states that a license agreement on the patent or trademark, or an investment agency or SAPI (Industrial Property Right Autonomous Service Organization) becomes effective when it is registered with an organization responsible for registration of intellectual property rights (patent, trademark, and other assets accrued from commerce and industry).
- Technology licensing agreement: Technology is protected by patent, utility model, trademark and trade secret.
 - Scientific contribution by foreign direct investment: Decree 2,095 takes into account the form of scientific contribution by foreign direct investment. It defines technological contribution as provision, sales, leasing or transfer of trade mark, patent, utility model, document, instruction, production process, method, or technical assistance, control method by personnel, and other similar services.
 - The technology licensing agreement must be registered as investment within 60 days after its conclusion. Also, it is encouraged to submit the agreement to SAPI in advance.
 - The decree requires the method for technology licensing to cover the following:
 - * Authorization of use of the trademark related to distribution of products, including the trademark owned by a foreign person, or transfer of use

- * Authorization of use of patent, industrial design or utility model, or transfer of use
- * Provision or instruction on technical knowledge by any method, and human resource development training
- * Basic or detailed engineering standards related to production
- * Technical support in business areas
- * Advice on corporate management and administration
- Provisions to be included in the technology licensing agreement
 - * Identification of contracting parties
 - * Content of technological contribution and non-biding provision, identification of trademark and patent, the purpose of the contract
 - * Conditions for technology licensing, guarantee for application, and treatment of progress proposed and developed by contracting parties during the contract period
 - * Contract value for each element contained in technology licensing
 - * The term of the agreement
 - * Currency and country for payment
 - * Provisions defining the effect of technology licensing
 - * Obligation of technology provider to provide education for local people to maximize efficiency
- Confidentiality: Technical information and know-how disclosed during the term of the technology licensing agreement shall be kept in secret for the period equal to the term, with no extension being allowed. Nevertheless, Cartagena Resolution No.344 concerning protection of information requires that protection continue so long as conditions for trade secrete remains valid. The user shall not disclose confidential information unless otherwise agreed with the approving party.
- Payment: Payment does not require prior approval, subject to the terms and conditions of the agreement. This principle is contained in Cartagena Resolution No.291, provided that no party is obliged to pay royalty to the owner of patent or trademark that is unused or expired. All taxes shall be paid prior to performance of obligation under the technology licensing agreement. Each payment shall be reported to SIEX within 60 days after actual payment, together with a certificate or receipt for tax payment. The licensor may capitalize an amount unpaid for technical service, subject to the consent of corporate shareholders and the permit of SIEX.

Payment of royalty for intellectual property rights may be made for a period longer than that specified in Resolution No.344.

Payment agreed under the technology licensing agreement is withheld until registration with SIEX.

- Control: SIEX may check if the agreement complies with requirements for registration. For this purpose, the contracting party is required to report, within 60 days after the end of each fiscal year, services performed under the agreement, including the report as to whether a process, patent or trademark is used economically and adequately according to the requirements, together with a training program. In the case of non-compliance, SIEX may withhold or revoke registration of the agreement.
- License: Resolution No.344 specifically sets forth the provisions for patent license (Chapter I, Sec. VII), with the intent to transfer trademark license (Chapter V. Sec. VII).
- Registration of the licensing agreement: SIEX is responsible for registration of the licensing agreement. SAPI registration is intended to transfer the valid license under the presence of a third party. SIEX registration can be made after transfer.
- Restriction imposed on the licensor under Cartagena Resolution No.291: To promote free competition, the licensor is prohibited from:
 - * Fixing the price of the product made under the license
 - * Regulating the production volume of a licensed item
 - * Preventing the use of competing technologyIn addition, the licensee is required to transfer any improvement made on the licensed technology to the licensor.
- Authorization: SIEX may approve the licensing agreement containing export regulation, provided that it does not affect inter-Andean exports.
- Franchise: In Venezuela, there is no specific legal provision concerning franchise, nor legal definition of conditions. General rules for franchise found in the country are summarized as follows:
 - * The company markets its product via an independent agent.
 - * The owner of a specific technology may grant to a third party the license to manufacture a product or provide service in a form strictly determined by the leading company.
 - * The grantor shall be the owner of a patent based on invention that is transferred to a third party for the purpose of manufacturing a product.

- Typical structure of the franchise agreement: Generally contained contractual elements are specified in Article 44 of Decree No.2095 and Articles 12, 13 and 14 of Cartagena Resolution No.291.
 - * Statutory provisions: The franchise agreement shall contain the following provisions.
 - * Obligation of the franchiser to provide training for local people
 - * Prohibition of price fixing for the product made using the proprietary technology
 - * Restriction on product exports in intra-subregional trade
 - * Contractual value for each element contained in technology licensing
 - * The term of the agreement
 - * General provisions: The following provisions shall be included.
 - * Territory: Generally limited to a specific country or a group of countries (complying with Article 10 of the Pro-Competition Law)
 - * Type of business: Specifying the franchisee's activities. The franchisee shall limit its commercial activities to the type of business contained in the franchise agreement.
 - * Purchase: Generally, the franchise agreement covers a specific product, raw material, input from a designated raw material, or purchase of the franchiser.
 - * Training of personnel and commercial technology: Including the training contract and the transfer of commercial knowledge related to business.
 - * Right to review the business: Including corporate books (manuals) and the method required for the franchisee to execute the business.
 - * License to use the trademark: Generally, franchise includes the license to use the trade name (name) or trademark owned by the franchiser, but not the transfer of the ownership thereto.
 - * Technological know-how: A certain form of franchise includes commercial or technological know-how required to make a product
 - * Price: The price is divided into two elements, franchiser's royalty and profit distribution.
 - * Form of payment: The fixed amount or percentage share on net or gross sales
 - * Generally acceptable restriction on the franchise and licensing agreements: the Law of Promotion and Protection of Free Competition prohibits the following acts:
 - Marketing area and permissible competition restricted by licensor
 - Fixing of price or market conditions
 - Unfair refusal by the licensor to meet product demand or service provisions

- Advertisement or act that restricts or misleads free competition

(3) Decree 356 (Protection and Promotion of Investment; October 3, 1999)

Chapter 1: General

Paragraph 1:

To provide for domestic and foreign investment and investors for the purpose of achieving promotion of investment for national development, diversification and harmonious supplementation.

Paragraph 2:

The decree applies to ongoing, effective investment, future investment and investors, unless having any conflict with the existing law.

Paragraph 3:

- (1) Capital: All activities to obtain production income under the license agreement pursuant to the domestic law or by an enterprise of various forms
- (2) Foreign investment: Investment effectively controlled or owned by a foreign enterprise or person
- (3) Investment considered as foreign investment is defined under the resolution adopted by the CAN countries and the regulation in the country.
- (4) Foreign investor: The owner of foreign investment or a person who effectively controls it
- (5) Venezuelan capital: Capital effectively controlled or owned by a Venezuelan company or person
- (6) Venezuelan investor: A Venezuelan company or person who owns or effectively control the Venezuelan capital

Paragraph 4:

Foreign direct investment, subregional investment, neutral capital investment, and intra-Andes corporate investment in Venezuela may continue under an appropriate resolution by the CAN countries and legal standards.

Paragraph 5:

Validity and application of treaties, agreements and arrangements related to protection and promotion of investment, as signed by Venezuela, become effective by enacting this decree.

Chapter II: Treatment of Investment in Venezuela

Paragraph 6:

The foreign investor has the right equal to that granted to the domestic investor.

Paragraph 7:

Foreign investment and foreign investors are subject to the same obligations that are imposed on domestic investment and investors.

Paragraph 8:

No discriminatory treatment of foreign investment and foreign investors is made with regard to the source of capital.

Paragraph 9:

Foreign investment and foreign investors are eligible for favorable treatment under Paragraphs 7 and 8 of this decree.

Paragraph 10:

Venezuelan investment and investors receive the same treatment as foreign investment and investors receive in the similar environment.

Paragraph 11:

Foreign investment or investors are not mandated to make confiscation or settlement by law, unless otherwise specified in constitutional provisions.

Paragraph 12:

Foreign investment and investors are required to pay taxes related to payment made in connection with investment and comply with domestic standards.

Paragraph 13:

The central and local governments do not prevent commercial or industrial activities within the competing range of service.

Paragraph 14:

To permit temporary income for people who provide service related to investment in accordance with policy for entry and immigration of foreigners to the country, and subject to the labor law.

Chapter III: Promotion and Policy Related to Incentive for Investment in Venezuela

Paragraph 15:

The state, for the purpose of promoting investment, establishes favorable conditions for investment and investors:

- (1) To establish incentives for investment in order to achieve the policy objective;
- (2) To provide incentives responsive to Venezuelan investment and investors;
- (3) To condition each incentive to the purchase of share by the investing person or company; and
- (4) To establish incentives favorable to Venezuelan capital in foreign countries, in harmony with the treaties and agreements signed by the country.

Paragraph 16:

Formation of human resource investment, production development, and participation of the Venezuelan economy in the world economy???

- (1) Formation of human resources, and implementation of scientific and technological research and study
- (2) Improvement of competitiveness in production activities
- (3) Improvement of value added from export activities, including advanced knowledge
- (4) Promotion of corporate networks and complexes, and formation of the value added production chain
- (5) Development and reinforcement of SMEs
- (6) General export promotion
- (7) Infrastructure development, particularly support for competitiveness and foreign trade
- (8) Deployment of promotional activities for environmental protection and preservation

Paragraph 17:

The state may fulfill the promise of legal stability for the purpose of stabilizing the current economic conditions and assuring safety of investment.

