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BOLIVARIAN REPUBLIC OF VENEZUELA

COUNTRY STRATEGIC OPPORTUNITIES PROGRAMME

For: Review

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session.

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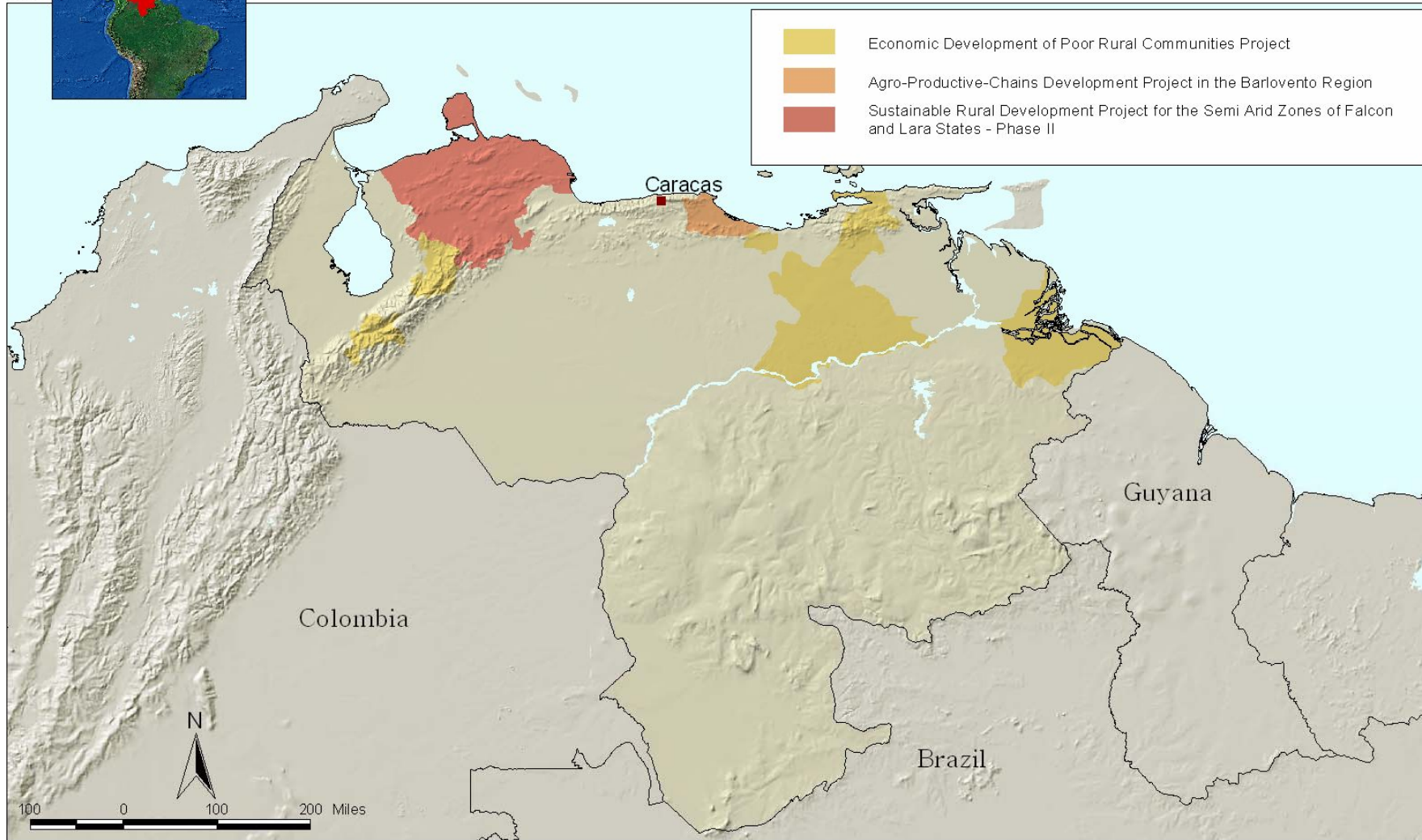
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ABBREVIATIONS AND ACRONYMS

CIARA	Foundation for Training and Applied Research in Agrarian Reform
COSOP	country strategic opportunities programme
PBAS	performance-based allocation system
PRODECOP	Economic Development of Poor Rural Communities Project
PROSALAFSA	Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States



Map of IFAD Operations in the Bolivarian Republic of Venezuela



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof

SUMMARY OF COUNTRY STRATEGY

1. The Government of the Bolivarian Republic of Venezuela is investing considerable resources in poverty reduction programmes. Poverty is still a widespread phenomenon, particularly rural poverty which affects about 50% of all rural households. In the rural sector, various policies address the main structural development constraints such as access to land, extension and financial services, and markets, while also fostering popular participation through the development and consolidation of local and peasant organizations. Special social programmes, called *misiones*, are the main instrument of Government action in the areas of education, health and food security, as well as for generating new and better ways for sustainable economic integration of the poor.

2. This country strategic opportunities programme (COSOP), which covers 2007 to 2012, includes four main strategic objectives: (i) strengthened rural development institutions and poor people's organizations at national and local levels; (ii) increased access of the rural poor to adequate financial services; (iii) secured access of the most vulnerable groups to natural resources, social and technical services and economic activities; and (iv) the development of innovative regional networking for rural poverty reduction policies and programmes.

3. **Strengthened rural development institutions and poor people's organizations at national and local levels.** In response to the Government's request, IFAD will support the introduction of innovations for effective approaches to rural development, decentralization schemes, staff training systems, among other topics, to be complemented with the expansion of current activities directed towards the promotion of the effective participation and establishment of local organizations.

4. **Increased access of the rural poor to adequate financial services.** Based on the successful *cajas rurales* programme, this strategic objective would oversee the development of a network of microcredit institutions and the growth of their operations, including a regulatory framework that would enable the sector to grow in line with prudent financial standards.

5. **Secured access of the most vulnerable groups to natural resources, social and technical services and economic activities.** Newly adopted policies have established women's rights to land, technical assistance and credit. However, lack of experience and inadequate institutional frameworks still hinder the implementation of these rights. This strategic objective would assist vulnerable groups by: (i) introducing innovative and appropriate approaches for their social and economic development; (ii) furthering the development of agro-productive chains aimed at improving socio-cultural cohesion levels; (iii) developing the economic management capacity of Afro-descendant populations; and (iv) assisting rural women and youth in strengthening their social and economic organizations through leadership training and support services.

6. **The development of innovative regional networking for rural poverty reduction policies and programmes.** This strategic objective is based on the conviction that a dynamic exchange of knowledge and experiences among Latin American countries would significantly enhance rural poverty reduction in both the region and the individual countries. Under this strategic objective, several regional technical and financial cooperation programmes would be formulated and implemented.

BOLIVARIAN REPUBLIC OF VENEZUELA

COUNTRY STRATEGIC OPPORTUNITIES PROGRAMME

I. INTRODUCTION

1. During the period covered by the previous country strategic opportunities paper (COSOP) (1999-2006), two new operations were financed by IFAD: the Agro-Productive-Chains Development Project in the Barlovento Region, approved in September 2000; and the Sustainable Rural Development Project for the Semi-Arid Zones of Falcon and Lara States (PROSALAFI II), in December 2003. Both projects reflected IFAD's main thrusts for intervention: increasing income; promoting and strengthening grass-roots organizations; incorporating natural resource management in semi-arid zones; and maintaining a policy dialogue on rural poverty reduction with national authorities.

2. This document, which covers the period 2007-2012, was prepared between November 2005 and May 2006.¹ Formulation of this COSOP consisted of an analysis of the country context and an assessment of lessons learned from IFAD experience and identification of country programme proposals. The methodology included the presentation and discussion of a set of technical working papers developed in collaboration with national authorities of the Ministry of Planning and Development, the Ministry of Popular Economy, the Foundation for Training and Applied Research in Agrarian Reform, academic institutions and other donors. In addition, a country programme team was formed from representatives of the Ministry of Finance, the Ministry of Planning and Development, the Ministry of Popular Economy, the Ministry of Agriculture and Land, and the Economic and Social Development Bank.

II. COUNTRY CONTEXT

A. Economic, Agricultural and Rural Poverty Context

Country Economic Background²

3. **The country.** The Bolivarian Republic of Venezuela has a total land area of approximately 917,000 km², with a population of 26 million inhabitants in 2005 and an annual population growth rate of 2%. About 11% of the population live in rural areas. The country's GDP per capita was estimated to be US\$4,200 in 2004.

4. **The economy.** Following the exploitation of its oil resources after the Second World War, the Bolivarian Republic of Venezuela became one of the world's leading oil producers and went through an accelerated process of urbanization and economic transformation. Growth, however, was highly dependent on oil exports and as such was vulnerable to cycles of international prices. The situation of rapid economic growth and structural diversification driven by the hike of oil prices in the 1970s culminated in 1989 in an external crisis and pronounced social conflict. Economic growth continued to fall throughout the 1990s and, overall, the decade was characterized by a constant GDP per capita decrease, by growing impoverishment and unemployment, leading to a serious institutional crisis.

5. President Hugo Chávez, who took office in 1999, is pursuing a political programme based on the creation of a more egalitarian society, articulating state intervention and private sector

¹ This COSOP was developed in parallel and prior to the finalization of the new results-based COSOP format.

² See Appendix II.

participation, with the incorporation of the population in the productive and social spheres. This model of development is based on the establishment and consolidation of a social and cooperative sector of the economy. A new constitution was approved in 1999, followed by the enactment of new policies and legislation. After a short period of economic growth, an acute political and social crisis deeply affected national economic activity: GDP fell by 8.9% in 2002 and by 7.7% in 2003; oil exports plummeted by 23%; rates of unemployment and inflation grew; and international reserves decreased.

6. The confirmation of the elected authorities by the Recall Referendum of mid-2004 and the simultaneous increase of oil exports (45%) and prices (27%) in 2004 dramatically reversed previous trends. In fact, the economy has been experiencing uninterrupted growth (17.9% in 2004; 9.3% in 2005), falling inflation (from more than 20% in previous years to 13% in 2005); and falling unemployment rates (from 16.8% in 2003 to an estimated 9% in 2005).

7. Social expenditure has increased in real terms by 68.6% since 1999, reaching 12.1% of GDP in 2004. This evolution reflects the Government's attention to social programmes during this period. Moreover, it must be highlighted that the above figures do not include the funding of the Government's social programmes, which are mostly financed by extra-budgetary sources generated by the "oil surplus" revenue. The transfers are channelled by the state oil company to subsidiary companies and were estimated at US\$4,000 million in 2004-2005. This would bring social public spending to 14% of GDP, which not only reflects the priority the government attaches to addressing the country's underlying social problems, but also makes the Bolivarian Republic of Venezuela one of the region's leaders in social spending. The current period of prosperity is an opportunity to pursue poverty reduction policies financed by the abundant resources from oil revenues. The challenge for Venezuelan social and economic policy-makers is to make good use of present financial resources to correct social inequalities and generate a productive base that may be more competitive and less dependent on oil.

Agriculture and Rural Poverty³

8. **Agriculture.** The agricultural sector plays a secondary role in the national economy, generating only 5% of annual GDP and 3% of total exports. As a result, food imports constitute about 50% of domestic food consumption and the agricultural trade balance shows a high deficit. The main crops for the domestic market are fruits, corn, beans, vegetables and tubers; livestock activities include cattle breeding and poultry. Approximately 16% of national employment is based on agriculture. This poor performance is mainly explained by the permanent overvaluation of the national currency generated by oil revenues ("Dutch disease"), negatively affecting the competitiveness of the agricultural sector during the past decades and prompting a series of contradictory sector policies including abrupt changes in the effective protection of agricultural products, macroeconomic instability, periodic financial crises and uncertainties regarding land tenancy.

9. The smallholder sector includes about 320,000 farms, of which approximately 140,000 are rural landholdings with less than one hectare (*minifundios*). This subsector is mainly dedicated to self-consumption cropping with most of the income derived from off-farm activities. Land concentration in the Bolivarian Republic of Venezuela is one of the highest in the continent, with only 1% of land tenants covering 30% of the total area. At the other extreme, almost 50% of land tenants, mainly smallholders, only have 1.5% of total agricultural land. Land tenancy is characterized by uncertainty regarding land, titling and effective property rights. Most smallholders do not have land titles.

³ See appendices IV and V.

