

TECHNICAL COOPERATION LOAN FOR A PILOT PROGRAM FOR  
DECENTRALIZATION AND MODERNIZATION OF GOVERNMENT

(VE-0058)

EXECUTIVE SUMMARY

**BORROWER AND  
GUARANTOR:** Republic of Venezuela.

**EXECUTING AGENCY:** Central Planning and Coordination Office (Cordiplan), which will have as coexecuting agencies, at the federal level, the Ministry of Transport and Communications, and at the state level, the governments of states of Aragua, Mérida, Falcón and perhaps another participating state.

**AMOUNT AND SOURCE:**

IDB (ordinary capital):	US\$ 8.0 million
Co-financing (IBRD):	US\$ 8.0 million
Local counterpart funding:	US\$ 3.0 million
Total:	US\$19.0 million

**FINANCIAL  
TERMS AND  
CONDITIONS:**

Amortization period:	15 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	United States dollar from the Single-Currency Facility

**COFINANCING:** World Bank (IBRD)

Amortization period:	17 years
Disbursement period:	3 years
Interest rate:	variable
Credit fee:	0.75%

**OBJECTIVES:** (i) To promote the decentralization process by helping to finance pilot projects for privatization, outsourcing, or granting of concessions to operate public services; (ii) to strengthen the supervisory and management control capabilities of states participating in programs for concession, outsourcing or privatization of public services; and (iii) to provide the central government with suitable support for this process through modernization and restructuring of its institutional framework, based on the pilot project carried out under the MTC.

<b>DESCRIPTION:</b>	<p>The program consists of a technical-cooperation loan to provide support in three principal areas: (i) <b>outsourcing and privatization/granting of concessions for the operation of state services</b> (US\$5.69 million), including support for state governments participating in the design and implementation of a strategy for transferring operations and investment responsibilities to the private sector, as well as drafting innovative agreements with NGOs, community groups and other civil society organizations for the operation of such services; (ii) <b>facilitating efforts to decentralize and modernize administration of the central government</b> (US\$1.33 million), including support for reform of the national government on the basis of the MTC pilot project, as well as to conduct a series of preparatory studies for more extensive reform of the public sector; and (iii) <b>coordination</b> (US\$490,000), to be provided through a program coordinating unit which will monitor the progress of reforms, oversee contract performance, exercise financial administration of the operation, and provide support for the executing agencies in the participating states.</p>
<b>ENVIRONMENTAL/ SOCIAL REVIEW:</b>	<p>On CESI's recommendation, the Program Coordinating Unit has been provided with: (i) terms of reference for social or environmental impact studies and a survey of environmental/social problems encountered (in the case of operations under way); and (ii) a review of national environmental laws in force and the pertinent requirements for permits.</p>
<b>EXCEPTIONS TO BANK POLICY:</b>	<p>Given the unique nature of the international market for consultants specializing in privatization and concessions projects (investments banks or consortia led by investment banks) which make price a determining factor in the awarding of contracts, it is recommended that a procedure permitting a combined technical and economic evaluation of the proposals employed for contracts valued over US\$200,000 (paragraph 3.22).</p>
<b>PROCUREMENT OF GOODS AND SERVICES:</b>	<p>It is recommended that the activities related to the hiring of consulting services valued at up to the equivalent of US\$50,000 for individual consultants and US\$100,000 for consulting firms be evaluated and approved by the Bank ex post, rather than ex ante. During the execution, the use of this method of evaluation will be assessed to determine whether it should be continued (paragraph 3.19).</p>

Equipment, goods, and consulting services for the program will be procured in accordance with the Bank's guidelines and procedures. Whenever Bank funding is used for procurement, international competitive bidding will be used for contracts valued at more than US\$350,000 in the case of goods and US\$200,000 in the case of consulting services.

**BENEFITS:**

This program will produce a clear improvement in the ordering of priorities and the quality of public services by permitting private sector companies and organizations of civil society (foundations, microenterprises, etc.) to participate in the delivery of these services. The states are better positioned to identify local needs and assess the ability of consumers to pay for them. Moreover, the decentralization process has not been accompanied by a proper restructuring of the central government. For this reason, the present program will also focus on supporting efforts to restructure the Ministry of Transport and Communications (MTC). The MTC is one of the ministries that has been affected most by the decentralization process, and is in need of reorganizing its human and material resources to prepare it for its new leading role in the sector. Finally, based on the experience with this pilot project, the government and the banks are planning a number of additional operations aimed at: (i) reforming the public sector at the central level; and (ii) extending the program to other states.

