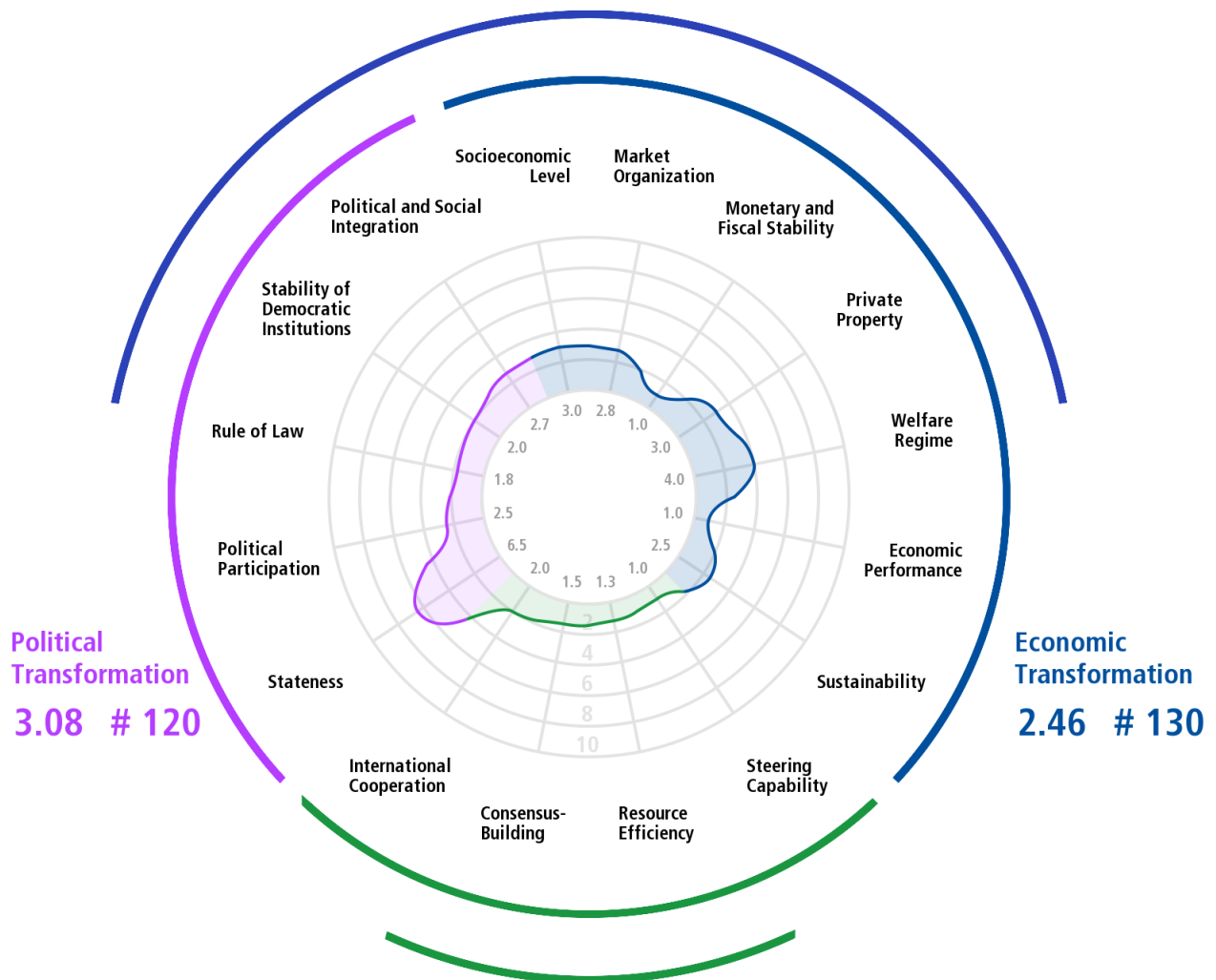


# Venezuela

## Status Index

**2.77 # 128**

on 1-10 scale out of 137



**Political Transformation**  
**3.08 # 120**

**Economic Transformation**  
**2.46 # 130**

## Governance Index

**1.28 # 135**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>28.9</b>	HDI	<b>0.726</b>	GDP p.c., PPP \$	-
Pop. growth <sup>1</sup>	% p.a.	<b>-1.8</b>	HDI rank of 189	<b>96</b>	Gini Index	<b>46.9</b>
Life expectancy	years	<b>72.2</b>	UN Education Index	<b>0.700</b>	Poverty <sup>3</sup>	% <b>17.8</b>
Urban population	%	<b>88.2</b>	Gender inequality <sup>2</sup>	<b>0.458</b>	Aid per capita \$	<b>2.9</b>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Since January 23, 2019, Venezuela has two presidents. Nicolás Maduro, considered illegitimate by the National Assembly and a host of international actors but backed by the military and the rest of the branches of power, as well as his allies China, Cuba, Russia and Turkey, and Interim President Juan Guaidó, with domestic backing only from the National Assembly and continuous, massive, nationwide town-hall meetings and demonstrations, as well as recognition from the United States, most Latin American governments and many other nations and actors. The interim government's foremost aim to organize free and fair elections within six to eight months.

The regime's gross mismanagement of fiscal monetary, budgetary and foreign exchange policies, as well as its deeply ingrained, extensive graft have turned the economy into the worst performing and most miserable in the world for the fourth straight year. Its GDP contraction in 2015 (-6%) was followed by a free fall in 2016 (-17%) and further slumps in 2017 (-14%) and 2018 (-18%). The decline is without precedent, setting new standards in economic decline: a miracle in reverse. It is the only country topping the negative lists for three fundamental indicators over a five-year span: GDP decline (-45% 2013 – 2018), decline in imports (-75%) and inflation rate (1,370,000% in 2018). Of the population, 87% live in poverty, compared to 40% in 1998, when the Bolivarian Revolution came to power.

The sharp increase in poverty is in line with the Cuban model, which informs the leadership's policy. With a huge majority depending on handouts for sheer survival, social control can be perfected, tightening the leadership's grip on power. As a consequence, millions of Venezuelans, most of them young and talented, have fled the country in search of opportunities, triggering a migration of Syrian proportions.

The bankruptcy of Venezuela's checkbook diplomacy triggered a breakdown in the regional cooperation architecture, promoted by the Bolivarian Revolution. The Union of South American States (UNASUR) was stripped of its Quito headquarters by the Ecuadorian government. The

Bolivarian Alliance for the Peoples of Our America (ALBA) trade bloc is no more than a shadow of what it used to be. The regime finds itself in an isolated position. On January 24, 2019, the Organization of American States (OAS) passed a resolution denying the legitimacy of Nicolás Maduro's new term in office on the grounds that his re-election in May 2018 was fake and a further resolution recognizing Juan Guaidó as interim president of Venezuela.

## History and Characteristics of Transformation

Venezuela is a textbook example of a petro-state that missed opportunities to overcome the resource curse. Petroleum took center stage in the economy during the 1920s, spurring social and economic modernization. The government managed to improve the state's share in the foreign-dominated oil business, and the transition to representative democracy in 1958 opened the door to nationalization of the industry. The leadership was aware of the perils inherent in the reliance on petroleum. Petroleum Minister (1959–1964) and OPEC founder Juan Pablo Pérez Alfonzo was convinced that oil would bring ruin; he called it “the devil's excrement.”

Successive governments formed in the context of an elite pact model – “Puntofijismo” - pursued the diversification of the economy through the creation of state-owned industries and import-substitution industrialization in a protected market, a model that swallowed huge subsidies and rewarded inefficiency. Even the increased revenue during the boom proved insufficient and the foreign debt exploded. The overvalued currency generated a port economy and spurred capital flight. The currency was devalued and exchange controls introduced in the 1980s.

The positive results of that period include the construction of a modern infrastructure, the emergence of a middle class and increased upward mobility, as well as significantly improved education and health care systems. The country's economy was the envy of South America. Despite such progress, poverty and inequality were not been eradicated but reduced to levels significantly lower than those registered in 2018 (Gini index 42.5 in 1992 vs. 46.9 in 2018).

A second opportunity to reduce the dependence on petroleum was lost with an IMF-assisted adjustment program launched as a shock policy by technocrats in the second Carlos Andrés Pérez administration (1989–1992) that triggered spontaneous popular protest, which degenerated into widespread riots. The government responded with repression by calling on the military, which used excessive force and caused a huge death toll. The rebellion and its repression provided a group of conspiring army officers led by Lt. Col. Hugo Chávez with a pretext for staging two coup attempts in 1992. President Caldera (1994–1999) dropped the charges against Chávez and reversed the adjustment program. Chávez toured the country campaigning in the political arena and was elected president in 1998. His first move was to call for the election of a Constituent Assembly, which his movement's delegates overwhelmingly dominated. They wrote a new constitution, which marked a regime change and was adopted by referendum in 1999. A series of plebiscite-

style electoral victories, beginning with the re-legitimation of all elected officeholders in 2000, handed Chávez almost total control while strengthening his image as a democrat.

The 1999 constitution emphasizes four principles: plebiscitary democracy, concentration of power, recentralization of the state and a state-regulated social market economy. The constitution outlines a system of checks and balances but in practice, it is ineffective given the concentration of power in the executive. Defying the rules and backed by an almost entirely pro-government National Assembly, the product of the opposition's boycott of the 2005 parliamentary elections, the president packed the judiciary, the electoral council and the citizens' branch (attorney general, comptroller and defender of the people) with loyalists.

Chávez was re-elected in 2006 and 2012; his movement scored further victories at the polls in local, regional and national elections. However, he was unable to assume office in 2013 due to his illness. His hand-picked successor Maduro secured a razor-thin victory in the presidential elections of April 2013. Maduro, who lacks the charisma and leadership of his predecessor, continually lost popular support because declining oil revenues and his stubborn pursuit of unsustainable economic, monetary and exchange policies imposed using repression rendered the rentier populist model unviable. The Bolivarian Revolution is guilty of the worst humanitarian crisis in Venezuela's history in terms of nutrition and health care and has deprived people of their aspirations.