- (1) Stability of the taxation system effective during performance of the investment agreement
- (2) Stability of the export promotion program
- (3) Stability of incentive accepted by the investor pursuant to Paragraph 15

Paragraph 18:

Agreement on legal stability

- (1) The agreement is enacted prior to investment, with validity of less than 10 years
- (2) To be signed by the investor according to the requirements in this decree and under the collateral and investment program.
- (3) Legal solution for failure of the investor to perform the agreement
- (4) Legal arbitration on dispute arising between investors

Paragraph 19:

According to the administrative power and function. MPC and MF coordinate policy and action in efforts to ensure legal stability and security for investment.

Paragraph 20:

To coordinate administrative activities, together with the administrative power and function, in implementation of investment promotion and within the scope of national policy.

Chapter IV: Settlement of Dispute

Paragraph 21:

Any dispute between the investor in a country with which no investment agreement is made and Venezuela shall be settled through diplomacy. If not agreed within 12 months, the dispute shall be referred to arbitration.

Paragraph 22:

If an effective investment agreement exists, the dispute shall be settled according to the applicable provisions of the agreement and through the international arbitration procedures.

Paragraph 23:

Any dispute that should be settled according to the provisions of this decree shall be settled at an international tribunal or court.

Chapter V: Temporary and Final measures

Paragraph 24:

Provisions in this decree does not prevent or exclude the following measures from being taken:

- (1) Measures required to protect human life or health, animals or plants, or to preserve natural resources
- (2) Measures related to financial service in order to achieve the following objectives:
 - a. Protection of investors or depositors
 - b. Maintenance of responsibility and safety of financial institutions
 - c. Guarantee of just and fair action and stability of the financial system in Venezuela

Paragraph 25:

Provisions of this decree shall be enforced on the basis of interpretation written and established in the inherent law of the high court.

Paragraph 26:

Related regulations shall be promulgated within 60 days after notification of this decree.

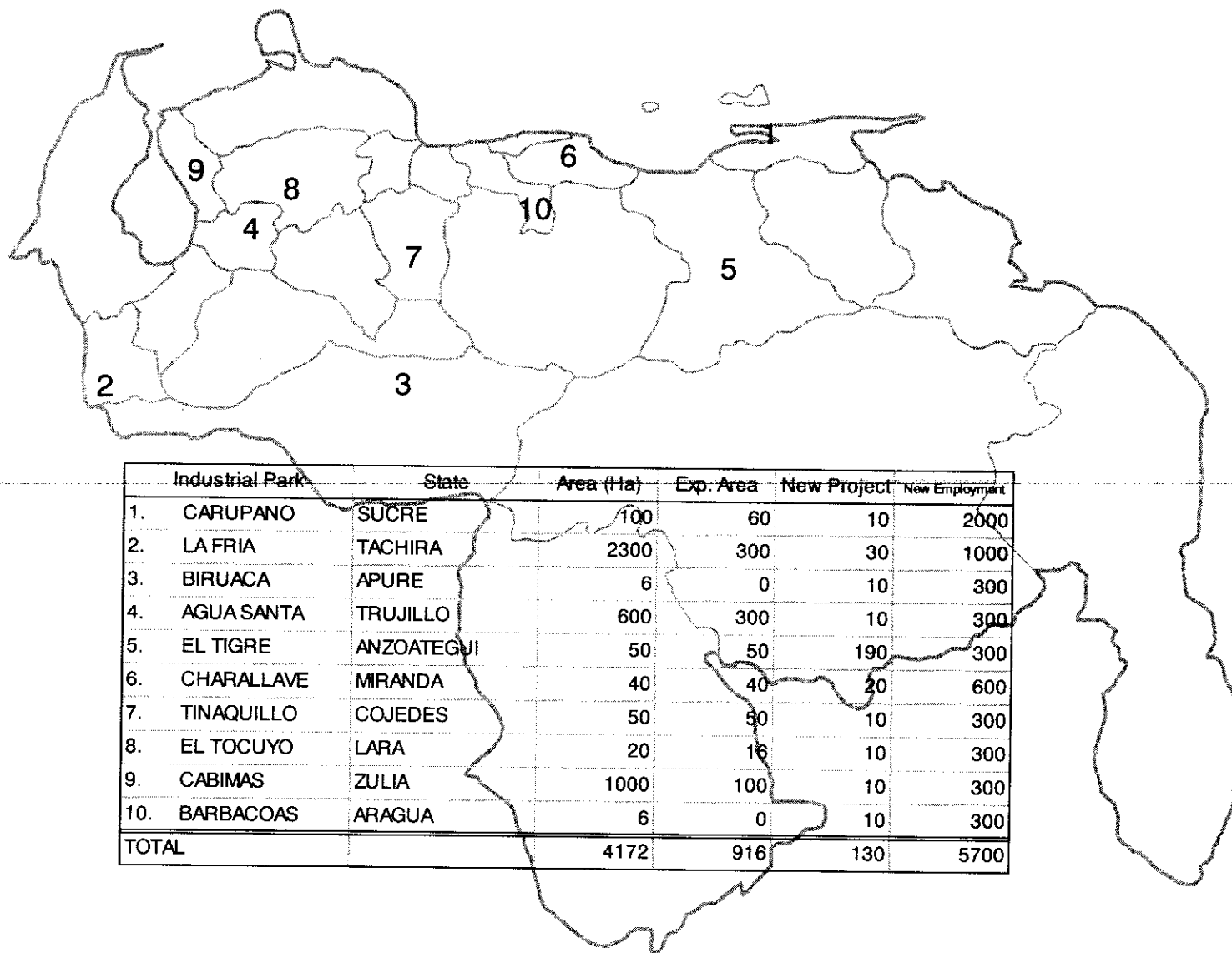
This decree is attached in the original language.

1.4.4 Investment in Industrial Parks and Future Projects

Development of industrial parks in the country was started two decades ago under the leadership of CORPOINDUSTIRIA. Major industrial parks currently in service are shown in Figure 1.4.5. Also, Tables 1.4.10 and 1.4.11 show data on “industrial estates and development organizations” and “trends in incorporation, employment, gross production and value added by state” that are based on the results of CAF’s recent SME survey.

During the second field survey, the study team visited and analyzed four industrial parks, namely Carupano (Sucre), El Tigre (Anzoategui), Tinaguillo (Cojedes), and El Tocuyo (Lara). Then the third field survey covered industrial estates and districts in Parque Tecnológico (Mérida), Zona Libre Cultural, Científica y Tecnológica (Mérida), San Fernando-Biruaca (Apure), San Antonio (Táchira), Ureña (Táchira), San Cristóbal (Táchira), Coro (Falcón) and Punto Fijo (Zona Franca Industrial, Comercial y de Servicios de Paraguaná-Falcón). The study team discussed members of the local chamber of commerce and industry, as well as executive officers of local governments (including governors and mayors), and visited production facilities of major enterprises in each area. The results of analysis are summarized in the following table. Major issues commonly seen among the four industrial parks are the lack of facility maintenance due to a poor management organization, the lack of support for entrepreneurs who show interest in new projects, and the absence of coordination between central government and local organizations. To overcome the situation, the government should redefine the role of industrial parks and a strategic direction for future development.

FIGURE 1.4.5 MAJOR INDUSTRIAL PARKS IN VENEZUELA (CURRENT SIZE AND DEVELOPMENT POTENTIAL)



Source: MPC

TABLE 1.4.10 COMPARISON OF SELECTED INDUSTRIAL PARKS

	El Tigre (Estado de Anzoategui)	El Tocuyo (Estado de Lara)	Carúpano (Estado de Sucre)	Tinaquillo (Estado de Cojedes)
Management organization (at present) (initial stage)	ASOCIACION CIVIL CORPOINDUSTRIA (25 years ago)	None, the chamber of industry is organized. Developed by CORPOINDUSTRIA in 1979	None, the chamber of industry is organized. Developed by CORPOINDUSTRIA two decades ago	None, the chamber of industry is organized. Developed by CORPOINDUSTRIA two decades ago
Land area (ha)	49,71	88,0	44 (only 13ha in service)	64ha: 34ha managed by the chamber 30ha managed by municipality
Number of lots	92			
Average lot size	4200 m ²	Minimum 3,000m ²	2,000 – 3,000m ²	4,000m ²
Employment	520	50 - 100	350	600
Economic Activity or Economic Sector	Metal and machinery 40%, industrial service 32%, general manufacturing 12%, electrical products 7%, chemical products 7%, and food processing 2%		Canned tuna/sardine (exported to Brazil) Technology from Spain/supervision by Brazil, plastic bags, furniture manufacture, block manufacture, fish powder production	Lubricant oil, steel material processing, automotive filters, chemical products, office desks/chairs, animal feed, ceramic glue, soap, radiators, paint, tanks for tank lorries, computer printout paper
Manufacturers in operation	15 empresses (28 %), 15 under construction), 23 (idling)	Only 2 companies in operation Production of uniforms (cloth imported) Seeds (technical assistance)	Approx. 10-15% (10 companies)	16 companies in operation (15-20%)
Incentives	Income tax exemption for 8 years	Income tax exemption for 8 years	Income tax exemption for 8 years	Income tax exemption for 8 years
Site preparation	Generally finished, infrastructure available	Requiring rework due to growth of bush	Site preparation completed for 13ha and undeveloped bush land	Improvement of site roads and public area under the rehabilitation plan Rehabilitation started
Utilities				
Water	OK	OK	OK	OK
Electricity	OK	OK	Not available, companies have their own power generation systems.	OK
Gas	LPG			
Sewer	OK	Treatment plant required	Treatment plant out of service	Rehabilitation required
Communication	OK	Rehabilitation required	Not serviceable	Rehabilitation required
Remarks (issues)	Many companies lack initial funds (due to high interest rate) after purchase of lot. New incentives are expected after facility rehabilitation. Promotion of an irrigation project is expected.	Project approval is suspended due to application for financial assistance. Poor maintenance and management	Pollution control required (sewerage treatment) as the site is adjacent to a recreational beach Improvement of public service: garbage collection, water, telecommunications Tourism Request is made for designation as the free trade zone.	Project approval was obtained, but lack of financial source Joint venture preferred The study results should be used to make the organization more functional. Streamlining of procedures required