**RISKS:**

In previous programs in Venezuela the Bank has encountered certain difficulties, including projects in which the states have participated. Based on the lessons learned from this experience, it is recommended that support be maintained for programs which are narrowly-targeted and comparatively small like the one proposed here, in order to obtain tangible results in a relatively short period. Another risk lies in the innovative nature itself of this program which relies heavily on participation by states that are still institutionally weak at all levels from conceptualization to implementation. To mitigate this risk, the operation provides strong support during the execution stage through a coordination component that will seek to create and reinforce the institutional capacity of the states, as well as establishing subsidiary agreements on state participation.

**THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The Bank's strategy for Venezuela is geared, among other things, to supporting the modernization of the state, particularly in the areas of decentralization and improvement of public services.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

a. Conditions precedent to the first disbursement

- (i) Signature of a subsidiary participation agreement (see paragraph 3.14).
- (ii) Establishment of the financial management system for the program (see paragraph 3.14).

b. Contractual conditions

- (i) Commitment to maintain the levels of responsibility for the program (see paragraph 3.13).
- (ii) Signature of subsidiary participation agreements with eligible states participating in the program (see paragraph 3.7).
- (iii) Selection of eligible states participating in the project (see paragraph 3.9).
- (iv) Submission of Annual Plans of Operations (see paragraph 3.11).
- (v) Review of the follow up and mid-term evaluation of the program (see paragraph 3.17).
- (vi) Submission of the final report (see paragraph 3.16).

## I. FRAME OF REFERENCE

### A. Introduction

- 1.1 As a result of the acceleration in the decentralization process beginning in 1989, Venezuela's states find themselves carrying out many functions that were traditionally the responsibility of the central government. This has imposed financial and administrative costs on these states without a corresponding increase in the efficiency and effectiveness of the services provided. The operation proposed here will support a pilot group of states in achieving their objective of transferring the delivery of services (ranging from privatization to outsourcing) to the private sector and civil society, thereby reducing the cost of delivering these services and improving their quality. Through active participation by the states in managing and executing this project, the idea is to promote a new type of operation with greater direct participation by the states in carrying out projects with multilateral banks.
- 1.2 Also, this decentralization process has not gone hand in hand with a proper restructuring of the central government. For this reason, the present program will also focus on efforts to restructure the Ministry of Transport and Communications (MTC). The latter is one of the ministries that has been most affected by the decentralization process, and is in need of reorganizing its human and other resources to prepare them for its regulatory role in the sector. Cordiplan is the ministry responsible for leading the process of modernizing in the public administration, and has been working closely with the MTC in developing its restructuring plan, which was approved by the Cabinet in 1997.
- 1.3 On the basis of the experience gained from this pilot program, the government and the banks have planned additional operations aimed at: (i) reforming the public sector at the central level; and (ii) extending the program to other states.

### B. The decentralization process

- 1.4 In accordance with its constitution, Venezuela has a federal system of government although political and economic decision making have traditionally been concentrated in the central government. In essence, the function and basic institutions of the public sector have served as mechanisms for the distribution of petroleum revenues. However, on a per capita basis, oil revenue has declined over the past 15 years, during which time there has been little in the way of structural reform to improve productivity of nonpetroleum resources.
- 1.5 In 1989, two major pieces of legislation were passed which redefined the political and economic dimensions of federalism in

Venezuela. That same year saw the first round of state and municipal elections, the last of which took place in December 1995. Direct delivery of services was also redefined. In this regard, the decentralization process makes a distinction between shared services and exclusive services. Shared services are health, education, care for children and the elderly, sports, nutrition and housing, some of which may have their own sources of income. Exclusive services are essentially commercial activities with the capacity to generate their own revenues such as highways, airports, mineral extraction (other than oil) and tourism. Venezuela has two modalities for transfer of services: one is at the request of a subnational government, and the other involves a transfer by Presidential Decree (this latter method has not been used to date). By 1996, 31 of the 38 exclusive services requested by subnational governments had been transferred to their jurisdiction. However, of the 129 shared services claimed by the states, only 41 had been transferred.