In reaction to massive, brutally repressed anti-government protests in April and May 2014, the regime first accepted dialog with the opposition, urged by the Union of South American States and the Vatican but, once the protests had been called off, denied any concessions, and the dialog went nowhere.

In the parliamentary elections of 2015, the opposition secured a comfortable two-thirds majority in the National Assembly. Expectations that this would open the door to some kind of cohabitation and a gradual change of course were soon disproven when the government urged a compliant Supreme Court to declare the elections "in contempt" in order to bypass legislative power.

The opposition initiative for a referendum to recall Maduro in 2016 was backed by 7.5 million voters, 1.2 million more than the number of votes Maduro allegedly received in the fraudulent 2018 election. The referendum was ultimately blocked by the electoral authority. Massive demonstrations in its favor were brutally repressed, leaving over 150 dead.

Two further internationally backed attempts to find a negotiated solution to the national conflict in 2017 likewise evidenced the regime's lack of good faith. As a consequence, the opposition, even though disunited, decided not to accept any further dialog initiatives.

The four nationwide elections that followed in 2017 and 2018 did not meet legal provisions for timing and content. Maduro was "re-elected" in May 2018 in a process that was not recognized by the opposition or most of the international community. The election of an All-United Socialist Party (PSUV) Constituent Assembly in July 2018 was unconstitutional and also not recognized by the opposition or the international community. From that moment on, there have been two

parliamentary bodies: the legitimate National Assembly and the illegitimate Constituent Assembly with supposedly supra-constitutional powers.

In January 2019, the National Assembly elected 36-year-old Representative Juan Guaidó as its president for the 2019 to 2020 session. In a surprise move, the assembly formally declared Maduro's de facto presidency "judicially ineffective" and, in accordance with constitutional provisions, assumed executive power with Guaidó as interim president. While Maduro is backed by his allies such as Cuba, China, Russia, Turkey, Bolivia, Nicaragua and a few other countries, Guaidó has been recognized by the United States, most Latin American governments and many other countries.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state has surrendered its monopoly on the use of force to urban gangs, drug-trafficking and illegal mining mafias, the Colombian National Liberation Army (ELN) guerillas and prison mobs, fostering an oligopoly of state power. InSight Crime (2018) describes the assumption of state powers in urban areas by “colectivos” as “states in the state.” Widespread illegal gold, diamond and coltan mining in the “mineral arc” stretching from Bolivar to Amazonas is controlled by the ELN in collusion with Venezuelan military mafias. Drug-trafficking in border states such as Apure Táchira and Zulia is controlled by cartels in collusion with military-political mafias. The ELN operates in 12 out of 23 Venezuelan states. Its “business” activities include cattle and gasoline contraband, extortion, food distribution, drug-trafficking, mining and recruiting fighters.

Several high-ranking Venezuelan public officials have been indicted for drug-trafficking by the U.S. authorities, two of them former directors of the country’s Antidrug Agency. Two members of the presidential family are serving prison sentences in the United States for high-volume drug-trafficking. The Cartel of the Suns drug trade network of state and non-state actors operates with the blessing and protection of senior regime figures: InSight Crime has assembled over 100 individual files with strong evidence of cocaine-trafficking.

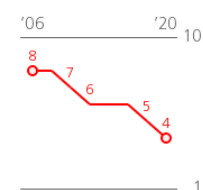
Violent deaths continue out of control. The homicide rate of 85 per 100,000 citizens (Venezuelan Observatory of Violence 2018) is the highest in Latin America.

All social groups agree on citizenship and accept the nation-state as legitimate, Access to citizenship is simple and without discrimination. Southern European and Latin American nationals are granted citizenship after five years of residence, others after 10 years. Members of the largest aboriginal nation, the Wayuu, who lives on both sides of the Colombian/Venezuelan border, generally hold citizenship in both countries and do not identify primarily with the Venezuelan state. The regime aggressively seeks to define national identity according to its own ideology. Because nation and government are supposed to be identical, the opposition and anyone critical of the government are at least rhetorically denied the status of citizen.

Question  
Score

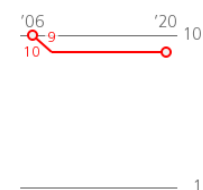
Monopoly on the  
use of force

4



State identity

9



The legal order and political institutions are entirely free from religious dogma.

The majority of the Venezuelan population is Catholic (the numbers vary between 86% and 96%). Although the Catholic Church enjoys high levels of trust, it does not interfere with the state's legal structure.

Evangelicalism is present in poor urban areas where Chavismo support is still relatively strong, but does not influence the legal order or political institutions.

The state's basic administrative structure provides easily accessible public services throughout the country. This structure is double tracked: the formal track consists of 29 ministries and their dependent agencies, the informal of 42 "Bolivarian missions." The competences of both tracks often overlap and are completely uncoordinated due to the fact that the first serve the general public while the second, in coordination with the ruling United Socialist Party (PSUV), caters mostly to specific clientele. Neither the formal nor the informal administrative structures' budgets, expenditures and policy outcomes are approved, overseen or controlled by parliament, violating the constitution.

The highly centralized administration's exclusive decision-making makes it unresponsive to regional and local needs. Recruitment and promotion are based on professional and career standards on paper, but in practice on the PSUV's and senior officeholders' patronage, whether elected or appointed, rendering the administration inefficient and of low quality due to frequent cabinet reshuffles with ensuing changes of most senior positions in all dependencies. Exceptions are the tax and identity administrations, which had very few changes at the top and whose work meets professional standards. The civil service is understaffed in the upper ranks but overstaffed in the lower ones. The public sector employment rate is 36% (of formal sector employment).

Jurisdiction is provided by a five-level court system: Supreme Tribunal, Superior Courts of Appeal, District Courts, Courts of First Instance and Parrish Courts, as well as military, tax and juvenile courts and justices of the peace. Nine out of ten judges hold temporary positions, which threatens their independence and impartiality, and that of the judiciary as a whole.

Law enforcement is the state administration's Achilles heel. Several agencies at the national, regional and local levels operate in an uncoordinated fashion and sometimes contravene each other. At the national level, there are the National Guard (the Ministry of Defense, 35,000 agents); the Criminal Police (the Attorney General, 8,000 agents); the National Bolivarian Police (4,000 agents) and the Bolivarian Intelligence Service (the Ministry of the Interior). Twenty-three state police departments comprise 50,000 officers, and 114 municipal police departments about 20,000. Altogether, there are some 115,000 police.

No interference of religious dogmas

10



Basic administration

3





The state-owned telecom company CANTV runs landline, mobile telephone and internet service networks that cover the entire country. Two private companies also offer nationwide mobile telephone and internet service, as do numerous local ISPs.

Interurban transport is offered mainly by private transport companies, while intra-urban transport is a mix of private and public. Public mass transportation systems operate in the three largest cities. Ports and airports are managed by a state-owned Venezuelan/Cuban company.

Public utilities – electricity, water, sewage, waste collection – exist in almost everywhere. About 94% of the population has access to improved sanitation facilities and 93% to improved water sources. However, the generation and distribution infrastructure is in disrepair, causing frequent and prolonged service interruptions.

Education is provided by a system of public and private institutions at the university, secondary, primary and pre-primary levels. There are over 90 universities and institutes of higher education and 26,000 primary and secondary schools. Frequent electricity and water supply interruptions, along with inadequate transportation, cause high levels of absenteeism.

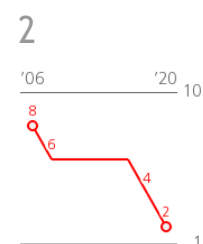
Health care is provided by public and private institutions in the whole country. There are over 200 public hospitals and a dense network of primary health care stations (ambulatories and diagnostic centers). Public health care has however collapsed due to inoperative facilities, a lack of medical and laboratory supplies and drug shortages.

## 2 | Political Participation

Nationwide elections for office at the national, regional and municipal levels are held frequently but since the regime's defeat in the parliamentary elections of 2015 no longer according to legally established procedures and timetables. All the elections since 2015 have been timed to take advantage of opposition demobilization phases or violated constitutional requirements. A recall referendum process initiated by the opposition and supported by the necessary number of voters' signatures was blocked by the election authority. The 2018 presidential election, due in December, was pushed back May 2018. It was not recognized as legitimate by the opposition or other Latin American states. A general election for the Constituent Assembly was held without the required referendum beforehand and not recognized by the opposition and international actors. Regional elections that were supposed to take place in 2016 were postponed to 2017 and municipal elections in 2017 to 2018.

The National Electoral Council (CNE), the electoral management agency, tilts the playing field in the regime's favor. Four of its five members do not even make a pretense of impartiality. Although universal suffrage and secret ballots are guaranteed, the regime controls participation via Fatherland Identity Cards, issued by

Free and fair elections



the ruling party's organization and which people must have in order to access subsidized food deliveries and other benefits. Mobile United Socialist Party stations equipped with card scanners are set up near polling stations. Voters with cards are identified and registered at the PSUV stations and then walk to the voting booths to cast their ballots. In the presidential elections of 2018, as well subsequent elections, Fatherland cardholders were rewarded with cash. Elections are definitely neither free nor fair, although they are apparently competitive: some opposition candidates at the regional and local levels win occasionally. In any case, public support for elections is dwindling, mainly due to the fact that the people have learned that they do not work as a tool for change.

The registration procedures for voters, candidates and parties are transparent in theory but flawed in practice, as the time limits are deliberately set short and candidates and parties such as the leading opposition parties Democratic Action (AD), Justice First (PJ), A New Era (UNT) and Popular Will (VP) are arbitrarily barred from participation for having boycotted the illegitimate Constituent Assembly elections.

Polling procedures and vote counts are automated and meet international standards, but complaint resolution is neither transparent nor impartial, as made clear in practically all elections since 2015.