	Parque Tecnológico, MERIDA	ZOLCCYT, MERIDA	S. Fernando Biruaca, APURE	San Antonio, TACHIRA
Industrial estate management (Present) (At the time of incorporation)	1992 ULA/CONICIT/CORPOANDES/FUNDACITE	1995 Board of Directors (Ley sobre la Zona Libre Cultural, Científica y Tecnológica del Estado de Mérida)	-	1973-75 No administration
Area (Ha.) No. of lots Average lot area	Leasing of ULA facility	4 states 295.7 Has.	20-30 Has. (future)	500 Has.
Employment	-	-	-	15,000 workers in tobacco production
Economic Activity or Economic Sector	(Actual) 17 companies in 2000, employing 99	Investment approved in 4 states (Sucre, Campo Elías, Libertador, Santos Marcolina) is entitled to benefits as free zone.	* Afforestation (1.1MMHas.) (Saladillo, planting of eucalyptus and slash pine continues for 8 – 10 years) *Agricultural and dairy products *Fresh water fish, cotton	Textile, leather (shoes and bags), furniture, metalworking, aluminum transforming, tobacco (30 factories), export 56% (including Urea)
Companies in operation	Innovation System: * Technology Center *Enterprise Inn & Modernization Assistant System: *Enterprise Incubation *Publication Service	*Assembly industry *Imports of folklore products from CAN and Mexico	Cotton, tobacco, cheese, rice, cacao, sugarcane	*250 establishments (exporting to Colombia, Mexico and Caribbean) *95% deal with banks
Incentive	-	Gazette 4,937, Jul.14, 1995	-	Decree 315/327 (Border area development plan)
Land	-	-	Only a few sites in Biruaca	Factories sporadically located in the city Decreto No. 963
Utilities Water Electricity Gas Sewer Communication	-	Joint support by the central and local governments	OK Improvement required Insufficient Improvement required Improvement required	
Remarks (issues)	* Support required for future expansion into new fields * Need for plant expansion * Inducement to V/C	* Support to maintain sustainable development of science, technology and culture	* River transport development * Development of agro-industry	* Factory relocation plan * Effluent treatment plant required * Developed required as key border area * Tobacco tax (state)

	Ureña, TACHIRA	San Cristoba, TACHIRA	Coro, FALCON	Pto. Fijo, FALCON
Industrial estate management (Present) (At the time of incorporation)	Established 25 years ago	-	-	Established as Zona Franca 25 years ago FONDUR ZONFIPCA
Area (Ha.)	55Has.	-	-	246 Has.
No. of lots				18
Average lot area				-
Employment	25,000人	-	-	5,000 (peak level)
Economic Activity or Economic Sector	Bus body, automotive parts, office equipment, furniture	70% of industries in the Andes area are concentrated.	Fishery (tuna, shrimp), coal, petroleum refining, meat, non-ferrous metal, eco-tour, salt, cement, palm, aloe	* Tourism - related commerce * Petroleum refining * Industrial estate (Zona Franca) * The entire peninsula is managed by CORPOTULIPA.
Companies in operation	Capacity utilization rate of 40%	58% retail, 20% SMEs 19% MEs Textiel (20%), woodworking (20%), metal and machinery(10%) Food (10%), lime (9%), shoes (9%), automotive parts (6%), graphics art (6%), leather (4%)	Mining, agriculture, cattle raising, fishery	* Toursim-related commerce in Zona Libre, 401 projects (84%)、tourist service 73 (16%) * 19 companies in ZONFIPCA (20% operating)
Incentive	Border area development plan	Border area development plan	-	Income tax exempted for 10 years (Official Gazette No. 36517, 34772)
Land	Factories are scattered in the city Decreto No. 963	Factories are concentrated in a limited area of the city. Decreto No. 963	Decreto No. 963	* Managed as industrial estate *The entire peninsula is Zona Libre for toursim
Utilities				
Water	Insufficient	Insufficient	Insufficient	Insufficient
Electricity	Frequent power outage	Frequent power outage	Improvement required	Improvement required
Gas	LPG	LPG	Improvement required	OK
Sewer	Improvement required	Improvement required	Improvement required	Improvement required
Communication	OK	OK	OK	OK
Remarks (issues)	* Industrial structure analysis and corporate diagnosis required (strategic direction) * Urgent need for human resoure development (foreign workers inflow) * Integration with San Antonio (Infrastructure development)	* Customs clearance 3 days * Project selection should be evaluated from the viewpoint of "optimum allocation." * La Fria should be developed as the center of food production. * Improvement of freight transport service	* Human resources are attracted to the oil industry * Organization of the fishery industry * Construction of an airport as a hub for physical distribution * Development of the irrigation system	* To reappraise the positioning as Zona Franca (in terms of systme) * Redevelopment targeting the Caribbean market

Source: JICA Study Team

TABLE 1.4.11 CURRENT STATE OF INDUSTRIAL ESTATES AND DEVELOPMENT ORGANIZATIONS BY STATE

State	Industrial Estate	Development organizations/Remarks
	(No. of estates) Name	
Amagónas	-	CVG (Guayana) (Note) 80% of the country's mineral reserves
Anzoátegui	(4) Zona Ind. Mesones, Z.I. Los Montes I&II, Sector Ind. Guaraguaro-Guanta, Sector Nuevo Desarrollo Ind. Los Potocos, El Tigre	CAINAR (Chamber of SME Industry), Expo-Jornadas Anzoátegui, FUNDEI-Anzoátegui (Industrial education institute), FUNAUDO (East Region University Development Organization), FUNDACITE (Science and technology organization), FONDEPMI (Pan-American SME Development Fund)
Apure	(3) San Fernando via El Tocal <7Has.>, Biruaca <55.78 Has.>, Zona Portuaria (San Fernando-Via Arichuna) <10Has>	FONDEA (Apure Development Corporation), CORPOLLANOS (Janos Area Development Corporation)
Aragua	(40: 2,837Has.) Municipio Girardot (30%), M. Mariño (20%), M. Sucre (15%), M. Zamora (7.5%), M. Lamos (5%), M. Michelena (7.5%), M. San Sebastian (2.5%), M. Ribas (7.5%), M. Libertador (5%) <PI Barbacoa, Urdaneta, PI Manuel Olivares Betacourt, Girardot>	CAPMI ARAGUA (Chamber of SME Industry), CAMARA DE IND., CAMARA DE COMERCIO, CODET (Pan American Technology and Export Development Committee), FUNDEI (Industrial education), CEDEA (Aragua Corporate Development Center), FUNDACITE, FONCAPMIAR (State SMME Credit Fund), FUNDACREPO (SMME Reinforcement Support)
Barinas	(1) PI Barinas, C.A.	State economic development bureau, ASAIMBA (State SME Association), FONDEBA (SME Credit Fund)
Bolívar	(4): Río Claro (42.27Has.), Los Pinos (45.80Has.), Cambalache, Cañaveral <PI La Sabanita, Cd. Bolívar, PI Unare II, Cd. Guayana, PI El Farallón Cd. Bolívar>	CVG, ASOPEMIA (SME Industry Association), CAMARA C/I CARONI, AIMM (Mining and Metal Industry Association), FONFIBOLIVAR, FONDO GUAYANA, FONDAUDO, INSTITUCIONES DE APOYO TECNICO (Sector-based R&D)

Carabobo	(60) (8,625.75Has.) Bejuma, Carlos Arvelo, Diego Ibarra, Guacara, Juan José Mora, Montalbán, Pto. Cabello, San Joaquin, Valencia (39 parks (65%) are located in Valencia) <PI La Rondalera, PI La Quizanda >	CAPEMIAC (Chamber of SME), CAMARA de Ind., FUNDACITE, FUNDEI, AIMM, CEPROCA (Carabobo State Productivity Center), CONSORCIOS DE EXPORTACION (First export consortiums in Venequela (textile))
Cojedes	(5): San Carlos (105.5Has), Tinaco, Tinaquillo (Z.I-I: 27Has., Z.I-II: 17Has., Z.I-III: 98 lots)	FONACREP (General Credit Fund), CAMARA (Cajedes State Chamber of Industry)
Delta Amacuro	-	CVG, CAPMIDA (Chamber of SME)
Ddistrito Federal	< Manufacturing 1,386 companies : LE 64, ME 31, SE 1,005 >	CAPMI-CARACAS, CAMARA de Ind. de Caracas, FUNDEL, Iniciativa Dirigidas a la PYME (University unit)
Falcón	(3): Zona Franca Industrial de Paraguana (Export Processing Zone), Zona Industrial de Sabana Largo, Zsona Industrial de Coro, Santa Ana	CAPEMINFA, FUNDACITE-FALCON, State Economic Development Breaud, FONDAPEMI (SME Development Fund), PROINFAL (Falcón State Development Promotion), CORPOFALCON (Economic Development Activity Autonomous Organization), CICAF (Chamber of Commerce, Industry and Agriculture), FONECRA (Agriculture Credit Fund)
Guárico	PI Valle de La Pascua, PI San Juan de Los Morros	CORPOLLANOS, APROLEGUA (Guárico State Federation of Agricultural and Dairy Products)
Lara	Comdibar I&II, El Tocuyo.	CAPMIL, CAMARA de Com., TECNOPARQUE (Parque Tecnológico de Barquisimeto), FUNDAPYME, FUNDACITE-LARA, FUNDEI-LARA, PROINLARA (Private Sector Agreement on Lara State Investment Promotion), Camara de Industriales.
Mérida	(2) CPTM (Corporación Parque Tecnológico de Mérida: ULA), ZOLCCYT (Zona Libre Cultural Científica y Tecnológica) <ZI Mérida, C.A., PI El Vigía, C.A.>	FEDEINDUSTRIA, FONFIMER
Miranda	(3): Altos Mirandinos y Zona Metropolitana, Valles del Tuy, Guareñas-Guatire <PI Charallave>	CAPMI-MIRANDA, CIEMI, PTS (Parque Tecnológico, de Sartenejos), Fundación Instituto de Ingeniería, INFOEM (Instituto Internacional de Formación Empresarial)
Monagas	(2) <PI Corpozim, Antonio Maturín, PI 9 de Octubre, San Martín>	FUNDACION MONAGAS SIGLO XXI, CAPMI-MONAGAS, FONCREM, FUNDEMOS, FUNDAUDO