- 1.6 The financial flows between different levels of government have also been reorganized. Transfers from the central government to the subnational governments consist of: (i) fixed expenditure items, equivalent at the moment to 20% of the central government's revenues; (ii) budget items (for shared services that were transferred to other levels using the percentage budgeted in the year of transfer); (iii) transfer of 18% of the revenue from value added tax, primarily for co-financing decentralized services; and (iv) transfers for revenues from petroleum and mining operations, which will improve from 16% in 1998 to 24% by the year 2000. Municipal revenues not derived from transfers are generated by seven different taxes, the most important of which are property taxes and business license taxes. The states, meanwhile, must rely for their tax base on any levies not already being collected by either the municipalities or the central government, which in fact leaves them without any taxation power of their own.
- 1.7 The proportion of government expenditures being financed by subnational governments out of their own revenues has declined. State governments are not permitted to incur foreign debt, and the procedures for borrowing locally are such that they have never been successful in tapping domestic markets. Nevertheless, those multilateral loans raised by the federal government in which the beneficiaries are clearly the states and municipalities of Venezuela, have not been accompanied by a commitment for debt servicing on the part of the subnational authorities.

C. Current status of the decentralization process

- 1.8 Events during the nine years that have elapsed since enactment in 1989 of the laws setting in motion the decentralization process have demonstrated the existence of four factors that work against the effects of the benefits. One factor is that the specific duties and responsibilities for shared services are not clearly

defined, and decentralizing these services involves a complicated legal process and red tape. Another factor has been the lack of suitable incentives for improving governance and the delivery of services at the local level, combined with an absence of institutional capacity for direct provision of services. A third factor is the imbalance in the allocation of fiscal resources and functions among the different levels of government, added to the limited legal base afforded the states for generating revenue on their own. The fourth factor is the inadequate restructuring of the central government, which has not kept pace with the decentralization of services.

- 1.9 The factors listed above are indicative of both the variety and intensity of the most important aspects relating to governance in general, and the decentralization process in particular. The main issues in this process are to avoid replicating at the state level the problems that existed at the level of the central government, which would result if the transfer is disorderly, without proper attention to legal and institutional aspects, and to modernize the public sector at the central level, by strengthening its capacity to carry out its new functions, especially those involving the setting of federal policies and supervision.
- 1.10 The fact that state governments lack the human, technical and financial resources needed to improve the quality, coverage and efficiency of the services they provide is being overcome through a strategy of promoting greater participation by the private sector and civil society. To make up for their lack of resources, the Governors' Association is currently discussing with central government officials the possibility of legally establishing a tax revenue base and of boosting their revenue by means of concessions, outsourcing and rationalization of investments (e.g. sale of unproductive or unprofitable assets, etc.). Hence, the states are pursuing the twin goals of raising fiscal revenues while improving the quality of their services.
- 1.11 At the central level, the main problem is the absence of an institutional restructuring program to match the decentralization of functions. In the case of some ministries, especially the MTC, some responsibilities have been transferred along with the pertinent resources, although the central government's staff and organizational structure have remained the same. In addition to management difficulties, this creates a serious fiscal problem for the government. Cordiplan has therefore been given the task of launching and coordinating a program for modernization of the state, reorganizing its administrative structures and rescaling the size of its staff in accordance with the new scope of its functions.

D. The Bank's strategy

- 1.12 The Bank's strategy for Venezuela is designed *inter alia* to support the modernization of the state, particularly in the process of decentralization, and to improve the delivery of public services. The operation proposed here will support this modernization program through the institutional restructuring of the MTC and a series of preparatory studies for a program of far-reaching reform of the public sector. Support for the decentralization process itself will involve strengthening local administrative structures and creating an environment for local regulation and supervision which favors efficient public services.

E. The Bank's experience supporting decentralization

- 1.13 The Bank has four loans currently under way in Venezuela to support that country's decentralization process.

1. Program of support for modernization and rehabilitation of the water and sanitation sector (loan 994/OC-VE)

- 1.14 This program supports restructuring of the sector through decentralization of services in the state of Lara, providing resources for hiring a specialized international private-sector company for the integrated management of the state of Lara water utility company (HIDROLARA); the rehabilitation of the water supply/distribution and sewerage systems in the city core of Barquisimeto; and the drawing up of plans for the decentralization of services in four other states.