10. **Poverty and rural poverty.** Poverty is still a widespread phenomenon in the Bolivarian Republic of Venezuela. The most recent indicators from the National Institute of Statistics in 2005 show that 38.5% of the total population live below the poverty line and 10% of them live in extreme poverty. Rural poverty is estimated to affect about 50% of rural households and extreme poverty is present in approximately 30% of rural families. In absolute terms, the number of poor rural households is estimated at 286,000, including 172,000 rural families living in conditions of extreme poverty. The rural poor are mainly composed of indigenous communities (*minifundistas*), landless families and small-scale farmers' households. The poorest belong to indigenous minorities, Afro-descendant populations, inhabitants of semi-arid communities and landless woman-headed households already targeted by IFAD projects (see section III).

11. **Indigenous communities.** The most important indigenous groups are the Wayúu (in Zulia State), the Warao in the Delta Amacuro State and the Pemón in the Bolívar State. Productive and economic conditions vary across the different groups. In general terms, the main means of living of most indigenous peoples in the Amazonas and Delta Amacuro states is by hunting and fishing, whereas in Zulia, the Warao are mainly dedicated to goat breeding and some small-scale agriculture. In many cases, indigenous individuals have temporary jobs. Most social indicators and some special studies show that the severity of poverty is very high among these groups and, for many analysts, the rural indigenous communities of the Bolivarian Republic of Venezuela are the "poorest of the poor".

12. **Afro-descendant populations.** When IFAD's project in the Barlovento region of the Miranda State was designed in 1999, 75% of the rural population was living below the poverty line, of which 50% were of African descent. Within the segment of the rural poor, Afro-descendant populations were considered among the most vulnerable groups, as shown by nutritional status and severe infant malnutrition indicators at that time.

13. **Gender and rural women.** The Bolivarian Republic of Venezuela has made outstanding progress in closing gender disparities in the past decades. Women gained the right to vote in 1946; the Equal Opportunity Law for Women was enacted in 1993; and the 1999 Bolivarian Constitution includes a gender perspective. Rural women are specially protected by legislative texts that establish the right of women to land, credit and technical assistance, as well as their participation in steering bodies or rural productive organizations. The Land Law of 2001 establishes the right of women heads of household to land, and special protection during pregnancy and postnatal periods. Several institutions, as well as new legislation, have been created to assist women: the National Institute for Women, the Women's Bank, the Public Prosecutor for the Rights of Women and the recent law against domestic violence. Overall, school enrolment rates for women are on the increase.

Constraints and Opportunities

14. Significant constraints on poverty reduction stem from a series of structural problems that have characterized the evolution of the Venezuelan agricultural sector and have had very negative impacts on the rural poor. The rural poor still face serious limitations in access to land and water resources, and there are very serious failures in the rural financial and technical assistance services as well as serious distortions in marketing channels. In addition, a long history of weak peasant organizations has also diminished their bargaining power at local and national levels, thus hindering access to basic social infrastructure and services in rural areas. These elements are aggravated by serious human capital deficits of the rural population in terms of basic and technical instruction, and health conditions. These factors seriously affect the most vulnerable groups of the rural poor such as the indigenous communities mentioned above.

15. The main opportunities for rural poverty reduction stem from both the present Government's explicit political objectives to combat poverty as well as from the availability of financial and economic resources generated by the present cycle of high oil revenues. These elements have been

confirmed by the formulation and implementation of numerous policies directed to combat urban and rural poverty in the past five years. First, the amount and relative importance of public expenditure (social and productive) directed towards the poor is the highest in recent Venezuelan history. In particular, the resources allocated to combat rural poverty in the past two years have been estimated to be equivalent to US\$1 billion. Second, the design and implementation of several instruments of social policies (*misiones*) to combat the roots of inertial poverty is an original and massive effort to counteract the results of decades of abandonment. Third, the consistency of a set of macroeconomic, trade, agricultural and rural development policies forms a sound strategy with higher probabilities of success to combat rural poverty effectively. Targeted support to implement these policies is needed and it is a clear opportunity to assist the Government in ensuring that the benefits of its policies and programmes reach the rural vulnerable poor.

B. Policy, Strategy and Institutional Context

16. **National institutional context.** The Foundation for Training and Applied Research in Agrarian Reform (CIARA), which is attached to the Ministry of Popular Economy, is responsible for carrying out Government development programmes in the rural sector. It is the lead agency of IFAD-funded projects in the country and the recipient of IFAD grants for implementing the Regional Training Programme in Rural Development. The mission of the Economic and Social Development Bank is to promote the sustainable socio-economic development of the country through technical and financial support. Its strategic objectives are to finance the development of various regions of the country and support the participation of private capital in high priority investments within the Government's endogenous development model. The Economic and Social Development Bank is also responsible for: (i) international cooperation and financing programmes directed towards developing countries; (ii) administration of the San José Agreement for oil supply; and (iii) relations with international organizations such as IFAD, the Caribbean Development Bank and the Organization of the Petroleum Exporting Countries.

17. **National rural poverty reduction strategy.** The present Venezuelan approach to combating rural poverty is an integral part of a set of innovative strategies and policies for economic and agricultural development as well as a crucial component of a food security strategy. The *misiones* are the main instrument of large-scale government action in the areas of education (*Misiones Robinson I and II, Ribas, Miranda and Sucre*) and health (*Misión Barrio Adentro*) as well as for generating new and better ways for ensuring the sustainable economic integration of the poor (*Misión Vuelvan Caras*).

18. Consistent economic policies have been adopted to ensure that the massive investments and social spending have significant and sustainable impact. In particular, a food security strategy formulated by the Ministry of Agriculture and Land articulates trade policy and agricultural development as well as rural development and rural poverty alleviation policies. By means of the application of an Agricultural Marketing Law, the Government has directly intervened in the food import and food distribution markets. As a result, food staples are now purchased mainly in local markets and distribution is through thousands of community food stores established at the local level. The selection of food crops is made in close consultation with the Ministry of Agriculture and Land, which is carrying out special programmes for the adoption of improved technologies. The objective is to foster food crops with potential competitive advantages as well as to include significant participation of the smallholder sector. In addition, a programme of free food distribution has been set up for the indigent population (2.3 million beneficiaries).

19. The Government supports an endogenous development model as the basic approach to integrating the poor into the economic and productive system. This model includes two main elements: (i) endogenous development poles, conceived as locally based development programmes with active local participation and decentralization; each pole includes a number of endogenous development nuclei, composed of a set of productive activities carried out by production cooperatives.

These cooperatives are either formed from previous producers' associations⁴ or are organized by the Ministry of Popular Economy project facilitators through the *Misión Vuelvan Caras*. Endogenous development nuclei are classified according to agricultural, industrial, services or tourism activities. Within each endogenous development nucleus, the communities are also organized into different associations for social purposes, for example, water services, education, health, infant care, house improving, etc.; (ii) social production enterprises, which include private small and medium-sized firms that subscribe to a model of management with strong community and social commitment. The social production enterprises must distribute part of their profits to social endeavours in their areas of influence. Some of them include forms of co-management between workers and owners, and some are organized as integral production cooperatives. The social production enterprise sector benefits from special support from different sources: one of the most important is their inclusion as official providers to large public enterprises such as the Venezuelan State Oil Company. At the same time, it is expected that private sector firms increase their participation in these new forms of production. The implementation of the whole programme is under the remit of the Ministry of Popular Economy. It coordinates the activities of different *misiones*, in particular *Misión Vuelvan Caras*, as well as the activities of other ministries. So far, about US\$300 million has been spent on these activities. In the rural sector, most activities are carried out by CIARA.

20. A number of constraints on the agricultural and rural sector are now being addressed.
- (i) **Access to land.** A new land law was approved in 2001. The law recognizes private property if legal titles can be presented. If no legal deeds exist then expropriation may be considered without compensation. In the case of "idle lands", private property can be expropriated with compensation at market prices. Expropriated and public lands may be distributed among organized groups of peasant farmers under the *Fundos Zamoranos* programme, implemented by the Ministry of Agriculture and Land, which provides support for peasant farmers' organizations, technical assistance, financial services and marketing. The programme is still in its first stages of implementation.
 - (ii) **Access to extension services.** After the dismantlement of public extension services in the mid-1990s, the smallholder sector remained without technical assistance, with the exception of some externally funded projects such as the Economic Development of Poor Rural Communities Project (PRODECOP) and the Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States (PROSALAFSA), financed by IFAD, and the Agricultural Extension Project, financed by the World Bank. The Government is pursuing a demand-driven technical assistance approach and is reorganizing the extension services through the *Misión Vuelvan Caras* managed by the Ministry of Popular Economy and CIARA. This new approach sees the organization of producers into cooperative groups and the financing of extension agents. Funding for this initiative is provided by the Agricultural Extension Project, which is now financed with national budgetary resources and resources from the IFAD-funded projects (PRODECOP, Barlovento and PROSALAFSA II). Extension workers are contracted under the *Fundos Zamoranos* programme to assist beneficiaries of the agrarian reform. These workers are hired on a temporary basis and most are organized into service cooperatives.

⁴ For example, organizations already assisted by the IFAD-funded Economic Development of Poor Rural Communities Project (PRODECOP) and Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States (PROSALAFSA).

- (iii) **Access to financial services.** The Agricultural Credit Law, approved in 1999, established that all financial institutions regulated by the Central Bank needed to ensure that a minimum share of their loans were in favour of the agricultural sector. Agricultural credit for smallholders is mainly channelled through a second-tier public institution, the agricultural development fund, and regional funds. The agricultural development fund's portfolio is estimated at approximately US\$60 million; however, its clientele does not include the rural poor. The Agricultural Credit Law further establishes that 1% of all loans must be allocated to microcredit operations. In 2001, a new microfinance development law was approved, covering the operations of the incipient microcredit sector. In the rural sector, microfinance institutions are mainly related to the development of the *cajas rurales* introduced in 1999 by the IFAD-funded project PRODECOP and then extended to other projects (PROSALAFSA and Barlovento). These projects have been very successful in organizing about 150 locally based and self-managed microcredit financial institutions that serve the short-term credit needs of rural poor communities. *Cajas rurales* have been very effective, with more than 350 centres now operating in the country and leading to other Government programmes adopting these financial instruments. However, the consolidation and further development of these institutions is still a pending issue to be closely monitored.
- (iv) **Access to markets.** An agricultural marketing law establishes several policies and programmes to improve market access conditions for the smallholder sector. *Misión Vuelvan Caras* and the Ministry of Food coordinate efforts to increase the purchase of agricultural production at local and rural community levels.
- (v) **Participation of rural communities.** Strategies to combat rural poverty are complemented by explicit policies to foster popular participation and decentralization. The Local Councils Law was approved in 2002, leading to all municipalities establishing local councils composed of representatives independent from the local authorities.
- (vi) **Attention to most vulnerable groups.** Indigenous communities have been granted special rights in the constitution of 1999 and the recent organization of the Guacaipuro *Misión*, which is coordinated by the Ministry for Popular Participation and Social Development. The *Misión* aims to implement indigenous development effectively; however, the Government is facing problems in the execution of different proposed activities and has recognized its lack of experience and need for assistance in these matters.

21. There is a demonstrated commitment to adopting and implementing a set of policies and programmes aimed at combating poverty and rural poverty. However, effective implementation implies several challenges, for example, the need to (i) ensure adequate coordination between the different organizational entities involved; (ii) avoid biases towards dependency practices and foster instead genuine grass-roots-based initiatives within rural communities; (iii) increase efficiency in the execution of relevant programmes; (iv) strengthen rural development organizations at local and national levels; (v) design adequate programmes to assist the most vulnerable groups, such as indigenous communities, Afro-descendant populations, and rural women and youths; (vi) implement a land reform process; and (vii) promote adequate financial services for the rural poor.

III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

A. Past Results, Impact and Performance

22. IFAD has approved five loans to the Bolivarian Republic of Venezuela for a total amount equivalent to approximately US\$67.2 million. In addition, two technical assistance grants were approved (1991 and 1998) for the Regional Training Programme in Rural Development, executed by CIARA.