Nueva Esparta	(1) <PI Macho Muerto Porlamar, García>	CAMPINE, FUNDEI, FONDENE, CAMARA DE C. e I. CCPLP (Cámara de Comercio, Puerto Libre y Producción de Nueva Esparta), CAMARA DE TURISMO, FUNDAUDO
Portuguesa	(1) <PI Acarigua, Paéz>	ASOPEMI (Cámara Regional de la Artesanía y Mediana Industria El Estado de Portuguesa)
Sucre	(4): ZOICA (Zona Industrial, C.A.) – Cd. Cumaná (243 Has.), Parque industrial “Alvaro Bortot”: Cd. Cumaná (13 Has.), Zona Industrial de Carúpano, C.A. (100 Has.) Zona Industrial de Guiria-Cd. Guiria (3.49Has.) Zona Industrial de Gúiría-Cd. Gúiría; 3.49 Has.	CAPMI-SUCRE, FONMITUR, FODAPEMI (SME Development Promotion Fund), Instituto de Oceanografía de Venezuela (East University Fishery Research Institute), FUNDAUDO
Táchira	(4) Eje Industrial San Antonio Ureña, Eje Industrial Sam Cristóbal-Táriba <PI La Fria, Garcia de Hevia, PI Puente Real, San Juan Baustita>	EMPIASET (Chamber of Industry), CCIET (Chamber of Commerce and Industry), FUNDEI (Industrial Education Insitute) , FUNDATACHIRA (Development organization), UNIV. CATOLICA DE TACHIRA (Corporate Development Center), FUNDACITE; FAMPI-TACHIRA, FONDATA (Agriculture Development Institute)
Trujillo	(4); Zona Industrial de Valera, Zona Industrial de Agua Santa (370 Has.) Zona Industrial Bloque de la Ceiba <PI San Felipe, San Felipe>	CEDAMPTRU (SMME Development Center) , FUNDACITE, ALDEA TECNOLÓGICA (Univ. Valle del Momboy)
Yaracuy	(8 province, total 1,200Has.) Peña, José Antonio Páez, Bruzual, Nirgua, La Trinidad, Independencia, Veroes, Bolívar	FUNDAYARACUY, CAPMI-YARACUY, FUNYATUR, FUNDACION CIEPE (Agro-Industry Production Research Center), FONDAY (Agriculture Development Fund) , UNIV. CENTRAL DE VENEZUELA (Central University Research Insitute)

Zulia	<p>< 894 establishments in the manufacturing sector : SMEs represent 91% ></p> <p>(3) <ZI Lagunillas, C.A., ZI de la Costa Oriental del Lago, Cabinas, ZI Maracaibo, Maracaibo></p>	<p>CORPOZULIA, CIZ (Zulia Chamber of Industry), CAPMI-Zulia (Chamber of SMEs), CEMIMAR (Chamber of Maracaibo Industrial Estate Establishments), Junta Promotora del Centro Internacional de Negocios del Estado de Zulia (Zulia Joint International Business Center), PRUMUZULIA, CCM (Maracaibo Chamber of Commerce), FUNDACITE-ZULIA, PTU (Pargue Tecnológico Universitario), LUZ (La Univ. del Zulia), FONFIDEZ, FUNDEI-ZULIA, PLAN PROSPECTIVO DEL ZULIA III MILENIO (Long-term Strategic Plan), CIPLAT (International Banana Producers Support Center)</p>
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Source: CAF

Table1.4.12 TRENDS IN INCORPORATION, EMPLOYMENT, GROSS PRODUCT, AND VALUE ADDED BY STATE (1/2)

	The number of company establishment						The number of employment					
	1992	1993	1994	1995	1996	1997	1992	1993	1994	1995	1996	1997
Amazonas	10	9	10	8	8	14	90	89	112	92	76	81
Anzoátegui	272	263	205	226	235	570	10,657	10,675	9,786	9,559	12,114	14,807
Apure	12	16	8	13	14	45	166	231	155	185	208	6,072
Aragua	999	1,084	975	816	887	1,374	74,582	77,316	72,363	67,035	128,647	49,354
Barmas	102	79	89	87	90	144	2,016	1,852	2,495	201	2,109	1,818
Bolivar	319	338	247	239	277	422	34,852	32,155	28,653	26,909	32,139	34,234
Carabobo	763	862	683	711	751	1,687	82,971	81,343	76,648	72,831	14,644	28,636
Cojedes	60	67	55	29	39	61	3,546	3,563	237	1,826	1,969	57,478
Delta Amacuro	7	11	7	6	6	9	53	101	63	42	60	64
Distrito Federal	2,508	2,274	2,228	2,159	2,012	1,243	69,081	63,915	64,100	58,063	54,845	21,041
Falcón	225	239	173	179	208	187	31,101	8,958	8,526	7,488	6,227	7,694
Guárico	123	109	104	55	89	106	2,693	2,850	2,858	2,372	2,941	85,852
Lara	619	614	379	541	545	1,056	25,317	27,278	24,566	25,495	26,875	33,207
Mérida	201	167	171	173	131	298	4,187	4,669	4,199	3,961	2,888	2,489
Miranda	2,453	2,562	2,091	2,312	2,106	2,171	106,674	109,313	99,512	97,509	88,169	33,825
Monagas	120	127	105	51	95	143	2,679	2,848	2,270	2,672	1,997	3,663
Nueva Esparta	33	34	31	31	27	48	1,015	1,208	725	1,123	1,083	1,324
Portuguesa	169	158	115	108	104	263	5,401	5,110	5,522	5,634	5,825	7,197
Sucre	113	108	101	96	97	221	8,699	8,405	6,528	7,227	8,537	10,435
Táchira	429	337	230	194	252	267	11,215	10,125	8,785	8,573	7,744	6,675
Trujillo	159	137	142	137	138	137	4,174	4,386	4,330	4,271	4,447	3,833
Yaracuy	74	64	131	97	116	161	4,750	4,561	5,986	4,614	5,755	7,111
Zulia	769	715	694	623	636	805	35,449	34,228	31,101	31,525	31,581	33,911

Source: INE

Table 1.4.12 TRENDS IN INCORPORATION, EMPLOYMENT, GROSS PRODUCT, AND VALUE ADDED BY STATE (2/2)