2. Program for strengthening and modernization of the health sector (loan 867/OC-VE)

- 1.15 This operation is providing support for the decentralization process by strengthening institutional capacity within the State Health Department to ensure the orderly transfer of resources and service delivery in up to seven states participating in the project. The loan is also providing funds mainly for investments in restoring the primary network in participating states, as well as upgrading and equipping secondary and tertiary inpatient and outpatient health care services. The loan is also financing the restructuring and strengthening of the Ministry of Health and Social Assistance (MAS), as the sector's policy-making body. The MAS is now preparing its proposed restructuring and has begun to rescale its human resources.

3. Program for modernization and strengthening of basic education (loan 779/OC-VE)

- 1.16 This loan is intended to promote the decentralization of management within the sector, which includes the institutional strengthening for state education ministries; the establishment of a



decentralized system for maintenance and rehabilitation of schools, teacher training and purchase of teaching materials and books for school libraries; and developing school communities at the local level. All of the resources allocated for school renovations have now been committed, 18,000 teachers have received training, maintenance systems have been set up in refurbished schools, and various activities have been carried out to strengthen local school communities at the local level.

4. Program of investment in social services at the local level  
(loan 658/OC-VE)

- 1.17 Among the activities financed under this program is an effort to modernize fiscal management at the state and municipal level by means of a pilot program on financial administration, and state and municipal government investment projects involving the social sector and basic infrastructure (in health, education, urban streets, environmental sanitation and the provision of community social facilities). The funding for this program has now been fully disbursed and most of the resources committed.

5. Program for management of the principal highway system  
(Highway III, loan 732/OC-VE)

- 1.18 The "Highway III Program", which is being carried out by the Ministry of Transport and Communications, seeks to reduce transportation costs through the design and implementation of policy reforms for the subsector, plus institutional development of the Highway Department of that ministry. This program will be directly enhanced by the activities to be carried out under the present operation as part of the modernization of the MTC.

6. Strengthening of financial administration in the states  
(VE-0087)

- 1.19 This program is in preparation and will provide support for the following activities: (i) strengthening of the Regional Budget Sector Directorate of the Central Budget Office (OCEPRE), which is the governing body responsible for the regional budget system; (ii) development and implementation of integrated financial administration systems (including at least budget, finance and accounting) in Venezuelan states; (iii) establishment of a national financial information system in the OCEPRE, accessible by the national accounts, the fiscal statistics system, and the general public; and (iv) harmonization of national standards governing state budget and accounting management.
- 1.20 The proposed program will complement the initiatives mentioned in the preceding paragraphs, which cover various sectors, by financing pilot projects for privatization, outsourcing or concessions for public services in participating states, and by establishing a

suitable framework for local supervision to ensure efficient provision of services.

F. Activities of the World Bank

- 1.21 The World Bank has also provided support for Cordiplan, the MTC and the states, through financing for activities in the present program using resources from its Technical Assistance Loan (TAL). Among the more important areas in which financing has commenced are: (i) studies relating to privatization projects in the states of Sucre and Falcón; (ii) a new regulatory framework for airports; (iii) studies on alternatives for the operation of air navigation services; and (iv) consultants to start the present program. In addition, the World Bank administered a grant from the Government of Japan for privatization efforts and concessions for public services in the state of Sucre.
- 1.22 The present operation has been developed through close cooperation between the two institutions, sharing the costs, collaborating with design studies, and working closely with the World Bank project team in preparing the loan agreements and documents.

## II. THE PROGRAM

### A. Objectives

- 2.1 The overall objective of the program is to support the decentralization process by creating an environment conducive to efficient delivery of quality services. The specific objectives of the program are: (i) to support the decentralization process by helping to finance pilot projects for privatization, outsourcing, or granting of concessions to operate public services; (ii) to strengthen the supervisory and monitoring capacity of states participating in programs for the concession, outsourcing or privatization of services; and (iii) to provide the central government with appropriate support for this process through modernization and restructuring of its institutional framework, using the MTC pilot project as a model. For the Bank itself, this program and its working modality involving the active participation of the states will be instrumental in paving the way for supporting different projects and activities to be devised in other areas and sectors.