Media access is neither fair nor equal for all candidates and parties. While the ruling party and its candidates monopolize access to the state-owned media and force private electronic media to air their "cadenas" (chains) (i.e. mandatory transmissions), opposition candidates rely entirely on themselves. Regime candidates use public resources such as carpools and buses to rally their supporters and carry them to the polling stations.

Polling is accessible – there are 30,000 polling stations – but it is neither safe nor a guarantee of effective participation.

Maduro, considered illegitimate by the opposition and a host of states since his sham inauguration for a second term by the likewise illegitimate Constituent Assembly on January 10, 2019, is the only "elected" official who, at least in appearance, has the effective power to govern. Even he depends on the support of the military, which, for its part, is under the effective control of its Cuban minders. Cuba's security apparatus is deeply embedded in the Venezuelan military. A Brookings Institution report estimates that there are 400 military "advisers" who provide direct support to the presidential guard. Intelligence officers are deployed as politruks in military units, the Ministry of the Interior, the Directorate of Military Intelligence (DIM) and the Bolivarian Intelligence Service (SEBIN). Fundamental decisions about economic, monetary and budgetary/financial policies are regularly announced by Maduro after visiting Havana for a "consultation," making him look like Cuba's quisling in Venezuela. Venezuelan armed forces commanders have Cuban minders, and Cuba's Interior Ministry provides Maduro's personal security detail. Maduro refuses to use

Effective power to govern

2

'06 \_\_\_\_\_ '20 10



the costly, luxurious Airbus his predecessor bought as a presidential plane and prefers to travel in planes provided by Cuba for his frequent trips to Havana, Beijing, Moscow and Istanbul.

Subnational elected executive officeholders – governors and mayors, whether regime loyal or from the opposition – depend on the national executive’s benevolence for their scope of rule. Opposition governors are sidestepped by regime-loyal minders called “protectors” of respective states or municipalities.

Constitutional guarantees of association and assembly rights are seriously threatened and suppressed. Restrictions on assembly and association include the criminalization of protests, arbitrary detentions of party leaders and members of legislative bodies at the local and regional levels, even of members of parliament in undisguised violation of their immunity from prosecution. National Assembly members have been arrested, fled into exile and found shelter in foreign embassies.

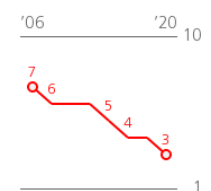
Freedom of expression and access to public information are under permanent threat in Venezuela. Journalists and media outlets suffer legal harassment based on false accusations of defamation, hate speech and support for terrorism. Many journalists have fled the country and started to run information websites and channels from abroad. A PEN International mission to Venezuela found that “a marked regression is underway with regard to freedom of information.” The report cites over 1,000 violations of the freedom of expression in 2017 alone, along with eight TV channels and 54 other broadcasters going off air, 17 printed media closed due to the lack of paper and legal harassment of websites. The tendency continued in 2018, producing widespread self-censorship among journalists.

In January 2019, after a proclamation by Interim President Guaidó, the telecommunications regulator, CONATEL (National Telecommunications Commission), prohibited broadcast media from referring to him as interim president and from mentioning that the repression of public protests in his favor had left people dead.

The RSF World Press Freedom Index ranks Venezuela 145 out of 180 countries.

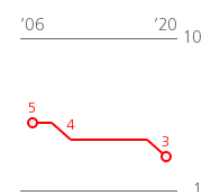
Association /  
assembly rights

3



Freedom of  
expression

3



### 3 | Rule of Law

There is de facto no separation of powers in Venezuela. Even the principle of checks and balances is disqualified by the regime as a bourgeois relic that must be overcome. Three of the five power branches – the legislature, the judiciary and citizens’ power – are mere puppets of the executive. The remaining – and only legitimately elected – legislative power was nullified by Supreme Court decisions declaring all National Assembly acts null and void and stripping its members of their constitutionally guaranteed immunity from prosecution.

The judiciary has ceased to function as an independent branch of power with 90% of the country’s judges holding temporary positions that threaten their tenure, independence and impartiality. The Supreme Court has not handed down a single ruling against the regime. The Supreme Court justice who wrote the ruling that stripped the National Assembly of its legislative power fled to the United States, where he cooperates with prosecution authorities investigating drug-trafficking and money-laundering by Venezuelan officials. He declared that the Supreme Court was nothing but an appendix of the executive.

According to the World Justice Project, Venezuela’s delivery of civil and criminal justice scores lowest among the 113 countries reviewed. There is no due process of law. Civil and criminal justice are not free from improper government influence, discrimination or corruption, and are not timely, effective or effectively enforced.

Judges’ salaries are very low (around \$30/month as of January 2019) contributing to international observers’ assessment of Venezuela’s judiciary as the most corrupt in Latin America.

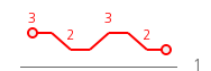
Conflicts of interest and nepotism continue to be the most widespread forms of office abuse in flagrant violation of legal dispositions, but there has not been a single investigation or indictment with regard to this. Office abuse is prosecuted mainly against opposition officeholders or regime officials who are in disgrace or have fled the country. Fifteen opposition mayors were removed for “misconduct in office” or “promoting violence” because they refused to order their local police forces to crack down on peaceful protests during the 2017 crisis.

Two cases illustrate this. The attorney general was accused by the Supreme Court of serious misconduct in office when she criticized the brutal repression of protests in April 2017 as a violation of human rights. She also declared that the Supreme Court’s ruling that stripped the National Assembly of its legislative function was unconstitutional. She later fled the country. Likewise, the Supreme Court magistrate who wrote that ruling and then fled to the United States was accused of sexual aggression in office as soon as he defected.

Separation of powers

2

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Independent judiciary

2

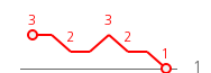
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Prosecution of office abuse

1

'06 '20 10



The 1999 constitution is pathbreaking in terms of its protection of human rights, but the de jure situation is absolutely irrelevant, given the regime's repressive practices, which include arbitrary detentions, inhuman treatment and torture and denying access to justice as a quotidian and permanent policy.

The country is the most violent in Latin America, with a homicide rate of 82/100,000 and de facto near-total impunity (96%). Violations of the immunity of residence and private property are common practice. The privacy of communication is regularly violated. Victims are denied access to justice.

Amnesty International finds the regime to be guilty of the worst human rights crisis in the country's history. The organization's report on the human rights situation in Venezuela in 2018 highlights the violence perpetrated by security forces in anti-crime raids in poor neighborhoods, stating there were close to 8,300 extrajudicial killings carried out between 2015 and 2017 alone. Likewise, a U.N. Human Rights Office report found "excessive human rights violations in the context of anti-government protests," pointing to the existence of a policy to repress dissent and instill fear in the population in order to curb demonstrations. It also declared that over 5,000 arbitrary detentions had occurred between April and July 2017 alone, with 1,000 people still in custody, and over 600 civilians who were arrested in protests tried before military tribunals.

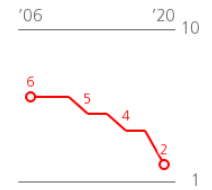
The brutal repression of public demonstrations in support of Interim President Guaidó in January 2019 by security forces accompanied by armed civilian gangs left over 40 dead. About 1,000 persons were arrested, 77 of them adolescents.

The regime's massive civil rights abuses are not prosecuted. Victims cannot seek redress against domestic violations; in a number of cases, proceedings were instituted in response to international instances.

However, these systematic civil rights violations are exclusively politically motivated: there is no preferential treatment or discrimination based on gender, sexual orientation, religion, ethnicity or race.

## Civil rights

2



#### 4 | Stability of Democratic Institutions

The only democratically legitimate institution is the National Assembly. Maduro's re-election in May 2018 was unconstitutional and not recognized by most of the opposition and a number of foreign governments. The election of the Constitutional Assembly in July 2017 was also unconstitutional and not recognized. The Supreme Tribunal was nominated in violation of constitutional requirements, along with the National Electoral Council and the People's Power (comptroller, ombudsman and general attorney). These three power branches are puppets of the executive and their performance is anything but autonomous. The National Assembly is de facto unable to function; its legislative acts and resolutions have been invalidated ex post as well as ex ante by the sham Supreme Court. On January 21, 2019, the same tribunal overturned the designation (January 5, 2019) of the National Assembly's new Executive Committee.

The National Assembly is accepted as legitimate by the opposition and a number of foreign governments and the European Union, but rejected by Venezuelan actors with the ability to concentrate power such as the other branches of government, the military and the ruling party.

Performance of democratic institutions

2

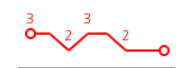
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Commitment to democratic institutions

2

'06 '20 10



#### 5 | Political and Social Integration

The party system changed from roughly bipolar to concentric: since the dissolution of the opposition alliance Democratic Unity Roundtable (MUD), the official United Socialist Party (PSUV) is in the center, rock solid, disciplined, with popular support of around 25%. There are over 40 scattered opposition parties, some of them close to the center of gravity, some far away. The PSUV controls 19 out of 23 states and 326 out of 335 municipalities, mainly due to the fragmentation of opposition votes or abstention from voting. The fragmented opposition commands a two-thirds majority in the largely toothless National Assembly.

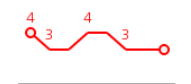
Studies of political culture reveal that attitudes toward democracy and a market economy are better predictors of party support than socioeconomic or demographic variables. PSUV supporters evidence significantly stronger delegative-authoritarian and statist-patronage tendencies than opposition supporters do.

Fragmentation, volatility and regionalization characterize the party system. There are 15 parties represented in the National Assembly, in an environment of about 40

Party system

3

'06 '20 10



national and 16 regional parties. Even the more important opposition parties are not established homogeneously throughout Venezuelan territory, but have regional strongholds; many of them are the result of splits. While inter-coalition stability is high – there was only one defection from the opposition to the regime – volatility characterizes intra-coalition relations among the opposition. About 30 members of parliament have changed parties in the past two years and new parliamentary groups have emerged, such as 16th of July and Concentration.