	Gross Production (Bs.1000)						Added Value (Bs.1000)					
	1992	1993	1994	1995	1996	1997	1992	1993	1994	1995	1996	1997
Amazonas	58,813	73,798	153,378	159,088	47,088	102,571	16,625	18,315	25,304	29,244	180,188	244,456
Anzoátegui	79,631,447	63,115,287	74,124,415	103,815,998	207,726	700,200,972	48,221,795	29,482,979	30,050,628	38,193,928	78,656,628	281,934,258
Apure	107,042	217,344	185,990	352,205	578,017	53,311,006	18,972	58,148	76,103	128,891	185,578	16,262,105
Aragua	195,456,615	254,892,700	322,814,732	457,511,155	73,922,435	511,254,369	77,873,355	106,465,986	108,844,590	162,866,970	313,222,302	92,971,616
Barmas	3,793,385	4,578,898	6,411,783	9,211,895	18,532,765	46,585,184	823,445	1,357,632	2,075,413	3,805,168	8,926,927	11,948,191
Bolivar	138,347,447	155,553,911	219,325,381	349,262,231	618,737,516	347,789,890	50,143,168	58,479,294	69,838,980	165,940,701	341,383,914	463,145,400
Carabobo	314,063,055	411,795,846	536,200,929	823,638,834	1,533,280,430	1,060,333,207	128,814,356	190,610,712	209,985,835	334,150,954	694,387,420	206,110,229
Cojedes	8,150,638	7,883,629	7,850,152	8,320,162	14,206,420	1,310,270,360	2,819,772	3,256,323	2,496,807	3,418,325	6,291,894	551,355,461
Delta Amacuro	28,614	96,551	79,116	61,566	101,914	221,780	8,117	20,823	18,294	13,346	54,858	74,424
Distrito Federal	102,625,610	125,861,079	146,513,355	214,685,939	324,758,752	224,586,459	41,003,615	53,119,809	52,932,817	82,927,634	124,349,451	36,909,790
Falcón	149,444,968	224,508,583	291,030,974	311,993,714	114,031,938	741,733,354	92,813,826	187,381,781	229,306,296	247,142,915	46,847,014	643,381,255
Guárico	6,161,779	9,048,195	11,406,626	20,002,584	52,023,243	4,798,148,538	1,534,161	2,712,981	2,464,292	7,513,700	21,477,714	1,882,081,121
Lara	56,407,315	84,997,850	103,673,747	155,088,899	241,347,587	569,872,075	22,596,838	36,657,066	38,965,405	64,253,249	92,249,810	1,266,928,103
Mérida	10,216,815	18,996,888	17,600,415	10,928,860	20,714,003	52,068,088	2,583,321	4,351,979	5,594,849	6,677,849	7,068,830	9,461,233
Miranda	210,279,242	280,965,537	391,162,832	509,187,406	784,742,528	542,685,177	95,881,379	133,593,774	148,292,726	227,506,121	359,665,573	106,757,082
Monagas	5,606,529	9,475,133	11,694,263	18,061,282	35,625,982	120,087,467	2,419,306	5,072,666	6,077,552	10,642,778	22,193,990	79,551,416
Nueva Esparta	1,212,456	1,825,743	2,625,317	4,552,181	7,259,776	24,471,132	511,852	842,419	842,197	1,627,409	4,001,431	14,342,599
Portuguesa	17,400,847	23,427,000	29,148,947	59,032,258	98,161,407	638,501,729	3,984,198	40,589,069	7,198,717	19,480,777	16,814,383	230,923,124
Sucre	23,797,184	31,694,606	44,415,909	54,831,364	70,718,271	238,375,971	10,029,466	118,524	18,925,957	18,887,574	14,350,158	51,436,239
Táchira	16,329,509	21,915,022	22,629,342	33,767,717	49,957,126	125,575,536	4,726,482	6,968,197	7,163,490	14,073,428	21,349,937	28,575,694
Trujillo	6,028,186	8,769,821	10,637,041	19,271,038	33,961,540	85,367,973	2,559,867	4,098,208	3,960,128	8,412,788	12,606,955	16,873,703
Yaracuy	14,594,537	18,568,745	28,408,093	32,419,852	72,872,461	474,006,983	5,782,081	8,061,943	11,136,292	10,077,276	22,573,210	310,012,932
Zulia	115,469,881	140,036,329	196,870,823	283,957,275	121,539	1,389,617,490	45,691,028	55,348,681	68,735,958	94,395,391	386,018,982	488,342,085

Source: INE

1.5 Finance

1.5.1 Financial System and Reform

The "general law of a bank and other financial institutions" known as a bank law was published in 1993, and was enforced in January, 1994. The purpose of this law is to strengthen the domestic financial system and the domestic financial institution and to build the firm base of this sector in order to increase competitiveness. The important points of this law were to liberalize strongly regulated and protected conventional domestic bank sector, and to open the door to foreign investment. Each business lines of a commercial bank, a housing loan specialized bank, and a leasing company was limited for every bank before this, thus the universal bank without operating restrictions was accepted by this law. Thereby, the major banks which were commercial banks took over other specialized banks, and turned into universal banks which can perform all business by inheriting business from the specialized banks. On the other hand, a certain specialized bank turned into a universal bank by merging with other specialized banks. The financial institutions which were 124 in 1996 are decreasing in number to 79. The breakdown is as follows.

Universal banks	16
Commercial banks	25
Investment banks	10
Real estate mortgage banks	4
Renter Financiers	4
Saving and Loan organizations	10

The major universal banks occupied about 60% of the whole financial market, and the other 70 financial institutions divides remaining market. A small bank has high operating cost and it's borrowing rate is also high as a result. In order to make raise the efficiency of these banks to be developed, the Venezuelan government is promoting the inter-bank merger considered to be the best method. The main banks are as follows.

- Banco Provincial
- Banco de Venezuela (Grupo Stantander)
- Banco Mercantil
- Unibanco
- Banesco
- Banco Venezolano de Crédito

Private banks make short-term loan for mainly working capital and other needs, on the other hand, finance institutions such as FONCREI lend for fixed assets and mortgage banks and saving and loan institutions are geared to longer-term lending, mostly for home purchases and construction. However, since the leasing company went bankrupt at the same time, there is only a small number of leasing company operating.

The draft amendment of "the general law of a bank and other financial institutions" was proposed in October, 2000. The main contents are; 1) higher minimum capital requirements of all the financial institutions and 2) strengthening authority of the Superintendency of Banks (SUDEBAN) which has controlled over all financial intuitions. Although increasing equity capital leads to improve constitution of a bank, it might have influence on the loan to SMEs (if a bank has to improve capitalization rate¹, the loan to the SMEs with a higher risk will become disadvantage). The main missions of the SUDEBAN are inspection, supervision, intervention, supervision and sanctions of a bank and other financial institutions. And by this law, S&L Institution and credit guarantee society, etc. will be under the management of the SUDEBAN.

Although interest rate became very high during the financial crisis in 1994, the interest rate has also fallen from 1998 as shown in table below, when the inflation rate became low. However, the interest rate still remains in the high level for SMEs making a new investment.

¹ The gross assets which is weighted with bad loans are used for a denominator to calculate the capitalization rate.

TABLE 1.5.1 AVERAGE INTEREST RATES OF MAJOR 6 BANKS

	(Percentage)		
	CREDITS	DEPOSITS	
		Saving	90 days
2000 (*)	23.91	3.35	14.80
1999	31.89	7.05	18.90
1998	45.21	10.25	38.02
1997	22.16	6.84	14.62
1996	37.22	18.36	26.85
1995	40.24	22.12	24.79
1994	56.51	27.06	38.98
1993	61.78	38.75	53.89
1992	42.46	28.40	35.00
1991	38.30	27.62	31.27

Source: BCV

(1) Including credits for agriculture during 08/08/97 and 29/10/99

The one of features of the interest rates structure in Venezuela is the large different between rates of deposit and credit. The main reason is the operating cost and capital cost of a financial institution being high. Since costs of smaller banks are still high, it is expected that an interest rate of loans can be lower by operating rationalization through mergers. Moreover, although the big company can obtain the low-interest fund from off-shore money market, since it is difficult for SMEs, they do not have any other option except using their own funds or receiving loans from domestic banks.

1.5.2 SMEs financing

The major problems in the finance for SMEs are; a)high lending rate, b)insufficient securities or collaterals, c)complexity and long procedure. Regarding a), the interest is falling as already mentioned, however, the rate for small manufacturer is set up highly in many cases. Moreover, in the case of the private bank, it is usual to require the security worth 2 to 3 times of amount of loan. Regarding c), preparation of the documents submitted to a financial institution is complicated for SMEs, financial institution side does not give sufficient explanation of a document but usually only pass it to a customer. These caused more difficulty for SMEs. It has been said that a borrower feels longer since the examination begins from the time of documents being ready completely. In addition, since a private bank is only able to provide a short-term loan (maximum lending periods are three years from a commercial bank and five years from a universal bank), it is difficult to fulfill the demand for fund to purchase a machine or/and an equipment. Moreover, it can not lend out to the informal company which has not paid the tax or social security.

(1) Private bank loans

Conventionally the private bank had not been positive regarding loans for SMEs with small lot and time consuming. Right after the financial crisis in 1994, efficiency and safety were especially important for a bank in order to recover the sound management, therefore the risky loan was reduced. On the other hand, the government request private bank to reduce the interest rate on loans and to extend credit lines for SMEs.

The interest rate on loans for SMEs in a certain bank was 28% (this is a base rate and a preferential rate can be applied by conditions) and there is still a major difference from the interest rate of around 21% for large companies loans as of June, 2001. This difference in the interest is caused by relatively large risk of the loan for SMEs and larger operational cost for the small amount of loans.

Another problem is that the total amount of a loan to SMEs is limited. The proportion of the loan was 40 to 50% of bank gross assets at the beginning of 1990, now the portfolio of a loan has been shrunk to 20% or less. The bank was investing much capital in National Debt Bond where profits can be expected certainly. For example, the rate to the loan in the bank property of Banco Industrial de Venezuela (BIV) which

is a national bank is about 15%, and the almost half (47%, the end of December, 1999) serves as the investment to a security etc. The breakdown of the loan is; construction 38%, service 21%, manufactures 17%, and travel 14% (at the end of December, 1999), and by the company scale 5.6% for small enterprises, 7.3% for middle-sized enterprises, and 87% for large enterprises (the end of June, 1999). The rate of capitalization which shows the soundness of a bank is 15.58% (1999 ends of the year), and since it has far exceeded 8%, which the SUDEBAN requires, it is surmised that there is room to lend SMEs. The rate of capitalization of the private bank of Venezuela is 12% to 14% in average.

There is an opinion that a loan does not increase in the present situation of economy though interest rate becomes low. Since interest rate, such as a national bond which is a safe investment place, has fallen, it is becoming difficult for a bank to gain the profits as before. Moreover, as the strength of a bank is gaining and with advancement of loan management technique, there is also a trend to increase the total amount of loan and to enclose a well operating companies.

(2) The Public Finance System

The law of Regulation for Public Finance System in Venezuela was published in 1999. The purposes of a public financial system are; a. re-activation of domestic production sectors, b. coordination of the financial policy which is closely related with production sectors, c. optimization of the public investment through the organizations which constitute a public finance system, and d. management and supervision of public financial institutions. The Finance Technical Council was formed by this law, and issues related with a public financial institutions are discussed and decided by this council. The member of this council is each vice-minister of the Ministry of Finance (MF), Ministry of Pacification and Development (MPD), and Ministry of Production and Commerce (MPC).