23. IFAD loans and grants were used to finance the following:

- (i) **Sucre Support Project for Small Producers.** The total project cost was US\$20 million, of which IFAD financed US\$11 million. The project was executed by the Ministry of Agriculture and Livestock and included technical assistance services, credit and the construction of basic infrastructure. The project suffered several implementation problems mostly related to institutional shortcomings and was closed in December 1998.
- (ii) **Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States (PROSALAFA).** The total project cost was US\$26.7 million, of which IFAD financed US\$16.2 million. The project, executed by CIARA, was closed in 2002. The project succeeded in overcoming the main obstacles in this tropical semi-arid zone, such as the scarcity of water for human consumption, animal drinking and irrigation, through the construction of cisterns, watering and irrigation ponds, and water basin protection works. However, the most significant achievement was the participation of the beneficiaries. Organization and training activities transformed the social structure and about 900 groups were organized around water infrastructure and another 270 around other project services. About 6,000 producers were reached by generation, validation and transfer of technology activities, mainly for fruit and vegetable production through the development of innovative methods, such as technological reference demonstration units, local agricultural research committees and the introduction of the peasant promoter programme. Competencies and continuity in project management and staffing were key assets in achieving these positive results, and about 32,000 people benefited either directly or indirectly from the project.⁵
- (iii) **Economic Development of Poor Rural Communities Project (PRODECOP).** This ongoing project covers the poorest regions of the country in 8 states and 37 rural municipalities. Total cost was US\$24 million, of which IFAD and the Andean Development Corporation financed US\$12 million and US\$2.8 million, respectively. CIARA is the executing agency and its design included, for the first time in the country, the recruitment of co-executing technical assistance firms. Training and social organization-strengthening activities exceeded original targets, reaching about 800 rural poor communities and supporting the formation and registration of 655 social and 278 economic community organizations. Community development committees promoted by the project contributed to the formation of public planning local councils enforced by the Decentralization Law. Based on participatory community plans, about 2,000 community projects have been financed as well as many publicly financed infrastructure and basic service projects. Project beneficiaries have enhanced their capacity to identify needs and opportunities, formulate proposals to authorities and supervise works. In the area of rural financial services and institutions, the project has supported the creation and satisfactory operation of about 150 rural financial institutions, funded and managed by the beneficiaries themselves. This involved about 9,000 shareholders (44% women) and 8,500 savers (30% women and 39% youth). Based on capital contribution of about US\$540,000

⁵ Based primarily on the interim evaluation by IFAD's Office of Evaluation.

and saving mobilization of US\$503,000, these institutions were able to deliver and recover about US\$5.4 million of short-term credit with a low default rate (3%) and manage external resources such as credit funds from the national Coffee Plan. Furthermore, the creation and strengthening of *cajas rurales* has been upgraded into a national programme by CIARA and the project is providing training for the establishment of *cajas rurales* in 40 endogenous development nuclei.⁶

- (iv) **Agro-Productive-Chains Development Project in the Barlovento Region.** The project area is characterized by the significant numbers of Afro-descendant people whose particular traditions and cultural expressions, as a result of interbreeding, constitute the common cultural heritage of the region. The project's strategic approach is based on participatory diagnostics with gender focus, which showed that ethnic differences are less important than the relation of men and women with their socio-cultural environment and productive activities. The total project cost amounted to US\$17 million, of which IFAD financed US\$13 million. The project is executed by CIARA and arrangements have been made for project implementation with public and private entities and seven co-executing agencies for technical and financial services. In its first phase of implementation, the project is providing capacity-building assistance to 72 cooperative organizations and integral services for the development of added-value chains to about 3,000 producers of cocoa, tubers, plantain and tangerine, and 420 craft units. The project has promoted the creation of eight *cajas rurales*, and the construction of drainage and nursery infrastructure has been financed from project funds for social and community investments.
- (v) **Sustainable Rural Development Project for the Semi-Arid Zones of Falcon and Lara States (PROSALAFI II).** Total project cost was US\$23 million, of which IFAD and the Andean Development Corporation financed US\$15 million and US\$4 million, respectively. It is the second stage of the previous PROSALAFI project and the loan is expected to be declared effective by mid-2006. However, in order to bridge between the two projects, the Government is currently financing preparatory activities and operational costs. The project would benefit approximately 10,000 families and the project design took into account the lessons learned in the first stage as well as experiences from PRODECOP.
- (vi) **Regional Training Programme in Rural Development.** This programme achieved important results, such as the organization of 143 training activities with about 12,000 participants; the establishment of an information system and a web page for the systematization and diffusion of experiences; the establishment of a regional network of more than 200 training institutions covering seven countries (the Bolivarian Republic of Venezuela, Brazil, Colombia, Cuba, Dominican Republic, Ecuador and Haiti).

B. Lessons Learned

24. The major lessons learned in the implementation of rural development projects in the Bolivarian Republic of Venezuela can be summarized in the following points.

- (i) **The process of project formulation:** it is necessary to ensure the active participation of local teams during project design in order to reflect local demands better and avoid unrealistic technical and institutional proposals.

⁶ Ibid.

- (ii) **Targeting:** (a) regional heterogeneity should be taken into account when designing projects with national coverage; (b) specific studies and approaches should be adopted when the target groups include indigenous communities as well as other vulnerable or special groups such as Afro-descendants or artisanal fishermen.
- (iii) **People's participation and organization:** (a) promotion, training and strengthening of locally based organizations have been shown to be crucial elements for sustainable rural development initiatives; (b) a crucial activity for effective project launches is the formulation of local diagnosis and preparation of development plans with the active participation of stakeholders; (c) the establishment of community investment funds has proved to be a powerful incentive for the participation and organization of local communities.
- (iv) **Technical support services:** (a) technical support services provided by NGOs and co-executing firms have worked well in different projects, although careful planning and supervision is required as well as flexible approaches that can respond to users' changing demands; (b) technical support services should be included as project components based on previous experience that such services provided by other externally funded projects have not worked adequately.
- (v) **Rural financial services:** (a) the innovative IFAD-promoted *cajas rurales* serve the short-term credit needs of the rural poor communities adequately and have proved to be a very effective tool for promoting people's participation and organization; (b) microcredit rural institutions, however, do not solve medium- and long-term financial needs for investments and technological innovations for the smallholder sector.
- (vi) **Natural resources conservation and environment:** (a) environmental aspects have been incorporated as a cross-cutting dimension in all projects with good results; (b) experiences in semi-arid regions have had significant impacts on the environmental and production conditions of the rural poor and have generated a growing exchange of information with other countries and international organizations, particularly with the International Centre for Agricultural Research in Dry Areas. Similarly, the IFAD regional grant for strengthening institutional capacity to improve marketing of small ruminant products and income-generation in dry areas of Latin America has linked IFAD projects in Brazil, Mexico and the Bolivarian Republic of Venezuela.
- (vii) **Gender approaches:** (a) the adoption of an integral gender approach has been successful and the demonstrated effects have generated its adoption by other government programmes; (b) it has been proved that training in gender aspects for all project officers is an adequate tool for achieving good results; (c) the *cajas rurales* have proved to be very effective "pro-gender" instruments: women's participation is very high and includes high representation in the steering bodies.
- (viii) **Indigenous communities:** (a) institutional capacities in dealing with these communities needs strengthening and technical cooperation is highly recommended; (b) project activities should also include the consideration of cultural contents and the understanding and respect of traditional health and productive practices and their relationship with the environment.
- (ix) **Institutional arrangements:** (a) participation of local authorities has proved to be very important to ensure efficacy; (b) training and involvement of local officers in rural development should be included in all projects in order to provide better sustainability for programmes and projects.

- (x) **The regional training programme:** in spite of important results, the difficult context in which this programme was implemented, combined with financial difficulties, ended with the paralysis of the programme and jeopardized the achievement of overly ambitious objectives relating to the provision of services to IFAD projects in Portuguese- and Spanish-speaking countries in Africa and to the establishment of an endowment fund.

IV. IFAD COUNTRY STRATEGIC FRAMEWORK

A. IFAD Comparative Advantage at the Country Level

25. At the end of the 1980s, with the deterioration of the economic situation and increased poverty, the Government requested and was granted IFAD assistance. As a result, IFAD was given the opportunity to address rural poverty issues when no other donors were active in that field. Through its operations in the country, IFAD has demonstrated its competency in promoting and strengthening rural poor people's organizations and furthering their participation in local development; sustainable management of land and water resources in semi-arid conditions; the creation of rural finance institutions based on savings which are operated by their members; and mainstreaming gender perspectives in all project activities. Poverty is still a widespread phenomenon in spite of a formidable increase in the allocation of resources to this purpose. The Government is interested in continuing operations with IFAD on the basis of the following arguments: (i) IFAD's mandate and strategy are quite consistent with government national poverty objectives; (ii) IFAD-funded projects and methodology have shown innovative contributions to rural poverty reduction and rural development that have been adopted by several current government programmes; (iii) in addition to leveraging funds through national resources and from other sources, such as the Andean Development Corporation, IFAD is playing its new role of global environment facility executing agency under the Operational Programme on Sustainable Land Management by including a global environment facility-financed component to combat land degradation as part of PROSALAFI II; (iv) IFAD is considered a very effective knowledge institution that facilitates communication and links with experiences in other countries of the region and the world; and (v) IFAD's catalytic role in the country.

B. Strategic Objectives

26. Given the dimension of poverty in the country as well as the availability of resources allocated to combat this situation, IFAD's financial contribution would be highly strategic. The Fund's strategic goal would be to accompany and support the consolidation and expansion of the innovative approaches to rural poverty reduction implemented by the Government. The purpose of IFAD's activities in the country is to strengthen national capacities to address rural poverty and assist in sharing successful innovations with other countries of the region.

27. Based on several discussions with government officials and considering government national strategies, IFAD's competencies in the Bolivarian Republic of Venezuela and other countries of the region, four strategic objectives have been selected: (i) strengthened rural development institutions and poor people's organizations at the national and local levels; (ii) increased access of the rural poor to adequate financial services; (iii) secured access of vulnerable groups (i.e. indigenous communities, Afro-descendant populations, rural poor of the semi-arid regions and rural women and youth) to natural resources (land and water), social and technical services, and economic activities; and (iv) innovative regional networking for rural poverty reduction policies.

C. Opportunities for Innovation

28. The four strategic objectives provide wide opportunities for potential innovations.

Strategic objective 1: Strengthened rural development institutions and poor people's organizations at the national and local levels

- (i) IFAD's pioneering experiences in using an integrated **territorial/local development approach** as a framework to foster rural development initiatives could be built on by incorporating innovations and then applied to the current government approach of an endogenous development nucleus;
- (ii) IFAD's innovative experiences in **creating markets for the provision of technical assistance services** or production, transformation, commerce or legal affairs, could be transferred and adapted with innovations to current national conditions, mainly within the activities of the *Misión Vuelvan Caras*;
- (iii) IFAD innovations in enhancing the role of **alliances and innovative cooperation arrangements involving community-based organizations, private entrepreneurs and public agencies** would reinforce present government policies for fostering people's participation and organization at the local level; and
- (iv) **supporting the agrarian reform process** based on experience and lessons learned in the organization of new settlements including the promotion of peasant organizations, production and market development services, and rural financial services might be transferred to Venezuela including innovative approaches as part of this strategic objective.

Strategic objective 2: Increased access of the rural poor to adequate financial services

The Fund could further develop the *cajas rurales* in terms of training and operational methodologies for their sustainability, the organization of second-tier structure services and monitoring systems, based on similar experiences in other countries.

Strategic objective 3: Secured access of vulnerable groups to natural resources, social and technical services, and economic activities

- (i) in its goal to **support indigenous peoples and communities**, the Government considers IFAD's relevant experience in other countries of the region to be very valuable, namely the effective organization of stakeholders, enhancement of productive and social projects and actions oriented towards the integration of these communities in markets while preserving their cultural identity;
- (ii) IFAD should maintain its ongoing **support to the Afro-descendant population** through the Agro-Productive-Chains Development Project in the Barlovento Region, which represents the first integrated public development operation in an area characterized by its population of African origin and its particular cultural heritage;
- (iii) implementation of PROSALAF II and associated research activities to combat land degradation through the joint United Nations Development Programme and IFAD's global environment facility-funded project would generate several innovative systems to deal with natural resource management of tropical semi-arid areas and their vulnerable

environmental conditions. These innovations could be shared with other countries in the region.

Strategic objective 4: Innovative regional networking for rural poverty reduction policies

This strategic objective would enhance the catalytic effect of IFAD's approaches through the provision of support for institutional change, policy dialogues, innovation and communication, and the strengthening of links with other IFAD initiatives in Latin America.