Interest groups – trade unions, community, professional, entrepreneurial and cultural organizations – are politically aligned and consequently polarized into pro-regime and pro-opposition camps.

Many social movements – women’s rights, farmers, aboriginal peoples, environmentalists – have lost clout, except the students’ movement, which is still capable of mobilizing the masses.

Even so, a few NGOs fill in the blanks left in public information by the regime’s opacity regarding data on policy outcomes. The medical federation keeps the public aware of the catastrophic situation of public health services; the Penal Forum tracks arbitrary detentions and the situation of political prisoners; the Prison Observatory informs the public about the horrible situation in detention centers and prisons; the Observatory on Violence chronicles all forms of violence and homicides; and the human rights watchdog PROVEA documents human rights violations. These efforts will be of great value once the country comes to terms with its recent past and the regime’s violations of the rule of law will have succumbed to justice.

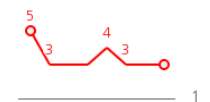
Although the regime is definitely authoritarian, it has been eager to maintain some semblance of democracy by holding elections – albeit fraudulent – and allowing the opposition to exist.

Venezuelans express high support for democracy as preferable to any other form of government (75%) while only 6% said an authoritarian government was preferable. Only 14% say it does not matter whether a government is democratic or not. Interestingly enough, only a small minority of government supporters (24%) expressed support for democracy. Of those polled, 34% said their country was not a democracy while 44% characterized it as a democracy with major problems and 11% as a democracy with minor problems. Only 12% of Venezuelans were satisfied with their democracy. Institutions are not trusted, except the Catholic Church (74%). The police (12%), political parties (14%), the government (17%), the judiciary and the electoral authority (18%), the armed forces (19%) and the National Assembly (20%) are only trusted by small minorities. Finally, 86% are convinced that the country is ruled for the benefit of powerful groups. Only 12% think the country is ruled for the benefit of the people. (Data source: Latinobarómetro 2018).

Interest groups

3

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Approval of democracy

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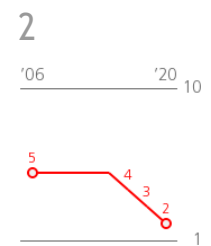
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n/a 1

Social capital is in steep decline. The 2018 Legatum Prosperity Index ranks the country 126th out of 144, among the lowest in Latin America, the most precipitous decline registered. Interpersonal trust (8%) is the second-lowest in Latin America, according to Latinobarómetro 2018. Civil society organizations have been under attack, their number dropped to about 500 (Sinergia Network), down from over 1,000 a few years back.

The idea of autonomous civil society organizations is anathema to the authoritarian regime. As a consequence, the freedom of association, guaranteed in Article 72 of the constitution, is subject to severe restrictions: existing organizations are harassed and their members often persecuted, while the mandatory registration of newly founded ones is delayed or denied. A 2017 survey of CSOs conducted by the Sinergia Network found 25% of organizations reported that they were subject to restrictions when registering, 15% were rejected, 45% reported harassment for their activities, 50% encountered obstacles to or restrictions on receiving funding and 45% harassment and discrimination against members for their opinions, beliefs or ideologies.

Social capital



## II. Economic Transformation

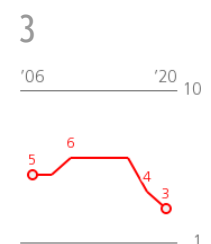
### 6 | Level of Socioeconomic Development

The country's socioeconomic decline in recent years is without precedent, a miracle in reverse. What might appear to be a horror fiction scenario is crude everyday reality. Venezuela is the only country ranking among the worst performers in the last five years in all three negative key economic indicator lists: GDP decline (-45%), imports decline (-75%) and inflation (1,370,000%). It holds the number one spot in the World Misery Index for the third straight year, even more miserable than Syria (second).

Only one generation ago, Venezuela was ahead of many nations in the southern hemisphere in practically all measures of socioeconomic development: education, health care, housing, transport, utilities, infrastructure and cultural activism, with a foreign population of nearly a million and a half (not counting the millions of nationalized immigrants) and a well-connected operations hub of many multinational companies. Of course, it was still a developing country with multiple problems such as poverty, exclusion and inequality.

In 2018, it was the third poorest in the region. Even Bolivia surpassed it in GDP per capita at current prices (IMF). Three million Venezuelans, mostly young people, many holding university degrees, have fled the country.

Venezuela still belongs to the high human development group with an HDI of 0.761, ranked 78 out of 189 countries in 2017, down seven spots from 2015. The inequality-

Question  
ScoreSocioeconomic  
barriers



adjusted HDI is 0.66, an overall loss of 16.5%. The education-adjusted inequality index is 0.645 and the inequality-adjusted income index 0.528. The Gini index is 46.9, up from 44.8 in 2015 and the poverty rate, according to the Life Condition Survey (ENCOVI), is 90%, with the school dropout rate at 30%. In the Gender Inequality Index, Venezuela's score has almost stagnated since the 2000s, with a rank of sixth to last in the region.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	-	-	-	-
GDP growth	%	-	-	-	-
Inflation (CPI)	%	121.7	254.9	-	-
Unemployment	%	6.8	7.5	7.4	<b>8.4</b>
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-16051.0	-3870.0	-	-
Public debt	% of GDP	11.1	5.1	23.1	<b>182.5</b>
External debt	\$ M	160909.2	152522.9	148877.9	<b>154898.1</b>
Total debt service	\$ M	27775.0	20217.9	15904.9	<b>7710.3</b>
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2	0.8	-	-
R&D expenditure	% of GDP	0.2	0.1	-	-
Military expenditure	% of GDP	0.9	0.5	0.5	-

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market-based competition does not exist. Price controls for basic consumer goods and generalized supply shortages favor the emergence of black markets whose size outstrips the formal market. Prices on the black market are multiples of the regulated values. Informality is concentrated there.

The shortage problem arose in part due to the impossibility of agricultural enterprises producing at government-fixed prices, which do not even cover costs, and in part due to import restrictions and exchange rate controls, which made the supply of necessary inputs difficult, if not impossible. Thousands of firms collapsed. International companies abandoned the country. The state took over their assets under the banner of workers' control, with the predictable outcome of massive bankruptcies. In 2018, about 50 firms were closed per day. The transnational companies that abandoned operations in Venezuela include Kellogg's, General Motors, Kimberley-Clark, Bridgestone, Clorox, CEMEX, Ford, Halliburton, Goodyear, Chevron, Delta Airlines, United Airlines and Lufthansa.

The exchange rate control system was thoroughly modified in 2018, a reform that amounted to a de-facto dollarization of the economy, as the official exchange rate moved closer to the black-market rate.

An anti-monopoly and pro-competition authority is in charge of enforcing the respective regulations, with no visible outcomes in terms of competition. A foreign direct investment law imposes strict controls on such investments. Doing business in Venezuela is extremely difficult (Ease of Doing Business Index 2019: 188 out of 190 countries); starting a business takes 20 procedures and 230 days with a cost of 391.3% of income per capita (Starting a Business ranking in 2019: 190 out of 190).

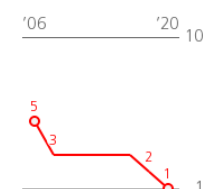
The Maduro regime pretends to be overcoming the economic crisis by increasing state control, strengthening the state's role as primary buyer and marketer of imports, and tightening price controls even further, exactly the mix that pours gasoline into the fire.

The protection of intellectual property fails to meet international standards.

Delayed payments add time and costs to shipments, which are further obstructed by inefficient port operations. Since Venezuela withdrew from the World Bank International Center for the Settlement of Investment Disputes, firms have diminished access to international arbitration. Labor laws make layoffs practically impossible, thus encouraging the use of independent contractors. Additionally, frequent minimum wage increases and the lack of transparency in the exchange rate regime are a challenge to budgeting. Businesses face difficulties obtaining primary materials and spare parts, not to mention the burdens of electricity and water-supply rationing. They also lose increasing numbers of skilled professionals to emigration. Public enterprises are favored in access to foreign exchange; private firms are at a disadvantage, having to struggle with excessive bureaucracy and process delays.

Market  
organization

1



A new anti-monopoly enforcement agency was established in 2018: the Antimonopoly Superintendent, dependent on the Ministry of Commerce. It aims to protect fair economic competition in order to guarantee democratization of a productive economy with social equality. The new agency's website basically displays government propaganda and boasts of having organized the sale of subsidized textiles and shoes nationwide. Its twitter account reports 47 followers and over 200 posts as of January 2019. Given all this, the Antimonopoly Superintendent appears to be just another price-controlling unit with no activity whatsoever related to anti-monopoly policies. In any case, it is the state that monopolizes imports and their distribution while local companies struggle to survive under conditions of excessive controls and supply shortages.

The World Economic Forum's World Competitiveness Report ranks Venezuela 135 out of 137 countries for the indicator "Effectiveness of Anti-Monopoly Policy."

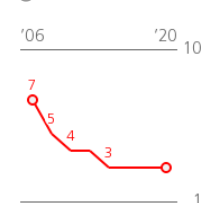
Venezuela has not ratified the WTO Trade Facilitation Agreement. Its foreign trade makes up 20% of GDP: exports are mainly hydrocarbons (>90%), imports manufacture and food.

Tariffs on imports (most favored nation 2017 applied) average 13.8%: 13% on agricultural products and 13.9% on non-agricultural products. Facilitation is below best performance in all indicators, according to the OECD, particularly regarding documents, trade community involvement, external border agencies cooperation and governance and impartiality. The availability and user friendliness of information on agreements with third countries, involvement of the private sector prior to the amendment of trade-related regulations and information on fees and charges required for import and export fail to meet international standards. Poor automated processing at customs, excessive clearance time, physical inspections, excessive controls of perishable goods and overcomplicated, time-consuming, expensive procedures are further obstacles to trade.