Public financial institutions such as FONCREI and BIV are guided by this council. The Public Financial Coordination performs planning, systematization, instruction, and management until a project carries out in response to the determination of the council. Moreover, this organization monitors the implementation stage of the project, also has the role in feeding back the result of a policy to the council. The following items are listed as main contents currently discussed by this council.

- 1) Loan approve situation in Antonio José de Sucre Project

- 2) Regional Fund (planning)
- 3) Programa de Apoyo y Sosteimiento a la Pyme Manufacurera en operración (planning)

Regarding a., it acts as a part of industrial park rehabilitation plan at the beginning. Although it was one of conditions for entrepreneur to move into the industrial park, since not all the industrial parks were fully operational, this condition was eased. Loans for 11 projects were approved among 117 projects which MPC had selected last year. Only one project among 11 has actually received loan disbursement.

1) FONCREI

FONDREI provides medium- and long-term credit to industry with preferential rates, through the private banking system. FONCREI became only organization which can provide a long-term loan to an industrial sector after CORPOINDUSTRIA closed in 1999. The financial programs of FONCREI can cover following purposes for credits.

- Start business
- Modernization of factory
- Purchasing machineries (non pollution discharge)
- Reopening operation
- Working capital for reusing an installation which has not been used
- Lease fee or purchasing lease items

In addition to the above-mentioned programs, FONCREI began to re-loan program for rescheduling the loan which the company borrowed from the private bank and had a difficulty to pay back. This program has funded US\$ 60 million by CAF (Coperación Andina de Fomento), however, it has not been very successful at the moment.

The interest rate of FONCREI loans varies from 75% to 90% of TAPP². In fact, FONCREI lends loan to the company lower than above rates. Since the interest of TAPP at the present is 21%, when the interest rate of FONCREI loan program is assumed to be 80% of TAPP, it becomes 16.8% for customers. Among these, 40% of interest will be paid as the commission of a handling bank (intermediary). The term of a program will be from 3 to 15 years with grace period of six months to five years. The

² Average Nominal Interest Rate in major banks

main loaners of FONCREI are food, textile and apparel, wood processing, chemicals, plastics and metal products industries.

TABLE 1.5.2 RECORD OF LOAN OF FONCREI FOR LAST 5 YEARS

Year	No. of Credit	Credit Amount (Mil. of Bs.)	Total Investment (Mil. of Bs.)	Employee generated
1996	66	8,396.0	17,051.0	510.0
1997	78	15,994.5	36,812.1	2,383.0
1998	46	11,228.6	22,437.5	920.0
1999	52	6,972.7	11,516.6	400.0
2000	84	9,947.9	15,889.5	538.0

Source: FONCREI

TABLE 1.5.3 AMOUNT OF LOAN APPROVED BY INDUSTRY, 1995-2000

Unit: Million Bs., () No of credit

	1995	1996	1997	1998	1999	2000
Plastic products	917.0 (10)	1,480.0 (11)	2,440.6 (8)	897.0 (4)	851.3 (4)	901.0 (6)
Autoparts	-	185.0 (3)	-	-	60.0 (1)	-
Metal products	278.0 (3)	1,915.0 (9)	2,981.3 (12)	1,417.6 (7)	512.0 (11)	2,508.3 (9)
Textile products	367.0 (10)	1,121.0 (13)	2,498.7 (16)	341.6 (3)	614.8 (6)	219.0 (9)
Food processing	406.0 (5)	641.0 (5)	2,237.2 (12)	1,366.2 (5)	1,795.0 (9)	2,526.0 (23)

Source: FONCREI

In the above table, the plastic, autoparts and aluminum related sector which are the target sector in this study, and in order to compare, the amount of a loan to textiles and a food processing sectors were also included. It should be noted that a plastic and aluminum is a part of metal products and autoparts might includes plastic and aluminum product, or conversely autoparts might be included in the category of a plastic and aluminum. Even if these things are considered, the loan to plastic products tends to decrease. According to the amount of credits in 2000, metal products was the second large subsequently to food processing, and these two together became the half amount of a whole credit.

A software development company is not the subject to receive a loan of FONCREI since it is not considered as a manufacturing industry. However, FONCREI can lend funds for software development requirement of a manufacturing industry. At the present, FONCREI is considering a special program to lend to a software development company.

According to number and amount of loans in 2000 by the area, a metropolitan area (Caracas federal division and Miranda) combined with the central part (Aragua, Carabobo, Cojedes) occupies 74% in the amount and 68% in the number of cases.

The loan evaluation term in FONCREI generally takes about 50 days more after evaluation by a private bank for three months. The reason for long period of evaluation is a time taken in preparation of documents and setting collaterals for loans. Another reason is that a private bank is not accustomed to deal with long-term loans. In order to shorten this evaluation process, FONCREI gives training of the long-term loan evaluation for person in charge in a private bank. Moreover, FONCREI is also taking into consideration excluding evaluation at FONCREI to the project which the private bank already examined. Although it is said that the potential demand for FONCREI loans is 10 times more than the actual amount of lending, since the amount of capital is limited, much demand cannot be met.

2) SOGAMPI

SOGAMPI is the only public credit guarantee organization in Venezuela as of March, 2001. SOGAMPI guarantees 80% of PYMI loans, without which loans from commercial banks would not be applied. The maximum amount of loan guarantee is 300 million Bolivar, and an average amount of actual guarantee extended is 200 million Bolivar. SOGAMPI gives special consideration to PYMI's for their financing, and its definition of eligibility is summarized as follows.

- a. Manufacturing or related enterprise
- b. 200 or less employees
- c. Annual sales of 188 million Bolivar or less
- d. Nominal capital of 250 million Bolivar

The SOGAMPI guarantee scheme is intended to cover the short-term credits for working capital, an association, materials purchase, credit line, machines and

equipments purchase, and the middle-term credits for a building and warehouse purchase, an investment project, industrial park development and a machine and equipment purchase. Although SOGAMPI can also guarantee a loan of FONCREI, there is little number of cases. As for the guarantee fees, it is 2.5% at the first year and 1.5% from the second year to the last year. It takes about two weeks until it determines the guarantee from the time of documents being completed.

The SOGAMPI guarantee is based on the collaterals. SOGAMPI takes fixed assets like land as collaterals as well as owner's assets and machineries. A private bank requires collaterals worth 2 to 3 times more than the amount of the loan, on the other hand, SOGAMPI ask collaterals with the same value as the amount of guarantee. SOGAMPI provides a guarantee of less than 5 million Bolivar without security by lender. (In the case of Guarantee Society in Japan, only half of the guarantee is based on collaterals by value). SOGAMPI can provide technical assistance in the field of business management with the collaboration of other technical organization. Actual technical assistance activities is limited due to lack of personnel.

Six consultants are responsible for verification of 110 applications (forecast for the year 2001). First they visit applicants and review applications. Then, business analysis is conducted by the FONCREI method designed for evaluation of entrepreneur plans and software developed for conventional plans. However, the rate of uncollected loans has reached 20%. SOGAMPI strives to reduce this rate by: 1) implementation of the "debit balance program" for each bank client (to manage the loan balance uncollectible, rather than, the total loan); and 2) monitoring and supervision of transactions by debtors.

TABLE 1.5.4 AMOUNT OF GUARANTEE APPROVED AND IMPLEMENTED

	Unit: Million Bs.					
	1995	1996	1997	1998	1999	2000
Approved	506	2,170	3,489	1,094	1,604	774
Implemented	250	942	1,550	1,036	145	737

Source: SOGAMPI

**TABLE 1.5.5 ACCUMULATED AMOUNT OF GUARANTEE
BY SECTOR UNTIL 1999**

	Unit: %
Food	17
Art Graphics	6
Footwear	4
Leather	1
Wood	8
Metal Mechanics	18
Plastics	6
Metal Products	2
Chemicals	4
Apparel	25
Service related to industries	9

Source: SOGAMPI

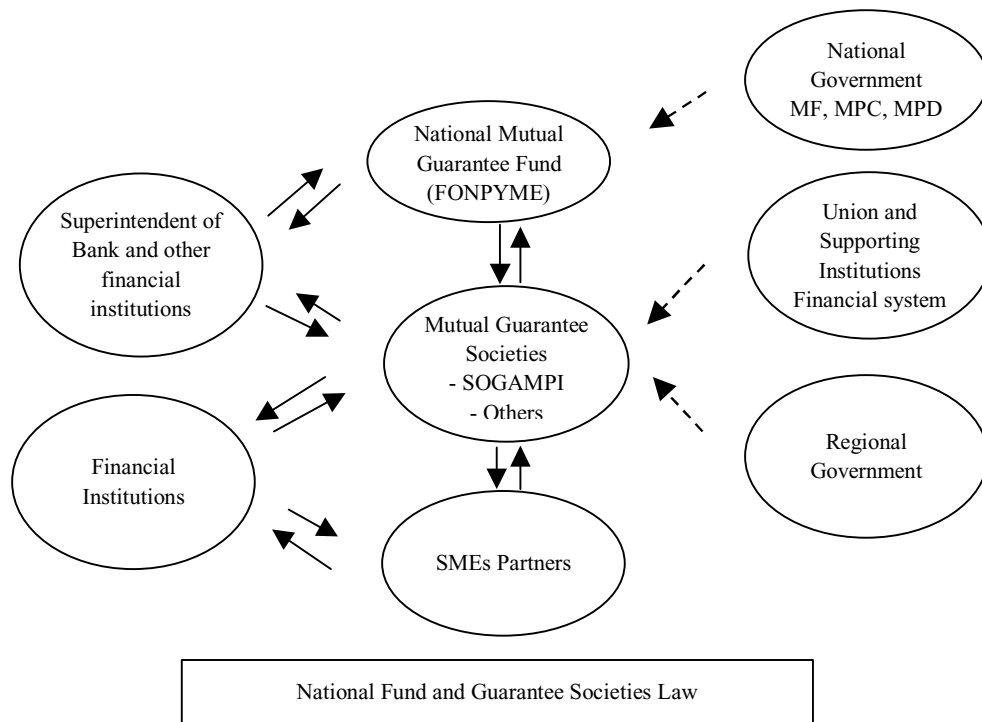
The number of guarantee will increase for as loans for entrepreneurs in “Programa de Apoyo a Emprendedores e Innovadores” increase. In the 2001 plan, SOGAMPI expects to provide guarantees of 211 cases worth Bs. 45340 million.