D. Targeting Strategy

29. IFAD will continue to target the rural poor, but with a strategic focus on the most vulnerable groups, particularly under the third strategic objective, in favour of rural women, communities of semi-arid areas and Afro-descendant populations. The country programme would pay attention to specific categories such as indigenous peoples and communities.

30. The targeting strategy would take into account the existence of critical areas in subregions and various categories of the rural poor and their priority needs as documented by existing or new diagnostic studies. For indigenous peoples and Afro-descendant populations, specific studies on their cultural characteristics have been recommended in the evaluation of IFAD projects in the Bolivarian Republic of Venezuela and the Regional Programme in Support of Indigenous Peoples in the Amazonian Basin.

E. Policy Linkages

31. Policy dialogue between IFAD and the Government would be maintained with the various institutions responsible for the formulation and implementation of poverty reduction policies, including the Ministry of Finance, the Economic and Social Development Bank, and the Ministry of Planning and Development. Close dialogue and permanent coordination would be ensured with the Ministry of Popular Economy. The Foundation for Training and Applied Research in Agrarian Reform (CIARA) will advocate on policy issues with the various ministries responsible for rural areas: the Ministry of Agriculture and Land, the Ministry of Food, the Ministry of Public Works and others in order to seek better coordination, identify common areas of action and avoid overlap. Finally, dialogue would also be maintained with specific public institutions responsible for critical areas for rural development including the National Institute for Agricultural Research, the agricultural development fund, the National Land Institute and others. Policy dialogue involving public and private agencies, peasant organizations, academia, international financial institutions and other funding agencies would also contribute to better coordination of civil society and state activities.

32. The main policy dimension of each strategic objective is described below:

Strategic objective 1: Strengthened rural development institutions and poor people's organizations at the national and local levels. The following policy dialogue thrusts would be pursued: (i) the need to build capacity of local small-scale farmers' organizations; (ii) the need to include a gender equity dimension in all projects and programmes; (iii) the need to further the agrarian reform process by taking into account organization and provision of support to new settlers, land titling for smallholders, access to land for rural women and indigenous communities; and (iv) the need to develop a technical assistance services market.

Strategic objective 2: Increased access of the rural poor to adequate financial services. Policy dialogue would be pursued regarding the need to expand the IFAD innovative initiative of *cajas rurales*, including development of a network to design adequate financial mechanisms to address the requirements of small-scale farmers.

Strategic objective 3: Secured access of vulnerable groups to natural resources, social and technical services, and economic activities. During COSOP implementation IFAD would discuss with the Government: (i) the need to address poverty reduction measures and adequate integration of indigenous communities into the development process; (ii) the development of Afro-descendant populations; and (iii) the need to further the inclusion of gender dimension in all developmental actions.

Strategic objective 4: Innovative regional networking for rural poverty reduction policies. Under this fourth strategic objective, IFAD would discuss with Government opportunities to further networking of rural poverty reduction policies with other countries and partners of the region.

33. Policy dialogue would be conducted through multifaceted modalities, including local and national events, studies, exchange of experiences supported by IFAD projects and regional programmes (the Programme for Strengthening the Regional Capacity for Evaluation of Rural Poverty-Alleviation Projects and the Regional Programme in Support of Indigenous Peoples in the Amazon Basin) and IFAD's own expertise in rural finance in addition to the possible collaboration of technical cooperation agencies such as the Food and Agriculture Organization of the United Nations and the Inter-American Institute for Cooperation on Agriculture.

V. PROGRAMME MANAGEMENT

A. COSOP Management

34. A monitoring and evaluation system would include: (i) the monitoring of implementation progress by strategic objectives with the participation of CIARA, projects/programmes and other implementation partners; (ii) the periodic assessment of the performance of the rural sector and the performance-based allocation system (PBAS) calculation; (iii) data from project results and impact management system; and (iv) impact evaluations through stakeholder surveys and targeted studies.

35. Progress reports would be prepared at the end of each year of COSOP implementation periods on the following selected indicators by strategic objectives: (i) for strategic objective 1, rural development organizations trained and innovations adopted; number of peasant and local organizations with peasant representatives; (ii) for strategic objective 2, number of *cajas rurales* and networks established; innovative financial mechanisms for the smallholder sector under formulation; pilot schemes for articulation of policies formulated; (iii) for strategic objective 3, organized indigenous communities who obtain land rights and receive technical assistance, marketing support and financial services; increased access of women to land and services; increased access by semi-arid rural communities to land and water conservation; (iv) for strategic objective 4, regional network programme, formulated, financed and operational; the Economic and Social Development Bank and IFAD co-financing agreement signed and operational.

36. A mid-term review of COSOP implementation would be carried out in the third year of the COSOP period (2009) to assess the achievements by strategic objectives, identify issues and make appropriate recommendations for eventual reorientations of the COSOP. At the end of the COSOP period (2012), a country programme evaluation should be considered.

B. Country Programme Management

37. Building on the experience of the country programme team that was formed during COSOP formulation, the Government is considering the establishment of a permanent COSOP follow-up team which would act as IFAD's counterpart for policy dialogue. This team would include officers of all

public institutions involved, as well as representatives of academic and research centres and civil society. CIARA, through its representative, would lead the team, which would also include IFAD project/programme directors. The supervision of the country programme would be facilitated by the in-country presence of the Andean Development Corporation, a cooperating institution as well as co-financier of IFAD projects in the country. In addition to project/programme supervision missions and wrap-up meetings with the Government, annual country programme implementation review workshops would be organized.

38. Satisfactory project performance has been confirmed by an interim evaluation (May-November 2005) in the particular case of the Economic Development for Poor Rural Communities Project (PRODECOP). Shortcomings were attributed to deficiencies in project design. Following an IFAD implementation support mission, an action plan was agreed with the Government to monitor and support the sustainable development of the network of *cajas rurales* until project completion.

39. The country programme would include three ongoing projects, which fit into the new COSOP and its strategic objectives: PRODECOP, Barlovento and PROSALFA II. Their monitoring and evaluation units of projects would be part of the information management system of CIARA, which would be an essential contributor to COSOP management arrangements.

C. Partnerships

40. In the past decade, IFAD has worked directly with CIARA for the purpose of programme and project implementation. As a result of its renewed and higher responsibilities under the Ministry of Popular Economy, this government agency will be the key partner for COSOP implementation. This partnership will be effective in the delivery of all the SOs, including the *cajas rurales* programme already promoted and supported at national level, and indigenous peoples and community support programmes at national level and networking at the regional level. The purpose of this partnership will be extended to the various instruments of the COSOP (projects, regional programme, policy dialogue, innovation and knowledge management). CIARA would be the entry point for coordination with other technical ministries (the Ministry of Agriculture and Land, the Ministry of Food, the Ministry of Popular Participation and Social Development) and institutions (the National Land Institute, the National Institute for Agricultural Research, the National Institute for Food, the Agriculture Development Fund). At regional level, partnership with the Economic and Social Development Bank (BANDES) would promote the design and implementation of BANDES/IFAD co-financed projects.

41. Few NGOs work in the rural sector of the country. PRODECOP and PROSALFAFA experiences show that technical service providers from the private sector have been very effective as co-complementing partners for different project components. Private sector involvement such as agro-industrial firms, foundations, and others involved in rural development programmes should be sought more actively because the “value-chain” planning approach can provide a valid framework for initiatives where private industrial firms negotiate with organized small-scale farmers’ mid-term production and economic goals. Social production enterprises, which include private small- and medium-sized firms that subscribe to a model of management with strong community and social commitment, comprise a new sector that could offer interesting potential partnerships with rural development initiatives.

42. The current Venezuelan externally financed portfolio, funded by international financing institutions, is valued at a total commitment amount of approximately US\$4.8 billion. The Andean Development Corporation, with a total portfolio of approximately US\$3.5 billion, is the largest lender. The loan portfolio includes very few operations in the agricultural and rural development sectors with the exception of project co-financing with IFAD under PROSALFAFA II. The Andean Development Corporation has expressed its willingness to increase its portfolio of rural development projects and

its cooperation with IFAD activities in the country. The Inter-American Development Bank, with a total net commitment of US\$1.2 billion, is the second largest lender of the country and is financing 16 projects under implementation. Only one project is related to the agricultural sector: the Agricultural Technology Programme, which finances the agricultural research activities of the National Institute for Agricultural Research. There are no other agricultural projects in the pipeline. The World Bank is a small financier of the Bolivarian Republic of Venezuela. Its lending programme is only US\$90 million and there are no agricultural or rural development projects.

43. This particular situation adds significance to potential opportunities for linkages with international technical cooperation agencies working in the agricultural and rural sectors. For example, the Food and Agriculture Organization of the United Nations carries out the Special Programme for Food Security financed with government funds and benefiting the smallholders' sector, especially in technology transfer. The Inter-American Institute for Cooperation on Agriculture is also collaborating with the Government in different aspects of agricultural development policy. Both institutions are willing to increase their cooperation with IFAD's proposed programme in the country.

D. Knowledge Management and Communication

44. Under the programme, knowledge management will require joint efforts between IFAD projects and key partner institutions, such as CIARA at the country and regional levels, and the use of IFAD's methodological instruments and regional support programmes, such as the International Centre for Agricultural Research in Dry Areas, the Programme for Strengthening the Regional Capacity for Evaluation of Rural Poverty-Alleviation Projects and FIDAMERICA. IFAD implementation support and annual country programme progress reports, complemented by ad hoc studies, would produce a consolidated picture of knowledge generated in the achievement of strategic objectives. For a broad diffusion of the generation of knowledge and systematization of experiences, workshops would be organized at country/regional levels; information would also be disseminated through existing IFAD web sites and regional programmes such as FIDAMERICA.

45. For each strategic objective, the following knowledge-generation opportunities were identified:

- (i) **Strategic objective 1** – institutional strengthening will involve a strong partnership with CIARA in its capacity to contribute to the generation, transfer and management of knowledge and monitoring and evaluation of its projects/programmes. CIARA will provide the key indicators on progress and outcomes associated with this strategic objective.
- (ii) **Strategic objective 2** – the systematization of experiences from PRODECOP will be shared with other programmes and incorporated into institutional knowledge assets of CIARA. In the same way, the activities of the monitoring and evaluation system will be extended to providing information, processing data and preparing specific diagnostics on the viability and sustainability of rural finance institutions, second-level organizations, training manuals and the regulatory framework within the national perspective of strategic objective 2.
- (iii) **Strategic objective 3** – the systematization of experiences from the projects PRODECOP, Barlovento and PROSALAFIA II will generate knowledge vis-à-vis the conceptualization of approaches and support tailored to cultural characteristics of minority groups (for example, indigenous and Afro-descendant peoples); and the development of assistance services and produce marketing in semi-arid communities.
- (iv) **Strategic objective 4** – by focusing on the comparison of pro-poor policies, rural strategies and themes, the networking of rural development and knowledgeable

institutions at the regional level would provide immediate opportunities for generating valuable knowledge of high impact.

E. PBAS Financing Framework

46. The level of funding that can be provided by IFAD for the COSOP implementation period is based on the full calculation for COSOP Year 1, including the project-at-risk ratings, the rural sector and final country scores and annual allocation in United States dollars for COSOP Year 1, as presented in the table below. The resulting allocation of IFAD resources (loans and grants) for COSOP Year 1 is approximately US\$7 million.

PBAS Calculation for COSOP Year 1

	Indicator	COSOP Year 1
Rural Sector Scores		
A(i)	Policy and legal framework for rural organizations	3.40
A(ii)	Dialogue between Government and rural organizations	3.00
B(i)	Access to land	3.40
B(ii)	Access to water for agriculture	3.00
B(iii)	Access to agricultural research and extension services	3.00
C(i)	Enabling conditions for rural financial services development	3.25
C(ii)	Investment climate for rural businesses	3.50
C(iii)	Access to agricultural input and produce markets	3.00
D(i)	Access to education in rural areas	5.33
D(ii)	Representation	5.00
E(i)	Allocation and management of public resources for rural development	3.58
E(ii)	Accountability, transparency and corruption in rural areas	3.33
	Sum of combined scores	42.80
	Average of combined scores	3.57
	Project-at-risk Ratings	6
	Country Score 2006	6 034
	Annual Allocation in US\$	7 000 000

F. Risks and Risk Management

47. The following risks of the country programme linked to each strategic objective have been identified:

- (i) **Strategic objective 1:** The Government is not responsive to new ideas for strengthening rural development institutions and funding of programmes, and discontinues its policies for fostering people's participation and local organizations. There would be a deterioration of rural sector performance indicators in the area of dialogue between the Government and rural organizations.
- (ii) **Strategic objective 2:** The Government does not endorse a regulatory framework that encourages prudent financial practices compatible with growth and innovation in the microfinance sector, and does not foster partnership between *cajas rurales* and banks for the funding of mid- and long-term rural credit facilities. There would be a deterioration in the area of enabling conditions for rural services development.