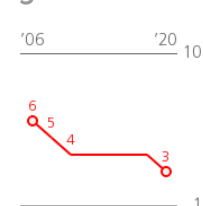
Venezuela was ejected from Mercosur in August 2017, when the trading bloc triggered its democratic clause alleging the rupture of the democratic order and suspended the country indefinitely although the respective trading agreements remain basically unchanged.

Venezuela is beneficiary of preferential trade agreements with eight countries and a member of the G20, G33 and Non-Agricultural Market Access-11 (NAMA-11) groups in WTO negotiations. It has requested a WTO dispute consultation with the United States regarding U.S. measures affecting trade. The regional trade agreements in force include the Global System of Trade Preferences Among Developing Countries (GSTP) and the Latin American Integration Association (LAIA).

### Competition policy



### Liberalization of foreign trade



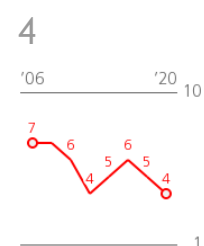
The 2010 Banking Sector Law defines banking as a public utility allowing the government the express nationalization of banks. Under this law, the government announced in 2018 that it would intervene in the activities of the largest private Bank Banesco for 90 days; it has repeated this maneuver several times, the last one in November 2018 for another 120 days. At the end of 2018, there were 31 banking institutions, 24 private and seven public, with public-sector banks holding three-quarters of the sector's assets, of which 90% are in current accounts.

The banking sector is surveilled by the central bank and the superintendent of banks and subject to suffocating regulation: the central bank caps the interest rates banks can charge, requires the allocation of roughly 60% of their portfolio to specified sectors, and squeezes their liquidity by establishing high reserve ratios.

In general, the banking system has been stable but highly vulnerable due to hyperinflation, which discourages saving and turns deposits into mere transactions. The banking superintendent reduced the equity to assets ratio from 9% to 7% and the capital to assets ratio from 12% to 11% for a long list of loans. He further allowed adjustment of their dollar positions to the official exchange rate, which reflects bolivar's constant devaluation, thus helping to blow up equity (+460%).

The sector's capital adequacy ratio is 12.7%. Non-performing loans comprise 0.14% (Economist, August 2017).

Banking system



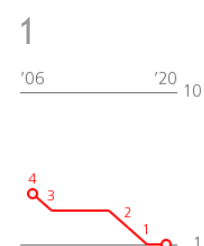
## 8 | Monetary and fiscal stability

The government and the central bank, its cash printing agency, pursue consistent hyperinflation-fueling policies that combine a reckless budgetary policy with monetization of the deficit and opaqueness in disclosure. Annual inflation in 2018 hit 1,370,000% (IMF estimate) and the fiscal deficit was 30% (IMF). The IMF Executive Board censured Venezuela in May 2018 for failing to provide information according to Article VII, Section 5 of the IMF's Articles of Agreement. The country's monetary and fiscal policies are not data driven but spontaneous reactions that attempt to bring adverse realities in line with the regime's visions and ensure its foremost priority, which is staying in power.

The government does not pretend to control inflation, data are not disclosed, and the problem is simply ignored from one minimum wage increase to the next. The last one in January 2019 was 400%.

Strict exchange rate controls and varying systems of multiple rates have been in place since 2003, all of them sources of large-scale corruption, due to the huge spread between official and black-market rates. The system now operates on the basis of a single rate, established through central bank controlled "auctions" (DICOM exchange market system), that reflect the free fall of the bolivar. At the end of January 2019,

Monetary stability



the official rate was close the black-market rate, after having been 700 times less than it in January 2018. In January 2019, the central bank authorized Interbanex, a forex mechanism with exclusive access to private banks and enterprises and daily auctions based on parallel market prices (i.e. the black market has been officially recognized as the forex regulator).

The real broad effective exchange rate stood at VEF 86.88 to the U.S. dollar in February 2003, when exchange controls were introduced. It had doubled to VEF 168.39 to the U.S. dollar as of February 2014 and then skyrocketed to VEF 3181.75 to the U.S. dollar by January 2018, reflecting the steep rise of inflation under Maduro's watch (RBVEBIS/FRED St. Louis).

The central bank is the government's money-printing agency. It has no autonomy and is headed by an engineer with no experience in finance or monetary policy.

The government's loose fiscal, monetary and budgetary policies mixed with an unsustainable overvaluation of the exchange rate have fueled inflation, drained reserves, inflated public debt and increased the country's external vulnerability. Two monetary conversions in just 11 years, with a third one likely impending, are evidence of the fatality of that combination.

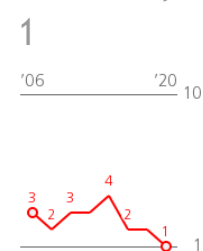
The government's policy of monetizing huge deficits – 30.5% of GDP in 2018, following 17.8% in 2016 and 31.8% in 2017 – by far the highest in Latin America, is a major source of hyperinflation.

The IMF estimates the total public debt at 159% of GDP for 2018 and 162% of GDP for 2019. Total external debt estimates range from \$140 billion (Reuters) to \$220 billion (Ecoanalítica), depending on whether and how compensation claims for expropriations of foreign assets are factored. The New York-based investment bank Torino Capital estimates the total external debt at \$175 billion.

The current account balance turned positive in 2017 (\$4.3 billion) and is estimated at \$5.9 billion for 2018, with forecasts of \$3.5 billion for 2019 and \$1.7 billion for 2020.

Torino Capital estimates the total debt service for 2019 at \$9.3 billion. The country's reserves have shrunk 71% since 2013, down to under \$9 billion for the first time in 28 years (\$8.8 billion by the end of 2018, Banque Cantonale Vaudoise).

Fiscal stability



## 9 | Private Property

Like all civil rights, property rights are safeguarded on paper, but not respected and enforced in practice due to the absence of the rule of law. Ad hoc expropriations without due process, subsequently ratified by an arbitrary and obedient judiciary, are normative. According to Cedice, a liberal think tank, over 1,300 firms were confiscated or taken over by the state, including about 60 multinational companies, leading to dozens of claims before the World Bank Center for the Settlement of Investment Disputes (ICSID). Venezuela withdrew from the ICSID in 2012 but that did not affect pending cases. It is the state with the second highest number of arbitrations initiated before the ICSID.

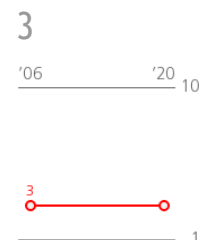
Amoco Phillips won a \$2-billion arbitration in 2018 over the 2007 expropriation of two oil projects in Venezuela. Faced with difficulties in collecting on its settlement, the firm moved to seize the state-owned oil and natural gas company PDVSA's Caribbean assets.

Most nationalized firms, mainly managed by incompetent military officials, stopped production or have gone bust, such as the cement industry, a number of sugar refineries, coffee roasting and food processing firms, dairy plants or paper factories. The Orinoco aluminum and steel industries with formerly record production, privatized in the 1990s, have been renationalized and are now industrial ruins. Extensive land seizures of once-productive agribusiness firms, which were given to cooperatives without the necessary technical and financial assistance, ended up crippling food production. Exito and Cada, the largest supermarket chains, were nationalized and now two-thirds of their stores are shut.

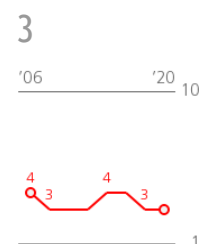
By 2018, three out of four private businesses were closed. The collapse of the private sector also affected agribusiness: the country, once an agricultural exporter, now imports 70% of the food it needs, with the government as the near-exclusive importer. The 2018 World Bank Ease of Doing Business index ranks Venezuela 188 out of 190 countries. The 2018 Heritage Economic Freedom Index positions the country at 178 out of 180 countries.

The privatization of public enterprises is definitely not on the regime's agenda.

Property rights



Private enterprise



## 10 | Welfare Regime

The Social Security Institute, founded in 1944, covers risks associated with old age, health care, unemployment, disability and accidents and offers a life insurance. The pay-as-you-go system is heavily subsidized with tax revenues as contributions from the active, insured population are far too low to cover the costs for the portion of the population that receives benefits. Full pensions are granted after 750 weekly contributions, at the age of 55 years for women and 60 years for men. As of January 2019, there were about 4 million old age pensioners plus 200,000 Love the Elderly pensions not based on contributions, granted mainly to women.

Apart from the Social Security Institute, there is a host of social “missions” that provide some compensation for social risks. The missions constitute a parallel structure, mostly financed by direct contributions from the state oil company and managed in close coordination with the ruling party (via the co-called Fatherland Identity Cards that allow for monitoring movement in the system): a system that combines handouts with social control. While in theory, everyone has access to these benefits, in practice it is a patronage system. According to a conditions of life survey 2018 (ENCOVI), one-third of the population has no access to mission benefits. The 15 million Fatherland cardholders receive occasional cash transfers as “bonuses” on special occasions like Christmas and Labor Day.

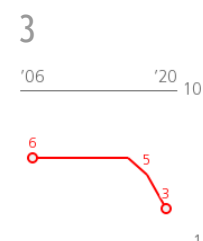
The food distribution program covers Fatherland cardholders, half of whom receive a monthly bag at subsidized prices, while the other half receive a bag of food occasionally.

The missions’ educational initiatives have primarily contributed to creating a large number of graduates with very low professional standards, due to their fast-track training at poorly equipped and staffed institutions with the standards of diploma mills. There are, just to name one example, about 15,000 so-called “integral communitarian doctors,” whose training completed in just three years is highly questionable. Of the over two dozen “integrals” who migrated to Chile and registered for the mandatory test to practice their profession, not a single one passed.

The provision of health care through the social security system is in tatters. A survey organized by the medical federation in 2018 revealed that no hospital laboratory is able to provide uninterrupted services due to reagent shortages, 95% of hospitals cannot offer food and nutrition, 60% of hospital beds are inoperative, 50% of operating rooms are inoperative, as is around 90% of the tomography, x-ray and echo sonogram equipment. Additionally, the epidemiologic vigilance networks do not work, paving the way for the re-emergence of long-eradicated infectious diseases.