### B. Description

- 2.2 The program consists of a technical-cooperation loan to provide support in three principal areas which are described in the following paragraphs:

1. Outsourcing and privatization/granting of concessions by the states

- 2.3 This component will provide support for state governments participating in the design and implementation of a strategy for the transfer of investment operations and responsibilities to the private sector, as well as in the drafting of innovative agreements with NGOs, community groups and other organized bodies of civil society for the functioning and operation of public services. Under this component, the Bank will channel its support to: (i) structuring and implementation of transactions (i.e., consulting services for carrying out concession or privatization projects, strategic asset sales, plans for worker or public participation in the capital of privatized businesses, organizing auctions, preparing information papers, bidding documents and contracts; and technical assistance for awarding concessions or contracts for management of operations); (ii) strengthening the capacity of governments to design and implement suitable regulatory frameworks for transactions, with a view to maximizing their value (e.g. consulting services, information systems, training); and (iii) reinforcing the capacity of governments to monitor and control services provided under contracts that have been outsourced or that are operated as concessions, as well as developing

strategies for social communications to inform the beneficiaries about the program. The technical assistance provided is expected to result in completion of at least three major transactions involving the privatization or outsourcing of services or operating them as concessions in each of the participating states.

- 2.4 The states participating in the program have been chosen on the basis of: (i) their political commitment to seeking methods for privatizing, awarding concessions or outsourcing public services with civil society organizations so that they can be delivered more efficiently with better service as demonstrated in initiatives already under way; (ii) their potential for such activities and actual need (additionality for assistance); and (iii) their willingness to enter into a commitment for repayment of program resources. The states initially selected, and which have participated in the preparation of this pilot program, are Falcón, Mérida and Aragua, although there is still the possibility of adding at least one more state as well. It should be noted that the state of Sucre is also part of this initiative, although the main operations were already financed with resources from the Global Preinvestment Technical Assistance Program and a grant from the Government of Japan administered by the World Bank. This experience has been very useful in the conceptual design of this program and will prove even more so in supporting (i.e. by means of case studies, participation in seminars, field visits) and disseminating information on experiences gained – particularly in the concession or sale of assets in the areas of mining, tourism, seaports and airports.

2. Facilitation of efforts to decentralize and modernize administration of the central government

- 2.5 This component will include support for reform of the national government on the basis of the MTC pilot project, while conducting a series of preparatory studies for more extensive reform of the public sector. The MTC is one of the ministries most severely affected by the transfer of responsibilities, yet its institutional organization and personnel roster have retained the same structure and size as under the former system. Hence, the vital task of reorganizing the MTC as an institution remains – indeed, Cordiplan has already begun this task by preparing a restructuring plan which was approved by Venezuela's Cabinet in 1997. This plan provides for: (i) a proposal for institutional restructuring of both the MTC itself and its decentralized bodies, according to its new regulatory functions; (ii) a plan for rationalization of assets that identifies and arranges for the transfer or sale of those not germane to the MTC's new functions; (iii) a staff rationalization plan, including an audit of positions, identification of redundant staff fulfilling the conditions for retirement, 1/ and proposals

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1/ The program is limited to financing for technical assistance. Any payment of employee benefits under this plan will be covered with funds made available for this purpose by the Ministry of Finance.

for retraining and job placement; and (iv) a Master Plan for the Transport Sector.

- 2.6 Basically, the MTC operation will serve as a starting point for developing a broader program of reforms to modernize the central administration as a whole, as well as supplementing and facilitating the decentralization process which is being led by the state governments. To sum up, the technical cooperation for the MTC will focus on: (i) development and implementation of strategies for rationalizing the organizational structure of the ministry, studies on methods of assisting redundant employees, personnel audits, reengineering of procedures, and support for ongoing decentralization efforts; (ii) training and rationalization of personnel; (iii) strengthening of regulatory functions and capabilities; and (iv) design and implementation of information and communications systems to facilitate the monitoring, management and evaluation of the processes taking place.
- 2.7 It should be noted as well that the Bank is planning to grant approval in the first half of 1998 for a project under Facility I of the Multilateral Investment Fund (MIF) aimed at strengthening the institutional capacity and regulatory functions of the new Office for Supervision of Public Service Concessions, attached to the MTC. Development under the present program of a new institutional structure and regulatory framework for the transport sector will make it possible to carry out suitable procedures for the granting of concessions in Venezuela, creating ground rules that are clear and consistent across the country.