- (iii) **Strategic objective 3:** The Government does not continue to give high priority to indigenous communities and other vulnerable rural groups, nor does it support policies for natural resource management in dry areas. There would be a deterioration of rural sector performance indicators in the areas of access to education in rural areas, land and water, agricultural research and extension services.
- (iv) **Strategic objective 4:** The Government does not foster relationships with other countries and discontinues its support of strengthening relations and cooperation between Latin American and Caribbean countries.

48. Because the proposed strategic objectives are aligned with the current national poverty strategy and have been selected following an intensive consultation process with the Government, associated risks are minimal. This would not be so if political and economic factors dramatically changed during the period covered by the COSOP and present rural development and poverty reduction programmes were discontinued. Even in this scenario, rural poverty would probably remain a central concern and negative effects might be more in terms of state budget allocations and intervention intensity.

COSOP CONSULTATION PROCESS

1. This new COSOP, covering the period 2007-2012 was prepared between November 2005 and May 2006, in parallel to the elaboration of the guidelines for the results based COSOP. It is the outcome of a two-phased formulation process, consisting of, firstly, the analysis of the country context and lessons from IFAD experience, secondly, the prioritization of the country programme proposals. The methodology included the presentation and discussion of a set of technical working papers with national authorities of the Ministry of Planning and Development, the Ministry for Popular Economy, CIARA, academic institutions and other donors.
2. The principle of the constitution of a Country Programme Team was agreed upon with GOV and a core team was formed with one representative of the Ministry of Finance, two representatives of the Ministry of Planning and Development, two representatives of the Ministry for Popular Economy and the Foundation of Training and Innovation for Rural Development (MINEP/CIARA), one representative of the Ministry of Agriculture and Land (MAT), one representative of the Economic and Social Development Bank (BANDES). A number of individual and group interviews as well as wrap-up meetings were held during and at the conclusion of COSOP mission visits to the country. The Country Programme Team also met separately to prepare comments on the draft COSOP report.
3. A two-day dissemination workshop is scheduled to take place in Caracas after Executive Board review. In this event, the IFAD team will participate with officials from Government, representatives of rural community organizations, cooperatives and “*cajas rurales*”, most of them assisted by IFAD projects, NGOs, academic and research institutions and the private sector. The meeting will discuss “Rural Development and Rural Poverty Reduction in Venezuela in the Context of the Current Government Policies and Programmes; the Role of IFAD in the Region, IFAD Country Programme Strategic Objectives and Opportunities for Innovations. Most importantly, the participants will discuss the implementation of the COSOP, priority thematic areas in function of their relevance to poverty issues at regional level, and a plan of work including lending operations, grants and policy dialogue.
4. Building on the experience of the Country Programme Team which was formed during COSOP formulation, the GOV is considering the establishment of a Permanent COSOP Follow-Up Team which would act as IFAD counterpart for policy dialogue. This Team would include officers of all public institutions involved as well as representatives of academic and research centres and civil society. CIARA, through its representative would take the lead of the team which would also include IFAD project/programme directors.

COUNTRY ECONOMIC BACKGROUND

1. **The country.** Venezuela is positioned in the northern part of the South American continent and occupies a surface area of approximately 917,000 km². It borders with Colombia to the East, Guyana to the West, Brazil to the South and the Caribbean Sea to the North. The national territory is composed of notably heterogeneous agro-ecological regions, mainly defined by characteristics proper to tropical topography and localisation. This includes Andean zones, intermediate plateaus, tropical, semi-arid and humid plains and tropical rainforest. The total population of the country is estimated at 26 million inhabitants (2005) of whom approximately 11% live in rural areas. Demographic growth is at 2% per annum. Venezuela is a Federal Republic, with 22 states, a Federal District (Caracas) and federally controlled island groups. In 2004, GDP per capita was US\$4,200.

2. **The economy.** The economy of the country was structured predominantly around rural activities until the 1930s when over 50% of the population lived in rural areas. The exploitation on the country's oil resources, fostered by US investment during the Second World War, modified the economy dramatically, as Venezuela became one of the world's leading oil producers. The urban population overtook the rural one in numbers as soon as 1955. The following two decades were characterized by accelerated urbanisation and investment in basic infrastructure that allowed for the integration of different national territories, and served as basis for highly dynamic economic development. Growth, however, was highly dependent of oil exports and as such, vulnerable to cycles of international oil prices, a valid characteristic of the Venezuelan economy still today. The hike of oil prices in the 1970s drove forward rapid economic growth and diversified the structure of the economy, with development of industrial production, construction and services. This process included a majority of the population, although effects on different segments were asymmetrical with elevated disparities in income. It is estimated that at most a third of households were living in poverty in the mid-70s. This tendency was reversed in the 1980s, as the plummeting oil prices provoked strong imbalances in fiscal and external accounts, highlighted by the launching of ambitious investment projects, expansive fiscal policy to stimulate internal demand and highly subsidized productive activities. The decade was characterized by recurring crises in public finance and the external sector, generating a growing external debt, galloping inflation and successive devaluations of the national currency. The situation culminated in 1989 in an external crisis and pronounced social conflict.

3. Economic growth continued to fall throughout the 1990s, with flight of capital, high unemployment and decreased productivity in all economic sectors. The bankruptcy of several banks and adjustment programmes implemented in 1994 undermined the social and political stability of the country. A 30% fall in oil prices hindered the execution of an adjustment and reform package, triggering an important political crisis in the mid-1990s. Overall, the decade was characterized by an incessant GDP per capita decrease, growing impoverishment and unemployment and a serious institutional crisis.

4. The end of the decade saw the rise of a new force on the political scene with the entry into office of President Hugo Chávez. His political programme, based on the creation of a more equal society, articulated state intervention and private sector participation, with the incorporation of the population in the productive and social apparatus of the country. This model of development is based on the establishment and consolidation of a social and cooperative economy sector. Simultaneously, the government proposes a regional strategy, founded on the cooperation between Latin American states. Approval of the 1999 Constitution is followed by the elaboration of new policy and legislation (considerably challenging the status quo of current interests) and the election of new authorities under the new constitutional framework. Economic growth averaged 3.5% in 2000-2001 with the support of expansive fiscal policy. From end 2001 to 2003 the playing out of an acute political and social crisis, culminating in an attempt to interrupt the constitutional process through violent means (2002), included flight of private capital, a private sector lockout and an interruption of oil production. These

socio-political events have deeply affected national economic activity: GDP fell by 8.9% in 2002 and by 7.7% in 2003; oil exports plummeted by 23%; rates of unemployment and inflation grew; and international reserves decreased.

5. The confirmation of the authority of elected officials by the Recall Referendum of mid-2004 changed dramatically these trends. In fact, since the last trimester of 2003 the economy has been experiencing uninterrupted growth, illustrated by important GDP increase in 2004 (17.9%) and 2005 (9.3%). The 45% increase of oil exports in 2004 (alongside a simultaneous 27% increase in oil prices) has driven economic growth and rendered possible the increase of international reserves. In the non-oil private sector, the growth rate of manufacturing and construction activities was greater than the national average. These figures translate into real GDP per capita growth of 16% in 2004 and 7.3% in 2005. In 2001, inflation grew by 12%. In the following years, figures surpassed 20%, decreasing to 19% in 2004. For 2005 inflation reached 13%. The considerable increase in economic activity was accompanied by a decrease in unemployment rates, from 16.8% in 2003 to 13.9% in 2004 with an estimate of 9% in 2005. Formal sector employment grew by 4%, with a subsequent reduction of informal employment. Average productivity grew by 14% in 2004 and real wages, after falling in 2002 and 2003, did not decrease in 2004. Hence, recent economic recovery mostly benefited the workers and poor strata of the Venezuelan society.

6. These trends have been reinforced by the allocation and composition of public resources. In fact, total public spending, at 23.3% of GDP in 1999, increased to 30% of GDP in 2004. Social spending increase in real terms 68.6%, reaching 12.1% of GDP in 2004. This evolution reflects GOV attention to social programmes during the period. Moreover, it must be highlighted that the above figures do not include spending channelled into GOV social programmes (called "*Misiones*"). Although implementation of these programmes is the responsibility of corresponding Ministries, they are mostly funded by extra-budgetary sources, in the majority of cases the state oil company PDVSA (these transfers of "oil surplus" are not managed through the Central Government Budget). As per government instructions, PDVSA channels funds to subsidiary companies (CVP and PALMAVEN) to fund the *Misiones*, for an estimated US\$4,000 million in 2004-2005. This would bring social spending to 14% of GDP, which not only reflects the priority of the GOV to address the country's underlying social problems, but also makes Venezuela one of the region's leaders in social spending.

7. The economy remains highly dependent on income from oil exports, vulnerable to international price fluctuations, the rhythm and level of national production, and strategic decisions taken within the OPEC countries. The dependence on oil is reflected in external accounts as well as in public revenue: oil revenue (perceived as taxes and royalties) represents more than 50% of government current revenue. For 1998-2004, oil exports constituted 82% of total exports of the country. The current bonanza period is an opportunity for developing other sectors of the economy towards competitiveness and sustainability. As such, poverty reduction policy can unfold through the use of abundant resources from oil revenue. The challenge for Venezuelan economic and social policy is to make good use of these years to correct social inequities and generate a productive base that would be more competitive and less dependent on oil.

COSOP RESULTS-MANAGEMENT FRAMEWORK

Country Alignment	COSOP Policy Agenda			
Alignment with national poverty strategy (Objectives have been extracted from different government official statements and documents)	COSOP strategic objectives (SOs)	COSOP outcome indicators related to the 4 SOs (from projects/programmes)	COSOP milestone indicators showing progress towards SO	Specific policy/institutional reform ambitions related to the 4 SOs (the COSOP policy dialogue agenda)
<p>1. Rural development and rural poverty reduction policies and programmes implemented by efficient institutions.¹</p> <p>2. Development and consolidation of local and peasant organisations.²</p>	SO1 – Strengthened rural development institutions and poor people organizations at national and local levels	<p>Adopted innovations by CIARA and other key rural institutions</p> <p>CIARA and other key institutions with trained staff</p> <p>Larger number of peasants and local organisations participating in local development.</p>	<p>Number of rural development institutions participating.</p> <p>CIARA adopts innovative approach to agro-productive chains and Natural Resources</p> <p>Number of peasants and local organisations representatives participating in local development council.</p>	<p>Permanent dialogue with national COSOP team and advising for institutional strengthening.</p> <p>Decentralised and participatory approach for rural development consolidated by Government.</p>
<p>3. Enhance access to micro credit, savings and other rural financial services by rural communities and the rural poor.³</p> <p>4. Agricultural small holders development through investment financing facilities.⁴</p>	SO2 – Increased access of the rural poor to adequate financial services	<p>Network of “<i>Cajas Rurales</i>” established.</p> <p>New financial mechanisms for rural investment financing established.</p> <p>Mechanism of articulation between <i>Cajas rurales</i> and formal banking system formulated</p>	<p>Number of <i>Cajas Rurales</i> and networks operating (data on savings, credits, loans, etc.)</p> <p>Social and productive development funds managed by <i>Cajas rurales</i></p> <p>Pilot schemes between <i>Cajas rurales</i> and formal banking system formulated.</p>	<p>New rural micro financing mechanisms institutionalised with supporting regulatory framework adopted by Government.</p> <p>New mid and long-term credit facilities for small holder sector established and operating under innovative frameworks</p>
<p>5. Priority attention to indigenous communities according to the new constitutional provisions⁵</p> <p>6. Gender equity and priority given to high vulnerable women-headed-households headed. (Provisions of the new Constitution).</p> <p>7. Water conservation and managements in dry areas of the country (tropical semi-arid) as a basic strategy for rural poverty reduction.⁶</p>	SO3 – Secured access of most vulnerable groups to natural resources, training and technical assistance services and economic activities	<p>Indigenous communities organised and obtaining access to land and increased access to technology, financial services and markets.</p> <p>Agro-productive chains of cocoa, tangerines and tubers developed by vulnerable groups of Barlovento Region</p> <p>Female-headed-household with increased participation in decision making.</p> <p>Increased access to water resources by rural communities in semi-arid areas</p>	<p>Number of indigenous communities organized and having obtained land rights and receiving innovative technical, financial and marketing services.</p> <p>-New agricultural technologies introduced and adopted</p> <p>-Number of agro-processing demonstration units</p> <p>Percentage of participating household-headed-female in decision making structures</p> <p>Minor water infrastructure developed and established.</p>	<p>New rules established by Gov. for ensuring access to land and natural resources to indigenous communities and innovative support services operating.</p> <p>New rules established by Government for increasing access to water resources and better management practises in favour of rural communities in the tropical semiarid areas.</p> <p>Continuous pro-women policies enacted.</p>
<p>8. Strengthening of solidarity and cooperation links with other countries of the LAC region.⁷</p>	SO4 – Innovative regional networking on rural poverty reduction policies	<p>Regional network for rural poverty reduction policies established.</p> <p>BANDES-IFAD cofinanced projects</p>	<p>Formulation and financing of regional network programme completed.</p> <p>Cofinancing Agreement signed.</p>	<p>Regional network operating in several countries of the LAC region.</p> <p>Programmes and projects in several countries of the LAC region cofinanced by IFAD and BANDES</p>

¹ Statements from the Ministry of Planning and Minister for Popular Economy.