The Pan-American Health Organization published a report in 2018 warning that the Venezuelan health care system was fragmented and evidenced a diminished capacity

Social safety nets



to respond to the most urgent necessities. It also registered significant increases in the number of cases of malaria, measles, diphtheria, HIV and tuberculosis.

One consequence of the wrecked social security and service network is the tacit privatization of social services and utilities. Education is being “privatized” to some extent even in public schools because the state has ceased to provide necessary learning materials. Health care is partly privatized, even in public hospitals, because patients must bring their own medical inputs, linen, food and medicines. Access to improved water sources is partly privatized, due to supply interruptions that force people to buy water from private suppliers.

Life expectancy at birth fell to 74.1 years (WHO 2018; in 2016, it was 74.4 years). Public expenditure on health is 3.16% of GDP, less than one-third of the world average (World Bank 2015)

Political polarization and the regime’s social control mechanisms run counter to contemporary and comprehensive norms for legal protection of equal opportunity. There is no discrimination or denial of equal opportunity on the basis of gender, sexual orientation, religion or ethnicity. Females are on parity with males in literacy and primary and secondary school enrollments, and “over-represented” in tertiary education (77%). Female labor force participation has hovered at 40% for years, according to World Development Indicators, which is the average for Latin American countries. In the Gender Inequality Index, Venezuela’s score has almost stagnated since the 2000s, ranking sixth to last in the region.

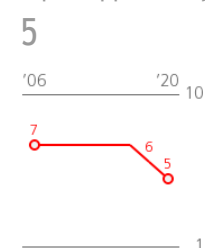
However, there is severe discrimination based on political preferences. Open dissent turns citizens into “traitors” who are denied employment in the public sector and even access to services.

## 11 | Economic Performance

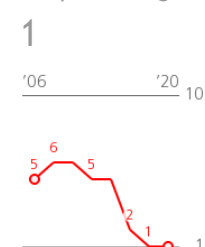
The regime’s gross mismanagement has turned the economy the worst performing and most miserable in the world for the fourth straight year. Its GDP contraction in 2015 (-6%) was followed by a freefall in 2016 (-17%) and further slumps in 2017 (-14%) and 2018 (-18%). The decline is without precedent, setting new standards in economic decline: a miracle in reverse. It is the only country topping the negative lists of three fundamental indicators in a five-year-span: GDP decline (-45%: 2013 – 2018), import decline (-75%) and inflation (1,370,000% in 2018). Of the population, about 90% live in poverty, compared with 40% in 1998, when the Bolivarian Revolution came to power. The country has moved down 44 places in the Legatum Prosperity Index since its creation in 2007.

The GDP per capita (current prices) dropped from \$7,688 in 2016 to \$6,890 in 2017 and \$3,300 in 2018, with forecasts of \$3,100 for 2019 and \$2,999 for 2020

Equal opportunity



Output strength





(IMF/World Economic Outlook, WEO). According to the IMF, further key figures reveal that Venezuela is in a messy situation: a public debt of 159% of GDP, a cash deficit of 30.5% of GDP, a meager tax revenue of 10.4% of GDP – but a current account balance of 6.1% of GDP (2018 est., IMF/WEO). The official unemployment rate was 8%, but in reality 34%, according to the IMF (2018).

## 12 | Sustainability

The Ministry of Eco-Socialism (eco-socialism is a catchphrase that merges socialism with ecology) does not deny the ecological impact of the mineral arc development in Venezuela's Amazonia, but has no say in the matter because its sister Ministry of Ecological Mineral Development is in charge. It affirms that the mining arc policy will assure “peace, environmental protection and economic prosperity.” Reality reveals a different story: the mining arc decree creates “special economic zone,” a mainly tropical rainforest area of 112,000 square kilometers south of the Orinoco River that overlaps with legally protected environmental preserves and indigenous territories. The area is ecologically vulnerable, affects 11 indigenous groups directly and holds 60% of the country's water reserves and 50% of its fauna diversity.

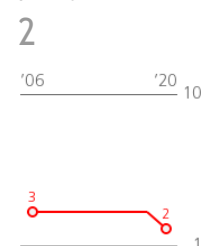
The area is de facto controlled by Colombian ELN guerrillas, mining mafias and drug cartels in collusion with the military. Massive human rights violations and massacres have been reported. The mining arc has been characterized as ecocide with ethnocide.

Tax and energy policies enhance environmental pollution: electricity, partly generated in thermoelectric plants, costs an average household just a few cents per month (as of January 2018), gasoline is practically free for an obsolete vehicle. Favorable conditions for offshore and onshore wind energy parks and solar energy panels exist but remain untapped. Waste collection is irregular; open dumps are the norm. As a result, Venezuela's ecological footprint of 4 hectares per person is the highest in Latin America.

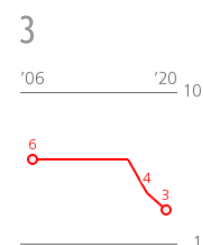
The 2018 HDR inequality-adjusted education index was 0.645 (vs. HDI 0.761). Government spending on education in 2018 was in freefall, an 87% contraction in real terms compared with 2017. Being a country with high human development, a survival rate to the highest grade in lower secondary general education of 76% is miserable.

A 2018 Network of Teachers for Human Rights Study found an attrition rate of 60% of teachers in private schools and 45% overall in 2018. The Director of the Caracas Pedagogic University reported a 40% desertion rate of lecturers and students in 2018. Venezuela's emblematic research university, Universidad Simón Bolívar, lost 300 tenured professors in 2017 and 2018. The ENCOVI survey, which examines living conditions, estimated that in 2018 the attrition rate in pre-primary to secondary education is at 30%, and 65% in tertiary education. In the U.N. Education Index 2017,

Environmental policy



Education policy / R&D



Venezuela was still ranked rather high (31 out of 133 countries surveyed) with a score of 0.741, fourth in the region behind Argentina, Chile and Cuba, and ahead of Uruguay.

The state spent 0.32% of GDP on R&D in 2014 (more recent data unavailable), at the time, less than half the Latin American average and the lowest among the larger countries in the Western hemisphere. As for innovation, no activities or spending were registered in the Ibero-American and Inter-American network for science and technology indicators, RICYT. There were over 1,100 patent applications in 2015, 51 by residents, the rest by non-residents, but there is no information on patents awarded. As for bibliometric indicators, RICYT reports 3.33 papers published in SCI per 100,000 inhabitants, among the lowest ratios in South America.

Despite the disappointing educational and scientific environment, three public and one private university still ranked in the top 100 in the 2018 QS University Ranking for Latin America.

## Governance

### I. Level of Difficulty

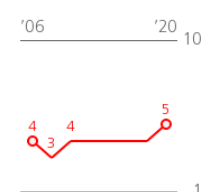
The constraints on the regime's management performance are entirely homemade results of the leadership's mismanagement and counterproductive public policies. The leadership intended to boost oil production and revenues by throwing out PDVSA's partners in exploration and production projects in the Orinoco belt. The outcome: production is down from 3.5 million barrels per day (mbpd) to 1.2 mbpd in 2018. The leadership intended to boost cement production and thus increase the number of housing projects by nationalizing the three multinational companies. The outcome: plants shut down and production is down to less than half before nationalization. The leadership intended to guarantee price stability by imposing ever stricter regulations on imports, the exchange rate and production, along with stricter distribution and price controls. The outcome: severe supply shortages and hyperinflation. The leadership intended to raise living standards by frequent (47) minimum salary hikes. The outcome: a minimum salary equivalent to \$6 as of January 2019. The leadership combines reckless budgetary policies with the issuance of bonds and monetization of the deficit. The outcome: hyperinflation and a poverty rate of nearly 90%.

In a nutshell: structural constraints such as extreme poverty, the lack of an educated labor force and severe infrastructural deficiencies were created or exacerbated by the Bolivarian Revolution governments. Poverty exploded from about 40% to 90%. Well-trained and experienced professionals in the oil industry and public utilities were sacked for political reasons and replaced with incompetent regime loyalists. Others emigrated. The most advanced infrastructure in South America (electric grid, roads and motorways, ports and airports) was ruined by mismanagement and corruption. The regime's mismanagement and corruption impeded transformation of favorable geographical and natural resource conditions into an environment in which the population could enjoy a good quality of life.

Previous civil society traditions were undermined by the Bolivarian Revolution. The bottom-up movements that had emerged in the second half of the last century had been successful in promoting issues such as women's and LGBTI rights, decentralization, direct elections of mayors and governors, environmental interests and the autonomy of indigenous peoples. But civil society was denounced as a bourgeois concept by the revolution that set up top-down groups based on patronage, thus converting citizens into objects of Cuban-style social control. Interpersonal trust dropped to a mere 8%, the second-lowest in Latin America, and the country's

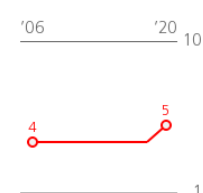
Structural  
constraints

5



Civil society  
traditions

5



Legatum social capital achievement ranking dropped to 126 out of 149 countries, the steepest decline since the index was first published in 2007.

Sinergia, a network of civil society organizations, reports there is harassment of CSOs accused of receiving funds from abroad and promoting foreign intervention in Venezuela. The U.N. High Commission for Human Rights report (2018) condemns the existence of a “policy to repress political dissent and instill fear” in the population, a policy that seeks to break the civil society traditions of organized interests and protests.

Even so, civil society watchdogs such as PROVEA (human rights), CODEVIDA (health care), TRANSPARENCIA (public administration ethics), FORO PENAL (defense of political prisoners), OVV (observatory of violence), OVP (prison observatory) or Control Ciudadano (armed forces observatory) have contributed to denouncing the situation in the country in national and international forums, gathering and registering evidence of human rights violations and informing the public at home and abroad. Some of these CSOs have been awarded prestigious prizes by the EU, the United States and other countries. They are notaries of repression, whose archives will be of great value when the time comes to bring the violators to justice.