3) National Mutual Guarantee System

The purpose of this system is to set up mutual guarantee institutions in regions. These guarantee institutions will be set up in each region to provide the same services by the same methodology. However, the scope of business area will be limited in the certain region, on the contrary SOGAMPI covers a whole nation. Some states have already prepared for setting up such institutions

National Mutual Guarantee Fund for SMEs (FONPYME) was established in order to re-guarantee those guarantee institutions in regions and SOGAMPI. The rate of re-guarantee will be 50%. FONPYME will also provide technical assistances and a part of initial capitals to guarantee institution to be set up. Regional Governments, banks and other SMEs related organizations would fund the rest of regional guarantee institution capitals. It is expected that SMEs can borrow loans easier by this system.

FIGURE 1.5.1 NATIONAL MUTUAL GUARANTEE SYSTEM



Source: SOGAMPI

4) BANCOEX

BANCOEX is located in Caracas. It was set up under "Foreign Trade Banking Law in 1997 with the capital of US\$ 200 millions came from Ministry of Finance and Venezuelan Investment Fund (FIV). The purposes are to help creating new exporters and fostering the export sector's competitiveness, mainly that of the SMEs through means of financing, information, consulting, and promotion. This bank emphasize on promotion of non-traditional export. The number of stuff is 110.

Main functions of BANCOEX are listed as follows.

- Export financing and guarantee service
- Financing working capital
- Investment
- Issuing letter of credit
- Issuing certificate of origin
- Post shipment finance
- Export promotion activities and providing export information
- Training & consulting

**TABLE 1.5.6 ACCUMULATED LOAN RESULTS FROM 1997
(TARGET INDUSTRIES)**

Sector	Amount(US\$)	No. of Credit	Amount per No. of credit(US\$)
Autoparts	24,248,274	16	1,515,517
Aluminum	22,728,817	37	614,292
Plastics	36,983,908	156	237,076
Software	-	-	-

Source: BANCOEX

Generally, financing for export purpose can be 100% of the cost with less than 3 years repayment period and interest rate of LIBOR + spread (1%-4%). These finances are usually secured by export insurance of the insurance company which BANCOEX has contributed. In some cases, the bank requires additional collaterals. 3% of loan became non-performing loan in the current situation. BANCOEX prepare amendment of Law in order to extend the term of loan from 3 years to 7 years like a development bank.

BANCOEX used to limit the borrowers to experienced exporters but start financing new exporters at present. New customers are potential exporters selected from those received technical assistance from BANCOEX in the past. BAONCOEX can not finance software development companies because of internal rules although it gives technical assistances to them. The program for these companies is taken into consideration.

Moreover, BANCOEX can finance only 10% of debtors capital. If it is not enough to fill the financial demand of the company, BANCOEX can co-finance the company with Banco Mercantil.

BANCOEX can finance companies in regions through private banks, even office is only in Caracas. Stuffs visit regions regularly to find and foster new exporters in cooperation with local governments.

5) BANFOANDES

BANFOANDES has its headquarter in San Cristóbal, Tachira and serves mainly south eastern area. It is a national bank with purposes of regional development. It finances small and medium sized manufacturers with favorable conditions compared with private banks.

The condition of credit as of July 2001 is described below.

Credit form: promissory note, loan, credit line

Securities: guarantor and collaterals (Land or/and machineries 1.75 to 2 times as value as loan amount)

Interest: 21% to 23% annual

Term: Maximum 5 years (1 year grace period)

Purpose: Working capital, purchasing facilities, new business, factoring, etc.

Maximum amount: Bs. 500 millions

BANFOANDES provided Bs. 6.8 billion to industry accounted 17% of total loan as of May, 2001. Recently it tries to improve the service, then amount of finance increase as a result. Evaluation of credit takes only 2 weeks after the documents completed according to BANFOANDES. Originally this bank mainly operated in Tachira state and extended branches in other states and widen its service area.

6) BANDES

BANDES is an organization under the supervision of the Ministry of Planning and Development. Its mission is to expand, diversify and decentralize social and industrial infrastructures to ensure the country's comprehensive development. It is therefore primarily responsible for formulation of the national development strategy and manage economic and social aspects of development.

Major functions are summarized as follows.

- Loan and support for regional development
- Loans to infrastructure projects under the joint leadership of the public and private sectors
- Loans for innovation, technology transfer and development projects
- Promotion of private investment in new ventures, projects and businesses
- Loans for expansion, diversification, and modernization of technical support, production staff and social infrastructure, and reinforcement of competitiveness

- Functioning as a trust
- Promotion of startup companies funded by venture capital
- Issuance of bonds
- Operation and management of a fund for independent contractors
- Support for SMEs and MEs
- Land, collateral, guarantee
- Consultation for public organizations

In particular, Investor Support Department coordinates policies and strategies to advance PYMEs. At the same time, it is studying the possibility to devote its resources to PYMEs by establishing an organization primarily responsible for promotion of the enterprise group.

BANDES, while providing long-term loans, provides various services to help improve financial accessibility. It also intends to establish a specific support mechanism such as an automatic lending program, a special tariff and development tax according to the field of development, geographic location, job creation, venture capital, loan guarantee structure.

1.5.3 Capital Market

(1) Caracas Stock Exchange

The Capital market in Venezuela can be traced back to 1805 when some trading house were founded. A formal trading place was established in 1840 and stocks of companies was traded. The first modern market started in 1947, auctioned off 22 seats and traded the securities of 54 companies as well as part of the national debt. In 1975, the Capital Market Law was issued and establish Caracas Stock Exchange (Bolsa de Valores de Caracas). At the same time the National Securities commission (Comisión Nacional de Valores, CNV) became responsible for the regulation and management of capital markets.

The trading volume was expanded in 1989 following the liberalization of the economy. It led the exchange acquire an Automated Exchange Transaction System (SATB) from Vancouver, Canada. In addition, the exchange introduced Remote Connection System (SISTECOR) and Electronic Compensation and Liquidation System (SECOMLI) in 1994. These modernizations made remote trading possible from each trading house office.

As of June, 2001, the Caracas Stock Exchange was made up of 63 members and managed by the Board of Directors. The members of the Board of Directors are representatives from trading houses, listed companies, CNV as well as management department of the Exchange. Trading takes place form Monday through Friday except holidays from 9:45 AM to 2:00 PM.

Main listed members;

- BBO
- ACTIVALORES
- ECONINVEST
- VALORES VENCRED
- SANTANDER
- PROVINCIAL VALORES
- MERINVEST

Market current situation

Monthly trade volume is shown in below table.

TABLE 1.5.7 MONTHLY TRADE VOLUME

Unit: Millions US\$

	Shares	Brady Bonds	Total	Daily Average	Daily Average in Shares
January	71.36	25.84	97.21	4.42	3.24
February	32.30	16.93	49.23	2.74	1.79
March	182.06	9.79	191.85	9.14	8.67
April	19.73	8.68	28.41	1.58	1.10
May	29.38	91.63	59.76	2.85	1.40

Source: Caracas Stock Exchange

The total market value of the Caracas Stock Exchange was US\$ 13 billion at the beginning of 90's and decreased to US\$ 8 billion at the present. Taking hyper inflation and CANTV dominating 40% of the total market value into consideration, the market was substantially shrank by 90%. The average trading volume was also decreased from US\$ 22 million in 1997 to only 4 million this year. On the contrary, most of other stock exchanges in Latin America countries are developing (See Figure 1.5.8).