² Law for People Participation and “Misión” Vuelvan Caras Objectives.

³ Law for Microfinances Development and Vuelvan Caras-MINEP objectives.

⁴ Agricultural Development and Food Security Strategy. MAT and Vuelvan Caras-MINEP objectives.

⁵ Constitution of 1999 and Misión Guacaipuro objectives.

⁶ Statements from Ministry of Popular Economy and MAT.

⁷ Statements from the President and Ministries of MINEP and MAT.

POVERTY ANALYSIS

1. Poverty is still a widespread phenomenon in Venezuela. Last available indicators (National Institute of Statistics [INE], 2005) show that 38.5% of total population have incomes below the Poverty Line (IPL). Extreme poverty includes 10% of total **poverty** population for the same year¹.
2. Poverty size and evolution are closely related with the cyclical performance of the economy. Headcount total poverty was estimated at 33% in 1975. From then on, poverty prevalence grew explosively: it reaches 53.5% in 1988, 64.2% in 1990 and a peak in 1995 with 70.5%. Afterwards, it decreased to 53% in 1997 to stabilise at about 41% between 1998 and 2000 reaching 39.1% in 2001. The economic crisis in 2002 pushed poverty incidence to more than 55% in 2003 when it started to slow down reaching 38.5% in 2005. Extreme poverty (indigence) has shown similar trends but it has been much more sensitive to inflation. Therefore, indigence incidence evolved from a peak of 36.3% in 1995, stabilised from 1997 to 2001 at about 15% and grew again in 2002 and 2003 to 25% along with the economic and political crisis. In 2004 it decreased to 18% and one year after it was only 10% (following the explosive GDP growth of about 28% in these two years and the significant reduction in the unemployment rate).
3. The causes of the persistence of poverty in the country have been the subject of numerous studies. Most of them conclude that, in the short-term, poverty is highly sensitive to inflation and unemployment rates but, in the long-run, structural poverty is mainly explained by education, economic growth and productivity. Moreover, when analysing the evolution of poverty during thirty years, it has been found that the “inertial poverty” component was the most important one and it becomes the main obstacle for overcoming poverty by means of economic growth². This means that the accumulation along time of the deterioration of basic conditions in health and education and consequent deficits in productive skills (i.e. deterioration of “human capital”) impedes the poor to take advantages of economic and productive opportunities. The policy recommendations based on these findings are clear: it is necessary to start attacking the main components of structural poverty (education, health, and habitat). Otherwise, economic growth would once again left apart the poor.
4. **Rural poverty** is not measured by the IPL method in Venezuela. Only in 2001, INE estimated poverty incidence in locations “with less than 25,000 inhabitants” which is the most available proxy to this variable. At that time, **rural poverty prevalence was 52.9% while national average was 39.1%. Rural extreme poverty was estimated at 30.3% while national average reached 23% of households.**
5. When analysing poverty by means of the UBN approach, the data come from the National Population Census. In this case, total poverty in 1990 reached 39% of total households and extreme poverty affected 16% of families. At that time, rural households under poverty conditions were estimated at 71% and extreme poverty affected 45% of these families. Preliminary data on poverty based on the 2001 Census³, show that the incidence of total poverty have diminished to 28% of total households and the extreme poverty affected only 7% of households.
6. In summary, in spite of the lack of accurate data on rural households incomes, all available information points to the fact that rural poverty incidence is about 1.3 times the total poverty

¹ Poverty estimates based on the IPL method come from the Permanent Incomes Household Survey carried out by INE. This survey includes a sample that does not include a statistical meaningful number of rural households. Therefore, poverty data in the country refers mainly to urban households.

² Central Bank of Venezuela. “La evolución de la pobreza en Venezuela”, 1998.

³ No estimates of UBN for rural households in 2001 are available.

incidence indicator, when analysing IPL and 1.6 times the total poverty incidence indicator when adopting UBN approach. It can be estimated, therefore, that **total rural poverty affects about 50% of rural households and extreme poverty is present in approximately 30% of rural families**. In absolute terms, the number of poor rural households is estimated at 286,000 including 172,000 rural families who would be living under conditions of extreme poverty.

7. **Who are the rural poor?** The rural poor would be mainly composed of the group of “minifundists” (140,000), the *strictu sensu* “landless” families (80,000) and about 66,000 households of small farmers. Within this aggregate, approximately 172,000 households live in extreme poverty: most of them belong to the indigenous minorities (see below) and the rest include all landless households and some minifundists households and, specially, those headed by women.

8. Several social indicators point to the fact that rural poverty is “deeper” than urban poverty in the country. Among them: (a) the illiteracy rate is much higher in the rural sector (33%) than in the cities (7%); (b) only 1.6% of total population with technical high school studies reside in rural areas; and (c) the size of rural families is almost twice the size of urban families in average.

9. The rural poor are not geographically concentrated in a specific region. Their incidence is quite similar in each region and therefore, they are distributed proportionally with the geographical distribution of total rural population. However, at subregional level there are some critical areas where rural poverty is more acute: (a) in the Western Central Region, the “semiarid” zones of the States of Lara and Falcón are characterised by severe poverty conditions; (b) in the Western Region, the arid zones of Zulia (la Guajira) are also characterised by extreme poverty that is related to the presence of important indigenous communities; (c) in the Oriental Region, the indigenous communities of Delta Amacuro as well as numerous rural families in the State of Sucre live under conditions of extreme poverty; and (d) the Llanos Region (States of Barinas and Apure) as well as numerous indigenous communities of the Amazonian Subregion include situations of very acute poverty. The most vulnerable groups among the rural poor are the indigenous communities, the rural households headed by women and most of the landless households,

10. **Indigenous communities.** The indigenous communities are distributed in eight States of the country located mainly in the Guyana and Oriental Region (Amazonas, Anzoátegui, Apure, Bolívar, Delta Amacuro, Monagas, Sucre) while in the Western Region, in the State of Zulia, live the Wayúu who are the largest indigenous group (27.2% of total). Almost 90% of total indigenous population belong to the following 10 ethnic groups: Wayuu, Warao, Pemón, Piaroa, Kariña, Guajibo, Pumé, Yanomani, Yukpa, Yekuana. The most important indigenous groups are the Wayúu (in Zulia), the Warao in the Delta Amacuro State and the Pemón in the State of Bolívar. Together, they are a little more than half of the indigenous population of the country. It is important to point out that almost half of the total population of the Amazonas State is composed of indigenous and that a little more than one quarter of Delta Amacuro population is also indigenous.

Indigenous Communities. Population by State and Group.¹

State	Number of indigenous people	Number of communities	% on total State population	%
Amazonas	38 258	649	43.0	21.5
Anzoátegui	8 861	43	0.7	5.0
Apure	8 223	147	2.2	4.6
Bolívar	42 631	620	3.5	23.9
Delta Amacuro	26 080	365	26.6	14.6
Monagas	4 025	42	0.6	2.3
Sucre	1 678	17	0.2	0.9
Zulia	48 587	412	1.6	27.2
Total	178 343	2 295	10	100

Source: Special Indigenous Census. 2001.INE.

11. Productive and economic conditions vary across the different groups. In general terms, in the Amazonas and Delta Amacuro States, most indigenous fish and hunt as their main means of living while in Zulia, the Waraos are mainly dedicated to goat breeding and some cropping. In many cases, indigenous work on temporary jobs. Most social indicators and some special studies show that the severity of poverty is very high among these groups. Illiteracy is about 44% (illiterate indigenous women are 47%); more than one third of children do not go to school; the rate of economic inactivity reaches 82% (while national average is 51%); infant diseases and infant mortality indicators are among the highest in the country, etc. For many analysts, the rural indigenous communities of Venezuela are the “poorest of the poor”.

12. **Afro-descendant populations.** When IFAD’s project in the Barlovento region of the State of Miranda was designed in 1999, 75% of the rural population was under the poverty line, of which 50% were of Afro-descent. Within the segments of the rural poor, Afro-descendant populations are considered among the most vulnerable groups, as shown by nutritional status and severe infant malnutrition indicators at that time. Moreover, in the year 2000, properties were inundated by heavy floods with a 60% loss of plantations, mainly cocoa and annual crops and many families lost their homes. The IFAD funded agro-productive-chains development project supported the first important government intervention in the area. The project addresses social and economic constraints, simultaneously by improving cultural-social cohesion levels and developing the economic management capacity of the target population in a participatory manner. This operation will be linked to a newly designed regional programme in support of afro-descendant populations.

13. **Gender and rural women.** Venezuela is one of the countries that have made outstanding progress in closing gender disparities in the last decades. Women vote since 1946, in 1993 the Law for Women Equal Opportunities was established and the 1999 Bolivarian Constitution includes the gender perspective. The rural women is specially protected within by the law which establishes the right of women to land, credit and technical assistance as well as their participation in the steering bodies or rural productive organisations. The Land Law of 2001 establishes the right of household heads women to land and special protection during pregnancy and postnatal periods. Several institutions and new legislation have been created to assist women: the Women National Institute, the

¹ As a matter of fact, total indigenous population would be 527 537 people (2.1% of total population) according to the 2001 National Population Census. However, a special Census on indigenous communities showed that the number of indigenous groups living in their communities was only one third of this figure. The rest of the people live in urban centres, recognising their indigenous cultural inheritance, but with a complete different social and economic insertion as compared with the characteristics of the original indigenous communities.

Women Bank, the Women Rights National Prosecutor and the recent Law against violence on women and family members.

14. Reduction in the total fertility rate during the last decades has facilitated women's entry into the labour markets and now women are more than 36% of the economically active population. A greater proportion of women are literate as compared to men and enrolment is about equal for boys and girls at the primary level. Female enrolment is higher than male enrolment at the secondary level and at the university level. UNDP estimates that 61% of high-qualified jobs are performed by women. Nevertheless, in Venezuela women's salaries are 42% that of men's salaries. Informal labour market affects more the women and women show the highest open unemployment rates. Concerns emerged when considering the growing number of households headed by women. These female-headed households have a stronger probability of being poor and even extreme poor than non female-headed households. In the rural areas, these situations have higher incidence than in the cities. Also, rural women are only 5% of total rural employment.

15. **Constraints and opportunities for rural poverty reduction.** Rural poverty has affected at least half of the rural households during the last two decades. Its permanence is the result of a series of structural constraints (i.e. lack of access to land, lack of access to credit and technical assistance, lack of organisation, etc.) as well as a consequence of the stagnation of agriculture in the Venezuela's economy. This, in turn, is a consequence of the "Dutch disease" which, without adequate counteracting policies, has hindered agricultural development in spite of the country's enormous natural resources endowment and its formidable agricultural potential.

16. The typical Venezuelan economic cycle is closely related with the cyclical evolution of international oil prices. In the expansion phase of the cycle, increased oil exports flood the economy with foreign exchange and rise, in international terms, the cost of domestic tradable goods while food imports become cheaper than national food crops. As a result, investment in agriculture slowed down and technological adoption is interrupted with negative consequences on agricultural productivity. When oil prices stabilise and/or decrease and the contractive phase begins, agricultural production would become more competitive but it has to face its technological and productivity backwardness and its costs are still higher than those of food imports. Giving the urgency and importance of urban consumers, the authorities prefer to facilitate food imports than fostering national agricultural production. In brief, "Venezuelan agriculture has been a victim of Venezuelan oil wealth".