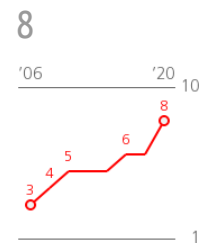
Society is no longer polarized as a whole. There are, of course, two diametrically opposed poles of the regime and opposition hardliners, but in between there is a huge majority that just wants change and prefers it be peaceful.

Since the second half of 2017, small, spontaneous, specific single-issue protest actions have taken the place of large mobilizations. In the first half of 2018, the Social Conflict Observatory registered over 5,000 protests, mainly against failing public services – water, electricity, gas, waste disposal and health care – or demands for better work conditions and food supplies. The repression of such protests left 12 dead.

The last large mobilizations were seen in 2017: about 4,000 protests nationwide between April and July, which produced about 150 deaths. The mobilizations were called off when the opposition leadership agreed to hold talks with the regime, moderated by UNASUR and the Vatican, in the Dominican Republic. The government refused to make any concessions; it had been successful in halting the momentum that had built up in the streets just by agreeing to talk.

Renewed large-scale mobilizations followed the election of a new National Assembly Executive Commission in early January 2019 headed by Juan Guaidó, who vowed to assume the interim presidency once parliament declared President Maduro’s inauguration for a second term as null and void because his election had been fraudulent. Amid huge mobilizations throughout the country, Guaidó assumed the role of interim president on January 23, 2019, in accordance with constitutional provisions (Articles 233, 333 and 350) and was immediately recognized by the United

Conflict intensity



States and all the governments of the Lima Group except Mexico. The regime responded with the Supreme Tribunal ordering Guaidó's detention. Later, the regime backpedaled and invited the opposition to dialog, its normal reaction when it is cornered.

Violence continues to characterize life in Venezuela. The Violence Observatory registered 23,000 violent deaths in 2018 and a homicide rate of 81.4 out of 100,000 inhabitants, making it the most violent country in the world. The Global Peace Index ranks Venezuela 143 out of 163 countries, and the human rights watchdog PROVEA states in its 2017 report that violence and the violation of human rights were the worst since the reports had first been published in 1989, comparable to a civil war situation.

There are no religious conflicts. Ethnic conflicts and invasions in the mineral arc threaten 12 indigenous nations, dozens of members of which have been killed by gangs.

## II. Governance Performance

### 14 | Steering Capability

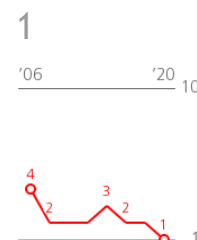
The regime's overall priority is staying in power whatever it takes. The cost is high for Venezuela: a rotten, inept and corrupt regime responsible for the miracle in reverse that threw the country back from one of Latin America's top positions right to the bottom in political, social and economic terms. The grip-on-power priority is absolutely unrelated to ideas such as strengthening the institutional framework of a democratic state or promoting a market economy. While the leadership's political rhetoric focuses on building a socialist communitarian society as their strategic aim, their mode of pursuing that aim is repression-cum-paternalism, dictatorship plain and simple.

The survival strategy, effective so far, has been implemented through a sequence of ad hoc responses to impending problems, frequent cabinet reshuffles, signaling change when everything remains as it was, and daily broadcasts of shows and promises suggesting action. Policy-making is intuitive, ideologically narrow and counter-productive in most cases. There is no monitoring of or follow-up on policies. Outcomes are neither assessed nor publicized and information on progress is neither collected nor archived.

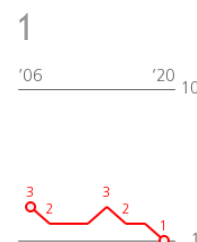
Comparing regime promises and rhetoric with facts provides evidence of failure in every aspect. The regime promised to improve citizen participation and empowerment, but Venezuelans are today more dependent and powerless than ever before since 1958. And while promises were made to eradicate poverty and provide

Question  
Score

Prioritization



Implementation



first-class education, health care and other public services, that is, a higher quality of life for all, poverty is extreme and the “quality of life” for many has been reduced to a matter of sheer survival. Promises to diversify the economy and achieve high living standards have also not been met as the dependence on oil has become more acute over the course of this decade to a historically unprecedented extent.

The regime has acquired the ability not to have to learn. There is no better evidence of this than the daily pretense of action and the regime’s discourse describing the fiction it presents as reality. Although the public is aware of the fact that the regime’s perspective is diametrically opposed to the reality they live, it had been successfully demobilized and deprived of its will to stand up for itself. A mixture of handouts, threats and outright brutal repression had kept the masses quiet, even though there had been innumerable, sometimes violent, protests at the local level, which were uncoordinated and not covered by the media.

That changed swiftly in January 2019. The newly elected National Assembly president’s public assumption of the interim presidency on January 23, 2019, in accordance with constitutional provisions and amid huge mobilizations throughout the country, took the regime by surprise. The confusion was obvious as regime officials learned all of a sudden that they were confronting an opposition with a coordinated domestic and international strategy aimed at forcing change.

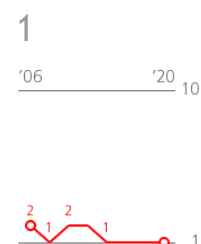
With regard to essential economic policies – controlling inflation and enhancing production – the government has evinced a total unwillingness and inability to learn from past failures. For at least 15 years, the same mistakes have been stubbornly repeated and there is no indication that this will change in the foreseeable future.

## 15 | Resource Efficiency

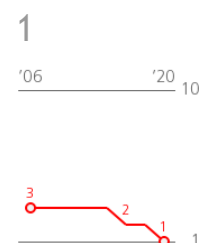
Inflated employment in the public sector does not translate into better services, as evidenced by all indicators reflecting outcomes in education, health care, public security, utilities, transport and infrastructure. Public sector recruitment practices are based on a spoils system rather than professional criteria. Resulting administrative incompetence imposes time-consuming and costly tolls on citizens and businesses in their unavoidable dealings with the bureaucracy.

State budgets have been deeply in the red under Maduro’s watch, with public debt increasing to 162% of GDP. Budget management at the national, regional and local levels is hard or impossible to control, due to a lack of information and a hopelessly understaffed and underfunded comptroller’s office, stripped of autonomy. The agency has a staff of 806, 227 of whom are audit professionals, with a 2017 budget of \$8 million at the official exchange rate or \$1.6 million at the black-market rate. Its scope of action includes 4,245 public administration entities at the national, regional

### Policy learning



### Efficient use of assets



and local levels. In 2017, the agency executed 447 actions and handed down 101 fines and objections totaling \$2,900 at the official or \$580 at the black-market rate.

Opaque budget planning, bypassing the National Assembly's budgetary sovereignty, parallel budgets and funds fed directly by the PDVSA challenge proper controls. The government regularly overspends budget allocations by large margins and refuses to present constitutionally required annual reports to parliament.

Most public administration units are exposed to the constant rotation of agency directors and the ensuing replacement of senior officials. The lack of continuity makes effective professional management impossible. Governors and mayors are in practice stripped of their functional and financial autonomy. Some functions have been transferred to the Local Councils of Supply and Production, which are controlled by the official party structure.

According to the International Budget Partnership's Open Budget Survey, Venezuela ranks at the bottom of the list in Latin America. The 2018 U.N. E-Government Development Index ranks Venezuela (0.5287) 106 out of 193 countries, 16 ranks lower than in 2016. The E-Participation Index is 0.4045, or 131 out of 193, 24 ranks lower than in 2016, both far below the Latin American average.

Neither institutional nor administrative modernization is on the regime's agenda.

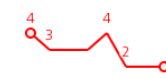
Institutional architecture aiming at horizontal and vertical policy coordination exists. The Federal Council composed of the executive, state governors and mayoral representatives, complemented by Regional and Local Councils for Public Planning, should guarantee coherent policy formation, implementation, monitoring and adjustment where necessary. However, what prevails in policy-making is a command approach that renders the coordination architecture useless. The president dictates policy on a day-to-day basis, improvised in the moment, with little or no relation to previous decisions regarding the same matters.

The proclaimed goals and frequent announcements with regard to public policies are farfetched and lack credibility. The lack of follow-up or observable outcomes make the rhetoric seem fictitious. Just one recent example: for his (unconstitutional) second term that began in January 2018, Maduro promised to increase oil production to over 5 mbpd, that is, by over 800,000 barrels per day each year. In its best years, the PDVSA – now rotten and near-bankrupt – only managed to increase production by 250,000 barrels per day.

Policy  
coordination

2

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The country's legal framework criminalizes corruption (extortion, active and passive bribery, office abuse) but there is practically no enforcement, as evidenced by the above-mentioned comptroller's report.

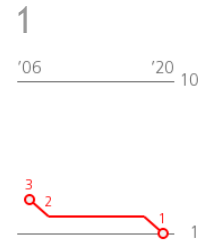
A network of 40,000 community groups controlled by the ruling party has received about \$8 billion for projects of local development. Project implementation and spending have never been audited, although there have been multiple accusations of misappropriation for personal advantage.

A significant number of the governing elite, including Maduro's family, have been sanctioned for money-laundering by the U.S. Office of Foreign Assets Control (OFAC). Several former government officials cooperating with U.S. authorities as part of deals to reduce prison time have revealed detailed facts and figures specifying corrupt practices, which are prevalent at all levels of the public administration and public enterprises, above all the PDVSA.

Two-thirds of Venezuelans are convinced that the president and officeholders in general are corrupt. Nine out of 10 think corruption has increased considerably, but only 1% thinks that corruption is the most important problem and 55% agree with the statement, "When you see corrupt practices you had better remain silent," and 46% with the statement, "it's worthwhile to pay the price of corruption as long as the country's problems are solved" (Latinobarómetro 2018).