TABLE 1.5.8 TRADE VOLUME DAILY AVERAGE

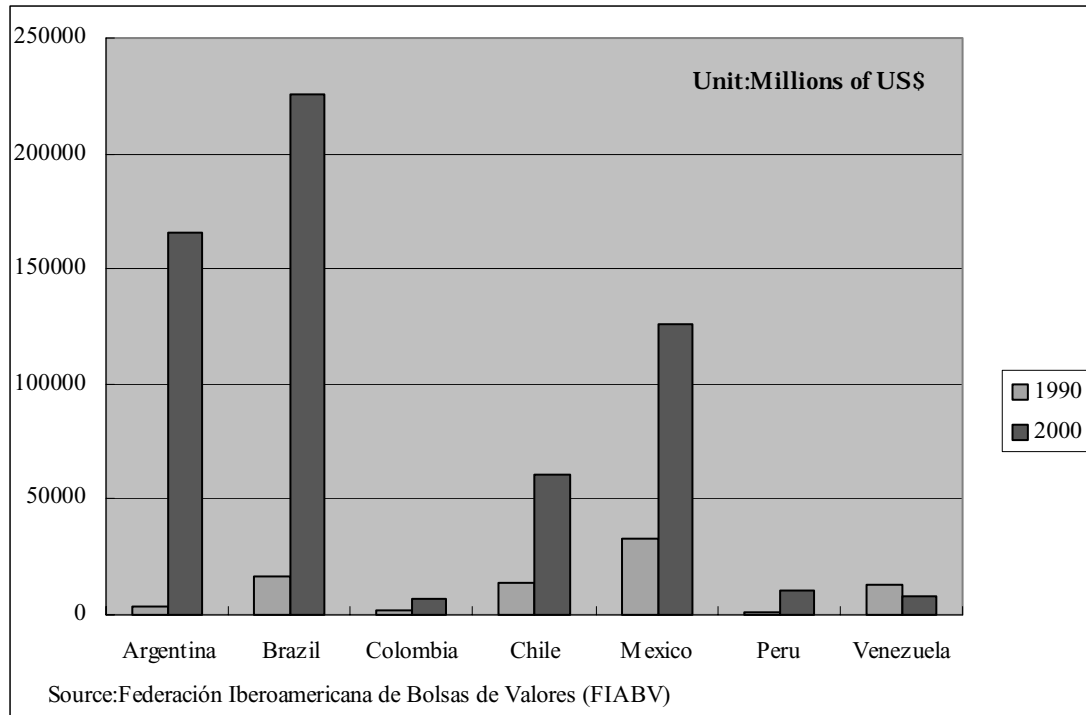
Unit: Million US\$

Year	Volume
1997	21.82
1998	12.71
1999	6.11
2000	10.09
2001*	4.26

*As of May 31

Source: Caracas Stock Exchange

FIGURE 1.5.2 STOCK EXCHANGE CAPITALIZATION OF MAJOR LATIN AMERICA MARKET



Reasons for the leisurely market are that there are no attractive listed companies except CANTV and investors hesitate to invest due to past experiences. Most of investors rather invest in foreign countries or save money in the bank and earn interest with lower risk. The exchange tries to increase a listed company, in fact, no company has not been listed since 1998. The last company went to public was oil related company. One of the reason the large companies are not willing to be listed is to avoid opening information of the company. The stock exchange try to gain smaller sized company by easing the IPO condition, however, the company are not enthusiastic about it because of the present situation of the market. Moreover, there is not much demand to create on the counter market.

(2) National Securities Commission (Comisión Nacional de Valores, CNV)

CNV is an organization with responsible for promotion, regulation, monitoring and guidance for capital market (equivalent to SEC in USA). Although it belongs to Ministry of Finance, it has own fund source (registration, administration fee, penalties, etc.) to maintain independency.

There are plans to activate the market as follows. However, SMEs participation in the Capital Market has not been taken into consideration.

- EPIC is a collective investment entity of venture capital , where foreign and local individuals will be able to invest in a pull of 18 oil projects that total US\$ 500 million.
- Real State: There is a local company listed in the stock market already called “Fondo de Valores Inmobiliario”. This company is made up of local and many foreign investors who are planning to invest luxury offices in Latin America.
- Public Bonds: Investors will now have the possibility to purchase government bonds through “REPOs, Deuda Pública Nacional (National Public Debt)” at a fixed rate directly to the government.
- Second market for Mortgage bonds
- Reactivate second CP market

Consejo Estratégico para el Fortalecimiento del Mercado de Capital: Strategic Council for the Fortification of the Stock Market are responsible for activate capital market. For example, lowering the standards of issuing public bonds and company bonds has been discussed in this council. The present objective was reducing the purchase – sale – payment process of stock and bonds to three days (T+3) in July.

1.6 Tax System

The taxation system in Venezuela is fundamentally defined by the law, the authority to formulate a tax is exceptionally granted to the President on the constitution. Since Venezuela has adopted the federal system, a tax can be formulated and imposed in a country level, a state level, and each local governing level (municipality). Among these, the national tax is the most important.

1.6.1 National Tax

National tax is regulated by Organic Code Taxation.

National taxation is mainly formed by;

- Income tax
- Business asset tax
- Value added tax (IVA)

In addition, there are import tax, registration taxation on production and/or purchasing of alcohol, tobacco, match and salt as well as production of hydro carbonated energy.

(1) Income tax

Income tax is imposed according to the provision of Income Tax Law. This tax is imposed to net income earned through economic activities in Venezuela and assets located in Venezuela of domestic and foreign companies. Tariff of income tax is based on the size of net income expressed in tax units(UT)¹.

Tariff for a company

- Net income is less than 2,000UT:15%
- 2,000UT to 3,000UT:22%
- More than 3,000UT: 34%

The SMEs which begin new business in the unpopulated area which the government decides are permitted 50% of income tax credit for ten years.

¹ UT is set by Bs. 1000 in 1994 as standard value and fluctuated by inflation. 1UT is Bs.13200 as of 14 of July, 2001

(2) Business Asset Tax

This tax is imposed on tangible and intangible assets used in production of company profits. The tax was made in 1993 and applied to all the individuals and companies which are subjects to the income tax by carrying out business in Venezuela. The tax is levied at the rate of 1% on the total tangible and intangible assets. However, the amount of tax is reduced by the income tax payable in the same fiscal year. Moreover, companies in the pre-operating period and additional 2 years in the operating period are exempt from the business asset tax. The amount of the tax is determined based on a report from the company. The tax is imposed on book-values of only operational equipments and machineries with consideration of inflation and depreciation.

SMEs complained that this tax has to be paid even in the year when there is no profit and the tax is levied on the values of equipments and machineries regardless of the rate of operation.

(3) Value Added Tax

Value Added Tax (VAT) is paid by all individuals, public or private sector organization, the import trader of goods and service, a manufacturer, and a merchant. The tax is determined when goods and service sell. However, a tax is not imposed at the following cases.

- Temporary imports
- Import under free port regime
- Operations in the import in bond warehouse

The rate of VAT is determined by every year at least 8% and a maximum of 16.5%. The rate of 14.5% applied for all at this moment.

(4) Import tax

Before 1989 a protection policy had been adapted, the tariff was set between 130-150%. The customs duty was reformed at 5% of materials, 10% for half-processed goods, 15% for pre-finished goods and 20% for finished goods, as of 1989. This is a common uniform tariff. For example, in the case of iron, roll of iron is specified as half-processed goods and pre-finished goods is specified as goods becomes finished goods if one process is added (example : parts of KD). According to the free trade agreement, such as the Andeans Community (Venezuela, Colombia, Ecuador, Bolivia and Peru) and G3 (Venezuela, Colombia, Mexico), the customs duty about the items specified has become 0 or low. Venezuela is going to make the bilateral agreement with other Central America countries.

1.6.2 Regional tax

(1) State tax

At present State tax is still insignificant and the taxation burden is limited. It is because the federal state of Venezuela basically depends on budget allotment of a country, and it is to be distributed to a state 20% of national budget by the decentralization law. State taxes are documentary stamp tax, fees for using a road, a bridge, a harbor, and an airport, and others. However, the rate of State tax may become large if decentralization will progress in the future.

(2) Municipality Tax

The constitution of Venezuela allowed the municipalities to form and collect taxes. The common taxes by municipalities (cities, towns and villages) are as follows.

- a. Production in the municipality
- b. Fees of services provided by the municipality
- c. License tax applied for industry and commerce
- d. Automobile tax
- e. City immovable tax
- f. Others

Among these, License tax and City immovable tax are important. In order to perform industry and commerce, according to regulation of a municipality, registration and permission are needed respectively. The tax is determined by production activity which yield profits within the municipality. A tax is imposed on taxpayer's total income or total sales with the tax rate the each municipality decide. The tax is to be paid in every three-month.

The tax is imposed on only the real estate in the city of each municipalities, therefore the other land is not an object. Moreover, a tax is imposed only on the land and not on a machine nor an equipment. Tax rates are decided in each municipality, and the amount is calculated by the value of land multiplied by the tax rate. This tax is also paid in 4 times a year every three months.

It is a problem that a municipality tax can be imposed by discretion of a municipality therefore there is difference among municipalities, thus the tax base are not standardized.

1.6.3 Special tax treatment

(1) Tax reduction measures

Income tax can be rebated within the limit of 20 % of the amount of the new investments into agriculture, agro-industry, manufacturer, fishing, fish culture and sight-seeing, etc. Moreover, VAT is exempted in case of the purchase of the capital goods in oil and gas industry, agriculture and fishing. On the municipality level, a term of duty free, rebate, exemption and others can be determined as special measures according to the law of the municipality. In case of Lara state, there is municipality tax exemption as an incentives for a company investing which moves to an industrial area. In case of Japan, the government sets the special tax treatment for SMEs such as the preferential corporation tax rate for small and medium sized company and cooperatives, the support taxation measures for investments in facilities and research and development for modernization and rationalization, however, there are no special measures on the taxation system for SMEs in Venezuela.

(2) DRAW BACK

DRAW BACK is a rebate system of a part or all of an import duty concerning the product to export, started in 1991, revised in 1996. SENIAT (National Integral Tax Administration Service) has determined the rate of refund for each industry. An exporter has to apply for DRAW BACK to SENIAT or directly to a CUSTOM office after export within 30 days. Refund is paid by a central bank with CERT (Tax Refund Certificates). It is to be refunded within 30 working day by law.

An actual refund of import tax will take more than one year, since there is much complains, the following improvements are made.

- a. Increase of stuffs in the field
- b. It makes CERT be cashable in a private bank.
- c. The conditions for applying DRAW BACK were cut off, thus the check items was reduced.
- d. Automation was advanced since almost all work had been done manually.

A target is to refund for the piled up application by 2001, and will shift to the new system from the next year. As of February, 2001, Bs. 8,800,000 was refunded to 319 companies (8,077 applications) in the total.

The VAT can be refunded when a manufacture an export his product like Draw Back system. It is to be paid by law within 60 working days.