17. The challenge is that of formulating and adopting a set of adequate policies for diminishing the negative effects of the "Dutch disease" which is the main constraint for agricultural development. These policies should include the careful selection of crops and other agricultural activities with sound competitive advantages and significant production potential, the establishment of adequate protection measures to be reduced along time following productivity gains, the fostering of technological innovations and related investments directed to these crops and the design of temporary consumption subsidies to protect low income consumers.

18. Other important constraints for poverty reduction stem from a series of structural deficits that have characterised Venezuelan agricultural sector evolution and have had very negative impacts on the rural poor. The rural poor have faced serious limitations in the access to land and to water resources, there are very serious failures in the rural financial and technical assistance services as well as serious distortions in the marketing channels. In addition, a long history of weak peasants organisations have also diminished their bargaining power at local and national levels hindering the access to basic and social infrastructure and services in the rural areas. These elements are aggravated by the serious human capital deficits (i.e. components of the "inertial poverty") of rural population in terms of basic and technical instruction and health conditions. These factors affect more seriously the most vulnerable groups of the rural poor (i.e. Indigenous communities).

APPENDIX IV

19. Main opportunities for rural poverty reduction stem from both the present GOV explicit political objectives to combat poverty as well as from the availability of financial and economic resources generated by the present cycle of high oil revenues. These elements have been confirmed by the formulation and implementation of numerous policies directed to combat urban and rural poverty in the last five years. Firstly, the amount and relative importance of public expenditures (social and productive) directed towards the poor is the highest in all recent Venezuelan history. In particular, the resources allocated to combat rural poverty in the last two years have been estimated at the equivalent of 1 billion. Secondly, the design and implementation of several instruments of social policies (the “*Misiones*”) to combat the roots of inertial poverty is an original and massive effort to counteract the results of decades of abandonment. Third, the consistency of a set of macroeconomic, trade, agricultural and rural development policies configure a sound strategy to effectively combat rural poverty in the country. Support to implement these policies is a clear opportunity to help the GOV in the combat against rural poverty.

AGRICULTURE AND RURAL DEVELOPMENT

1. In spite of the formidable agro ecological endowment of Venezuela, agriculture plays a secondary role in the national economy. In the last fifteen years, the agricultural sector has only generated about 5% of annual GDP. Agricultural exports are just 3% of total (i.e. coffee, cocoa, tropical fruits, etc.). Agriculture growth has been, in average, lower than the growth of the rest of the economy. As a result, food imports (in average, US\$1.5 billion per year) constitute about 50% of domestic food consumption (main food imports are wheat, corn, soya beans, powder milk, sugar, potatoes, fats and fruits from temperate climates) and the agricultural trade balance shows a high deficit. Main crops for domestic market are fruits, corn, beans, vegetables and tubers as well as cattle breeding and poultry. Approximately 16% of national employment is originated in agriculture.
2. This poor performance is mainly explained by structural economic disincentives to agricultural production. In fact, the permanent overvaluation of the national currency generated by the oil revenues (“Dutch disease”) has negatively affected the competitiveness of the agricultural sector during the last decades. In addition, a series of contradictory sector policies along time have also had negative impacts on agriculture: i.e. abrupt changes in the effective protection to agricultural products, macroeconomic instability, periodic financial crisis, uncertainties about land tenancy, etc.
3. Agricultural land is estimated at 34 million has out of which 55% are under production. Crops cover 2.6 million has and the rest is mainly dedicated to cattle breeding under extensive production systems. According to the last Agricultural Census (1997), there are 500,000 rural holdings in the country. Medium size and large farms are approximately 50,000. In fact, land concentration in Venezuela is one of the highest in the continent since only 1% of land tenants cover 30% of total area. In the other extreme, almost 50% of land tenants (mainly smallholders) only have 1.5% of total agricultural land. Land tenancy is characterised by uncertainty regarding land titling and effective property rights. Most of the smallholders do not have land titles.
4. The smallholder sector includes about 320,000 farms mainly concentrated in the Western Region (specially in the Andean Subregion) with 29% and the Central Western Region (28%). The rest is spread throughout the other regions of the country with some degree of concentration in the Oriental Region. The prevalence of small farms is higher in the Western, Central and Central Western regions (about 75% of total farms in each region). In addition, there are about 140,000 rural holdings with less than one ha each (“minifundists”). This subsector is mainly dedicated to self-consumption cropping (called “conuco”) and most of their incomes come from off-farm activities. Most of these are also located in the Central Western (37%) and the Western, region (29%).
5. Rural population is estimated at 2.8 million people or about 572,000 rural households. When comparing these figures with the number and type of rural holdings it can be estimated that the “landless” population would include approximately 220,000 rural families (i.e. including the 140,000 “minifundists”). Formal work in the agricultural sector is exceptional and most of the 1.2 million rural workers are, indeed, temporary workers belonging to the landless rural households above mentioned.

RURAL POVERTY AND AGRICULTURAL/RURAL SECTOR ISSUES

Priority Area	Major Issues	Actions Needed
Rural Poverty	<ul style="list-style-type: none"> • More than half the rural population lives below the poverty line and 30% can be classed as destitute. • Most rural poor are landless and/or “minfundists”. • Poorest groups are the indigenous communities (located in the semiarid and in the rain forests). • Agriculture rate of growth is still below that needed to have a significant impact in terms of poverty reduction. • Destitute have few assets, are highly vulnerable and tend to lose economic growth opportunities (“inertial poverty”). 	<ul style="list-style-type: none"> • Increase access to land. • Attack roots of “inertial poverty” (i.e. illiteracy, bad health conditions, etc). • Foster agricultural development and growth by means of selected protectionist policies and increased internal market opportunities. • Enhance rural economic and productive organisations. • Improve technical support services. • Increase access to adequate rural financial services. • Create wage employment and non-land based self-employment.
Agricultural sector	<ul style="list-style-type: none"> • Idle lands and other natural resources in spite of high productive potential. • Low contribution to GDP (5%). • Low contribution to domestic food consumption (food imports represent 55% of national consumption of food staples). • Long-term national currency overvaluation (“Dutch disease”) negatively affects agricultural competitiveness. • Market channels dominated by large food importers. • Lack of investments, technology backwardness, low agricultural productivity. 	<ul style="list-style-type: none"> • Increase effective protection for food and rent crops with sound productive potential. • Intervention in food staples markets to limit imports to be replaced by national production. • Foster agricultural research, technology adoption and investments in crops with sound productive potential. • Higher priority given to purchases of domestic and smallholder sector crops. • Support to selected crops for export.
Land access	<ul style="list-style-type: none"> • High concentration of agricultural land. • Lack of land titles for most smallholders. • Weak land markets. 	<ul style="list-style-type: none"> • Continue and improve Land reform programmes • Support to settlements of land less and smallholders under an integral land reform program • Land titling and land regularisation
Rural Finance	<ul style="list-style-type: none"> • Formal sector banks perform badly and are not accessible to the poor. • Informal credit systems limited and/or exploitative. • Limited access to credit for marginal and small farmers, and small rural entrepreneurs from either banks or NGOs • Lack of formal regulatory framework for rural microfinance institutions • Lack of mid and long-term credit facilities for agricultural investments 	<ul style="list-style-type: none"> • Continue to develop rural microfinance (IFAD supported “Cajas Rurales”) including the developing of an appropriate regulatory framework. • Develop mechanism for ensuring mid and long-term credit for agricultural and rural investments. • Develop mechanism to articulate rural micro credit institutions with the banking sector. • Support expansion of innovative and well managed small and medium NGO-MFIs

Priority Area	Major Issues	Actions Needed
Technical Assistance Services	<ul style="list-style-type: none"> • Dismantling of public extension services not yet replaced by other systems. • Low coverage of small farmers by existing programs for technical assistance • Lack of “extension messages” due to the lack of available agricultural technologies 	<ul style="list-style-type: none"> • Continue to develop technical assistance services based on the hiring of extensionists and direct supervision of users. • Develop technical assistance markets. • Increase the coverage of technical support services to agricultural and non agricultural activities • Increase efforts of agricultural research and training of extensionists
Gender	<ul style="list-style-type: none"> • Increasing participation in agriculture – but work often of low status • Low levels of education, skills and poor understanding of potential. • Limited access to assets and employment opportunities. 	<ul style="list-style-type: none"> • Continue to promote employment and self-employment for women through access to credit. • Continue to enhance education, literacy and skill training. • Improve provision of water, power supplies and health services. • Continue to increase awareness amongst men and women regarding gender issues and legal rights.
Community Development	<ul style="list-style-type: none"> • Poor rural social and economic infrastructure. • Inadequate housing, water and power supply, sanitation and educational and health provision. • Lack of community ownership/sustainability of communal infrastructure. 	<ul style="list-style-type: none"> • Continue present programs for investment in critical infrastructure: especially water and electricity supply, schools and clinics. • Continue efforts to build community organisations and their capacity for self-reliance. • Continue to involve communities in participatory identification, planning and management of rural infrastructure, facilities and services. • Strengthen relations between rural communities and local authorities (municipalities)
Indigenous communities	<ul style="list-style-type: none"> • Extreme rural poverty concentrated in indigenous communities • Low levels of education, health and skills • Lack of access to land, technology, financial services and markets • Inadequate attention of public programmes that ignore cultural differences and cultural and technological traditional assets. 	<ul style="list-style-type: none"> • Design and implementation of integral development programs tailored to these indigenous communities • Increase coverage of present health, education and house improving programmes (“Misiones”) to these communities. • Specific training of social and economic “facilitators” to work with these communities.

ORGANIZATIONS MATRIX
STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
Ministry of Planning	<p>Strategic vision over all other Ministries and public institutions.</p> <p>Responsible for the formulation, monitoring, and evaluation of the National Development Plan and main economic policies.</p> <p>Responsible of the formulation and supervision of the Social Economy Development Model.</p> <p>Responsible of the supervision of public institutions activities.</p> <p>Authorizes the negotiation of external credits and approves external inversion, before MF approval</p>	<p>Limited physical presence at a regional level.</p> <p>Some degree of overlapping of functions with other GOV offices.</p>	<p>The main opportunities rely in its power for orienting and reforming existing policies and programs.</p> <p>Sponsor of the regional approach for rural and social development.</p> <p>Main risks associated to political changes and the consequent delays in programs execution.</p>	<p>During the present administration the Ministry's role is stronger in terms of regional planning and co-ordination of GOV activities than in previous periods.</p> <p>The consistency of macroeconomic, trade, agricultural development, food security and the endogenous development poles policies has been formulated by this Ministry.</p>
Ministry of Finances	<p>Prepares the National Budget on yearly basis and approves all external financed programs and projects.</p> <p>Strong coordination with all GOV areas.</p> <p>Supervisor of all public expenditures, including external funded programs.</p>	<p>Insufficient technical knowledge in various social and economic development areas.</p>	<p>The amount of public revenues, administered by the MF, has significantly increased in the last years due to increased oil revenues.</p> <p>Main risks related to the lack of enough information for adequate and timely resource allocation for rural development programs.</p>	<p>The MF has not direct management of several "trust funds" financed with part of the "surplus" oil revenues.</p> <p>This Ministry would finally approve any new IFAD operation in the country.</p>

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
Ministry for Popular Economy (MINEP)	<p>Recent established Ministry with strong commitment with GOV poverty reduction objectives and policies.</p> <p>Responsible for all programs directed to ensure the insertion of poor and rural poor in economic and productive activities.</p> <p>In charge of the “Misión” Vuelvan Caras with significant amount of financial resources that come from the “surplus” oil revenues.</p> <p>Young, trained and highly motivated staff.</p> <p>Supervisor of CIARA in all programs related to rural development and rural poverty reduction.</p>	<p>Lack of experienced staff in several areas.</p> <p>Some degree of overlapping of functions with other GOV offices.</p>	<p>Main opportunities stem from its explicit objectives for poverty and rural poverty reduction by means of fostering sustainable economic insertion of the poor.</p> <p>Opportunities are also related to the significant amount of resources managed by MINEP as well as to the high degree of autonomy and flexibility in its operations.</p> <p>Main risks are associated with the lack of experienced staff as well as with the lack of sufficient coordination with other Ministries and programs.</p>	<p>MINEP was established when the GOV realized that traditional “sectoral” Ministries were not prepared to cope with an integral combat against poverty and rural poverty.</p>
Ministry of Agriculture and Land (MAT)	<p>Regional presence.</p> <p>Experienced technical staff with knowledge of sector issues and opportunities.</p>	<p>Lack of sufficient co-ordination with new agents in rural development (MINEP, MINAL, etc.)</p> <p>Overlapping with some programmes.</p> <p>Lack of experience in land reform.</p> <p>Lack of training programs for technical staff.</p>	<p>Main opportunities stem from the new responsibility for leading the land reform program.</p> <p>Opportunities also come from the well-established regional presence of MAT and the possibility of strengthening its linkages with other institutions.</p> <p>Main risks come from political changes and those related with resistances to the land reform program.</p>	<p>MAT supervises the National Land Institute, the Agricultural Research Institute and the Agricultural Development Fund.</p>