The National Comptroller's Office, part of the people's power branch, lacks autonomy and is underfunded and understaffed. Its yearly report is published on its website. However, the office has never mentioned, let alone investigated, major cases of large-scale corruption made public by investigative journalists, such as the PDVSA money-laundering network exposed in a U.S. Department of Justice probe or Odebrecht contracts and bribes. The same is true for publicly acknowledged luxury assets such as expensive yachts, mansions in Florida or private jets owned by the inner leadership circle, which are definitely not affordable with their salaries. It suffices to cite Maria Gabriela Chávez, the late president's daughter, now ambassador to the U.N., who, when asked how she justified her wealth, answered it was not her fault she was a millionaire heiress.

## Anti-corruption policy





## 16 | Consensus-Building

There is no consensus on the type of political or economic order best suited to foster the country's development, given current and future opportunities and restraints. While the regime elite intends to impose the Cuban model of a communitarian socialist state through the – unconstitutional – National Constitutional Assembly, the various opposition elites only agree on rejecting the Cuban model. Some propose reestablishing the validity of the current constitution; others would prefer to rewrite it or write an entirely new one.

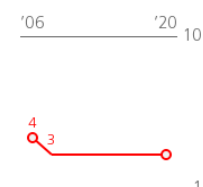
The regime's elite sticks stubbornly to the Cuban model of a tightly regulated economy and absolute social control, with little or no breathing room for the private sector. The factions of the opposition reject the Cuban model but have proven unable, thus far, to present an alternative vision of economic order. Their proposals range from a strictly state-centered system to a liberal model of a market-driven economy with a small state administration.

The regime elites that dominate the state are anti-democratic actors, backed by Cuban military, political and economic advisers. They have effectively suspended democracy by declaring the acts of parliament void, blocking a referendum initiative and organizing fraudulent elections in 2017. Reformers advocating democracy include opposition groups inside and outside parliament, which only recently (January 2019) became a serious challenge to the Maduro regime.

The political leadership has severely exacerbated existing cleavages for populist purposes. There are no deep ethnic or religious cleavages in Venezuela, and after years of economic crisis, there is also not much left of the former upper and middle classes. Therefore, the confrontation between “the people” and a supposedly elitist/oligarchical/fascist opposition, which rhetorically underlies the government's populist strategy, is an artifact of propaganda directed at reproducing historic class cleavages. However, misery now affects almost everyone except government cronies. As a consequence, the current crisis produces an egalitarian effect: the leadership inadvertently bridges former cleavages although it is not interested in bridging cleavages between its supporters and the rest of the population. Oversimplification and stereotyping are populist tactics that have been applied by the Bolivarian Revolution since its inception in order to create friend-versus-foe patterns that ease identification. Signs of discontent and protests in poor neighborhoods provide evidence of the emergence of a society-wide consensus on the need for change.

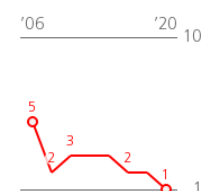
Consensus on goals

3



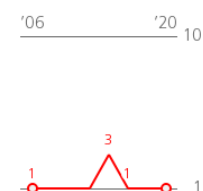
Anti-democratic actors

1



Cleavage / conflict management

1



Civil society participation is a constitutional guarantee, not only in general terms, but specified as mandatory in the selection of members of the three power branches, who are not elected by popular vote. In practice, the regime ignored the procedures established in the constitution by appointing most members of the three power branches. For the regime, the concept of “civil society” is equivalent to bourgeoisie, oligarchy and fascism; it uses the concept of “the people” as equivalent to the group that supports them.

Neither civil society nor the population is involved in agenda setting, policy formation, deliberation and decision-making, policy implementation or performance monitoring.

The National Assembly approved an Amnesty Law in January 2019 aimed at laying the foundation for national reconciliation. A former Amnesty Law (2016) aimed at exonerating political prisoners had been overruled by the Supreme Court. The 2019 law provides guarantees for democratic reinsertion in order to create incentives for civilians, police officers and members of the armed forces to refuse to obey Maduro.

The regime leadership use broadcast media to manipulate the country’s recent history, claiming that the Bolivarian Revolution put an end to the abysmal poverty, social injustice, violence and inequality that characterized the modernizing “Fourth Republic.” A return to power by the opposition, albeit unlikely, would mean the end of all the benefits the revolution has granted people.

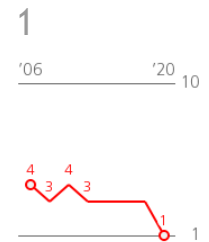
## 17 | International Cooperation

The leadership has effectively used support from international partners for short-term expediencies and its long-term strategy of staying in power. China, Cuba, Russia and, more recently, Turkey are partners with economic, as well as geopolitical, interests in Venezuela.

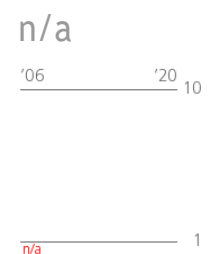
Cuba provides security, transport, medical and consulting services. China is interested mainly in long-term oil shipments it has already paid for, thus easing the government’s financial pressures. Russia is a privileged partner, active in the Orinoco heavy crude belt and the mining arc and has supplied the regime with sophisticated weapons. It agreed to restructure over \$3 billion in debt in favorable terms and in 2018 sent a bomber squadron for joint military exercises in a demonstration of its close alliance. Turkey is a key partner for marketing gold from the mining arc.

The rest of the country’s allies – Bolivia, Nicaragua and a few Caribbean Community (CARICOM) members – support Venezuela in the Organization of American States (OAS) and U.N. agencies in exchange for Venezuelan aid.

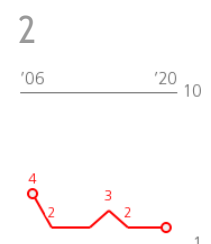
Civil society participation



Reconciliation



Effective use of support



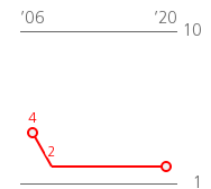
The country has signed and ratified over 200 international treaties and conventions, but is not considered to be a reliable partner, even by close allies such as China, as evidenced by the legal action a Chinese company took against its Venezuelan associate in a U.S. court. As a consequence of its inability to continue supplying subsidized oil to Caribbean countries in the context of the Petrocaribe scheme, some former beneficiaries have given Caracas the cold shoulder, abstaining on OAS resolutions condemning the human rights situation and the breakdown of democracy in Venezuela.

At the same time, many conventions are irrelevant because they are unenforceable, such as the Inter-American Convention against Corruption, which is flagrantly violated by Venezuela. The same is true with regard to international norms on human rights and democratic principles. In 2013, the Venezuelan government withdrew from the American Convention on Human Rights in reaction to criticism. The Venezuelan government is no longer recognized by many countries. It has lost its status as legitimate representative of Venezuela in the international arena and, therefore, its capacity to make credible commitments.

The end of Venezuela's checkbook diplomacy triggered the breakdown of the regional cooperation architecture promoted by the Bolivarian Revolution. The Union of South American States (UNASUR) was stripped of its Quito headquarters by the Ecuadorian government, and the Bolivarian Alliance for the Peoples of Our America (ALBA) trade bloc is no more than a shadow of its former self. The regime finds itself in an isolated position following the OAS resolution of January 24, 2019, which states that Nicolás Maduro's new term in office is illegitimate, and another resolution recognizing Juan Guaidó as interim president of Venezuela.

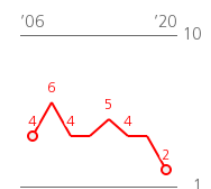
### Credibility

2



### Regional cooperation

2



## Strategic Outlook

A newly united and self-confident opposition surprised the regime on January 23, 2019, by proclaiming the existence of a legitimate interim president, in accordance with constitutional provisions. The new strategy changes the game and may work, since time is now on the opposition's side. Popular support is overwhelming. A survey conducted on January 24 and 25, 2019 found 85% of the population motivated to participate in mobilizations supporting the interim president. Widespread international recognition has isolated the Maduro regime, despite backing from resourceful allies such as Cuba, China, Russia and Turkey, all with vital interests in Venezuela, though Russia and China appear more interested in safeguarding their stakes in the country than in saving Maduro.

The military, the regime's domestic pillar of support, no longer appears to be as rock solid as previously. Hundreds of generals are unlikely to give up the enormous privileges they enjoy as a result of control of imports, foreign exchange, food distribution, drug-trafficking and the Amazon Mineral Arc. But the lower ranks feel the pressures of hyperinflation just like everybody else and may be willing to switch sides. The Amnesty Law approved by the National Assembly may make increase the likelihood of this occurring.

There is no doubt that Venezuela is headed for disaster if there are not fundamental changes in economic policies. Such changes are unlikely without a regime change. But despite more favorable conditions for regime change than ever before, Maduro may resist pressure once more, and stem the tide of resistance, managing to stay in power.

If the regime survives, the opposition will face increased repressions; its leaders will probably end up in prison or exile. With support from its allies, even the otherwise-isolated regime could survive, albeit at an excessive cost to the population. In the case that current economic policies continue, the IMF predicts a further sharp GDP contraction and hyperinflation hitting 10,000,000%. The costs of supporting the regime will be high, even for its allies.

In a scenario in which the opposition prevails, there would be free and fair elections organized by an impartial authority and internationally supervised in the course of 2019. In the meantime, the interim government would work on the foundations of a blueprint for transition to democracy and a market economy that was debated in 2018 in townhall meetings all over the country. The plan focuses on mitigating the humanitarian crisis and proposes a fundamental change in the political, economic and social model, outlining a set of concrete policies, along with measures aimed at restoring the rule of law, a productive economy and national reconciliation. A first step in this direction would be nationwide mobilization in favor of receiving ready-to-dispatch international humanitarian aid (food and medicines) offered by the United States, the European Union and a number of South American states. The regime has repeatedly blocked the reception of aid, alleging that there is no humanitarian crisis. Further steps toward regime change have included the designation of envoys to the Organization of American States, Canada, the United States and most Latin American states.