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
Ministry for Food (MINAL)	<p>Clear mandate for intervening in the food markets and food staples distribution (Agricultural Marketing Law).</p> <p>Enough resources for undertaking its functions: i.e. (a) purchases of local produced food staples; (b) implementation of food programs for the indigent population, etc.</p> <p>Satisfactory performance in the last years.</p>	<p>Lack of experienced staff to deal with growing complexity of its tasks.</p> <p>Lack of enough coordination with MAT, MINEP and other offices related to the food security strategy implementation.</p>	<p>Main opportunities stem from its crucial role for food import substitution with food crops produced by the smallholder sector.</p> <p>Main risks are associated with the complexity of its tasks, the pressures that come from economic interest groups and the associated risks of funds mismanagement.</p>	MINAL coordinates, through INAL, the distribution of food staples through thousands of local food stores (MERCALs).
Ministry for Popular Participation and Social Development	<p>Recent established Ministry with a clear mandate for fostering people participation, local organisations and the articulation of local demands with national and local authorities.</p> <p>In charge of the “Misión” Guaicaipuro for social assistance to indigenous communities, with significant amount of financial resources that come from the “surplus” oil revenues.</p>	<p>Lack of experienced staff in several areas.</p> <p>Some degree of overlapping of functions with other GOV offices.</p> <p>Lack of experience in rural development programmes.</p>	<p>The main opportunities rely in its mandate for implementing existing policies and programs to foster people participation (Law of Local Planning Councils) and its impacts in rural areas.</p> <p>Main risks are associated with the lack of experienced staff as well as with the lack of sufficient coordination with other Ministries and programs.</p>	The Ministry’s approach is more oriented to “social assistance” rather than to “productive insertion” of the poor.

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
CIARA Foundation of Training and Innovation for Rural Development (under MINEP supervision)	The eldest and specialised GOV institution in rural development and rural poverty reduction policies and programs. Qualified and experienced personnel Executing agency of all IFAD funded projects as well as of World Bank former extension project and FAO food security program. Executing agency of former Regional Network for Rural Development Training.	Lack of sufficient staff given growing responsibilities and programs under implementation. Lack of sufficient coordination with MAT and INTI. Need of institutional strengthening for research, training and networking areas.	The main opportunities come from the clear institutional mandate of being in charge of all rural development and rural poverty reduction policies and programs. Indigenous communities development programmes would be transferred to CIARA in the near future. Main risks are associated with the growing complexity of its tasks and, the lack of sufficient coordination with other Ministries and programs.	All IFAD Evaluations carried out by the Office of Evaluation have concluded that CIARA's performance has been satisfactory. CIARA was founded in 1970. It is well known in the entire LA &C region as a knowledge institution on rural development.
Land National Institute (INTI under MAT supervision)	Regional presence. Experienced technical staff with knowledge of sector issues and land titling. All available information of land tenancy in the country is centralised in this institution.	Lack of experience in land settlement programs implementation. Traditionally slow processing of land titling for small holders. Weak interinstitutional coordination mechanisms Deficient data bases.	Main opportunities stem from its crucial role for the implementation of the land reform process under new approved legislation. Main risks are associated with the growing complexity of its tasks, lack of experience in land settlement programs implementation and those related with resistances to the land reform program	The dynamics of new land reform policies have been below expectations.
National Agricultural Research Institute (INIA)	High experienced personnel Regional presence.	Lack of sufficient training programs for researchers. Lack of sufficient articulation with extension demands.	Main opportunities stem from the growing demand of technological innovations generated by the current food security and agricultural development strategy. Main risks are associated to the lack of enough coordination with the existing and future extension programmes.	INIA is receiving external cooperation from various sources: an IADB project, technical cooperation from Argentine INTA, etc.

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
National Institute for Food (INAL)	<p>Regional representation</p> <p>Specialization areas in marketing, agribusiness, quality of agricultural products and food security</p> <p>Established facilities for the process, storage, and conservation of all grains and seeds in all regions of the country.</p>	<p>Lack of experienced staff to deal with growing complexity of its tasks.</p> <p>Lack of enough coordination with MAT, MINEP and other offices related to the food security strategy implementation.</p>	<p>Main opportunities stem from its crucial role for food import substitution with food crops produced by the smallholder sector as well as its role in the distribution of food staples through thousands of local food stores (MERCALs) at community level.</p> <p>Main risks are associated with the complexity of its tasks, the pressures that come from economic interest groups and the associated risks of funds mismanagement.</p>	<p>INAL coordinates actions with PROAL which is in charge of free food staples distribution to the extreme poor population.</p>
Agricultural Development Fund (FONAP)	<p>The largest agricultural financing institution in the country.</p> <p>Presence in all regions of the country through the regional funds and the banking system.</p> <p>Important availability of financial resources that come from the “surplus” oil revenues.</p>	<p>Insufficient programmes and instruments to reach the smallholder sector and the rural poor.</p> <p>Lack of technical assistance services to support financial services to the rural poor.</p> <p>Lack of co-ordination with other agencies for rural development and with the rural micro credit sector.</p>	<p>Main opportunities stem from the agricultural credit growing demand generated by the current food security and agricultural development strategy.</p> <p>Main risks are associated with the lack of adequate articulation with the local rural microcredit institutions and with appropriate channeling of funds to the small holders and rural poor population.</p>	<p>The GOV is undertaking studies for the formulation of better ways of reaching the smallholders sector credit demands (including requested assistance to IFAD under PRODECOP).</p>
Government of States	<p>Decentralised authority in the different regions of the country.</p> <p>Participation in the implementation of national programmes for agricultural and rural development (including the direct management of regional agricultural credit funds)</p>	<p>Limited autonomy and financial resources to increase participation on rural development and rural poverty reduction policies.</p> <p>Lack of qualified human resources in some regions.</p> <p>Lack of sufficient staff given growing responsibilities and programs under implementation.</p>	<p>Main opportunities stem from the implementation of rural poverty reduction policies and the need of increased field presence for most programmes.</p> <p>Main risks are related with political and administrative centralism and the lack of experience at state level to execute rural development programmes.</p>	<p>IFAD funded projects show several cases of State agencies participation in rural development activities.</p>

Institution	Strengths	Weaknesses	Opportunities/Risks	Remarks
Local Organizations	Diversity of local options. Establishment of Local Councils for Planning (Law of 2002). Fostering of local organisation by many national programmes for poverty reduction.	Political and administrative centralism. Weak development schemes and execution of regional initiatives in marginal zones. Lack of qualified human resources.	The main opportunities rely in the implementation of existing policies and programs to foster people participation (Law of Local Planning Councils) and its impacts in rural areas. Main risks are associated with the lack of experienced staff at local level and the lack of sufficient coordination with local and regional authorities.	Many elected representatives to Local Planning Councils come from Local Committees promoted by IFAD funded projects.

COMPLEMENTARY DONOR INITIATIVE/PARTNERSHIP POTENTIAL

Donor/Agency	Priority sectors and areas of focus		Period of current country strategy	Potential for partnership with IFAD
Andean Development Corporation (CAF)	<ul style="list-style-type: none"> • Agriculture, livestock, agribusiness. • Rural development. • Irrigation and water resources. • Education. • Energy and power. 	<ul style="list-style-type: none"> • Health and social protection. • Small and medium enterprises. • Urban development. • Transport and communications. • Water supply and sanitation. 	<ul style="list-style-type: none"> • 2004-2009 	<ul style="list-style-type: none"> • Agriculture, livestock, agribusiness. • Rural development. • Rural infrastructure (transport, water resources).
Inter-American Development Bank	<ul style="list-style-type: none"> • Agricultural research. • Irrigation and water resources. • Education. • Energy and power. • Fiscal administration. 	<ul style="list-style-type: none"> • Health and social protection. • Small and medium enterprises. • Urban development. • Transport and communications. • Water supply and sanitation. 	<ul style="list-style-type: none"> • 2001 to 2005 	<ul style="list-style-type: none"> • Agricultural research.
World Bank	<ul style="list-style-type: none"> • Environment • Health 	<ul style="list-style-type: none"> • Urban development • Public expenditures management 	<ul style="list-style-type: none"> • 2001 to 2004 	
FAO	<ul style="list-style-type: none"> • Food security programme (SPFS) 		<ul style="list-style-type: none"> • 2005 to 2009 	<ul style="list-style-type: none"> • Food security. • Rural development.
IICA	<ul style="list-style-type: none"> • Technical cooperation • Project management and administration 			<ul style="list-style-type: none"> • Project management. • Rural development.
Argentina	<ul style="list-style-type: none"> • Agricultural research. • Technical cooperation. • Technological transfer. 			

TARGET GROUP IDENTIFICATION, PRIORITY ISSUES AND POTENTIAL RESPONSE

Typology	Poverty Level And Causes	Coping Actions	Priority Needs	Support from Other Initiatives
Indigenous communities (60,000 households)	Extreme and desperate <ul style="list-style-type: none"> • Under 1,800 kcals/head/day • Disabled • Chronically ill • No access to technology, credit and markets • Geographically isolated • Fishing and hunting 	<ul style="list-style-type: none"> • Search for temporary employment and accommodation • Limited support from relatives • Permanently malnourished 	<ul style="list-style-type: none"> • Social safety nets • Feeding programmes • Long-term medical care • House and sanitary improvement 	<ul style="list-style-type: none"> • “Mision” Guaicaipuro is providing social assistance to some groups • NGO are working with some communities • Limited actions from PRODECOP
Landless (80,000 households)	Extreme <ul style="list-style-type: none"> • Under 1,800 kcals/head/day • Few assets • No land • Floating population and migrants • Little access to credit (even informal) • Elderly 	<ul style="list-style-type: none"> • Search for temporary employment and accommodation • Domestic service 	<ul style="list-style-type: none"> • Land • Employment • Food assistance • Homestead • Limited self employment • Health, nutrition support 	<ul style="list-style-type: none"> • Assistance from various “Misiones” to tackle health, education, nutrition and housing deficits. • Organisation of production cooperatives by “Mision” Vuelvan Caras • Limited participation in micro-credit schemes (“Cajas Rurales”)
Minifundists (80,000 households)	Extreme and Moderate <ul style="list-style-type: none"> • 1,800 to 2,100 kcals/head/day • Resource poor • No land or only up to 1 ha agricultural land • Few livestock • Own homestead • Low profitability of farming small areas • Lack of access to land, technology and credit. 	<ul style="list-style-type: none"> • Migration • Limited agriculture • Limited livestock. • Search for temporary employment 	<ul style="list-style-type: none"> • More land • Access to technology, credit and markets • Employment and self-employment • Health • Education 	<ul style="list-style-type: none"> • Assistance from various “Misiones” to tackle health, education, nutrition and housing deficits. • Organisation of production cooperatives by “Mision” Vuelvan Caras • Limited participation in micro-credit schemes (“Cajas Rurales”)
Small farmers (66,000 households)	Moderate and Vulnerable <ul style="list-style-type: none"> • Small farmers with limited access to technology, land, credit and markets. • Low profitability of farming 	<ul style="list-style-type: none"> • Migration • Credit from relatives • Some join micro-credit groups • Livestock • Small businesses 	<ul style="list-style-type: none"> • Agricultural development • Small business promotion • Health • Education 	<ul style="list-style-type: none"> • Organisation of production cooperatives by “Mision” Vuelvan Caras • Participation in micro-credit schemes (“Cajas Rurales”) • Supported by Plan Café and other agricultural financial programs. • Supported by PREA (extension program)