### 3. Program coordination

- 2.8 Cordiplan will be responsible for coordination of the project, and will provide support for monitoring the progress of reforms, overseeing contract performance, supervising disbursements, preparing semiannual progress reports, and offering assistance to the Bank during monitoring missions.
- 2.9 This Unit will be aided by a team of consultants on decentralization, which will include a national coordinator for state reforms, an expert on institutional/legal affairs, an expert in the design of participation schemes for divestment, and various sector specialists. The team of consultants will work in all of the participating states, spreading the results of successful initiatives and preparing preliminary schedules for rationalization of investments, privatization operations, concessions and participation agreements with civil society for delivery of public services - all made to accommodate the needs of each state, including the preparation of schedules for program execution and training of executing units at the state level. To provide support for projects to modernize the MTC and reform public administration in general, the Unit will have a team of two experts in institutional restructuring and state modernization.

C. Costs and financing

- 2.10 The total cost of the program will be US\$19 million. Of this amount US\$16 million will be in the form of external financing, of which US\$8 million will be provided by the IDB, with a similar amount from the World Bank, as shown in the following table 2/:

Area or component	IDB	WB 3/	States	National government	Total
<b>Operations in participating states</b>	<b>5,690</b>	<b>5,690</b>	<b>1,110</b>		<b>12,490</b>
Dissemination of activities	60	60			120
Institutional support for RUs			1,040		1,040
Team of experts on privatization, outsourcing, concessions	370	370			740
Regulatory support	420	420			840
Studies for operations in Aragua	1,060	1,060			2,120
Studies for operations in Falcón	980	980	70		2,030
Studies for operations in Mérida	1,450	1,450			2,900
Studies for operations to be carried out in other states	1,350	1,350			2,700
<b>Government reforms and decentralization carried out at the national level</b>	<b>1,330</b>	<b>1,330</b>		<b>1,490</b>	<b>4,150</b>
Modernization of MTC institutions	330	330		530	990
Program to rationalize the physical and human resources of the MTC	200	200		290	690
Studies for modernization of the public sector	670	670		670	2,010
Team of experts on state modernization	130	130		200	430
<b>Coordination</b>	<b>490</b>	<b>490</b>		<b>180</b>	<b>1,160</b>
Program coordinating unit (Cordiplan)	490	490		180	1,160
<b>Financial expenses 4/</b>	<b>80</b>	<b>0</b>		<b>70</b>	<b>150</b>
<b>Contingencies</b>	<b>410</b>	<b>490</b>	<b>50</b>	<b>100</b>	<b>1,050</b>
<b>Total</b>	<b>8,000</b>	<b>8,000</b>	<b>1,160</b>	<b>1,840</b>	<b>19,000</b>

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- 2/ The budget broken down according to the Bank's accounting classifications are available in the RE3/OD5 technical files.
- 3/ Plans call for cofinancing with the World Bank of the various components of the program, with each Bank taking on specific groups of technical assistance operations, as noted in the budget and the procurement plan.
- 4/ Interest on the loan will not be paid out of the proceeds of the IDB financing and will be paid by the Government of Venezuela out of its own resources.

D. Financing terms and conditions

- 2.11 The IDB funding for this program will be drawn on the Single Currency Facility of the ordinary capital. The financing will be provided for fifteen (15) years at a variable rate of interest. The inspection and supervision fee will be 1% and the credit fee 0.75% per annum on undisbursed balances.

### III. EXECUTION OF THE PROGRAM

#### A. Institutional and organization framework

##### 1. The borrower and the executing agency

- 3.1 The borrower and guarantor of the present operation will be the Republic of Venezuela. Execution of the program and utilization of the loan resources will be carried out by the Republic of Venezuela through Cordiplan, which will have as coexecuting agencies at the national level, the Ministry of Transport and Communications, and at the local level, the governments of the states of Aragua, Mérida and Falcón, with the possible participation of another state as well. The following section describes the different levels of responsibility for execution of the program.

##### 2. Levels of responsibility

###### a. Program management

- 3.2 This level is represented by an oversight committee, the members of which include the Minister for Cordiplan, a representative of the Presidential Commission for Coordination and Monitoring of Public Service Restructuring, the Minister of Transport and Communications, and the governors of the participating states. The committee will serve as the top decision-making body, with responsibility for promotion, coordination and supervision of the program. The members of the committee may designate alternate representatives with full decision-making power in matters relating to the program.
- 3.3 The primary duties of the oversight committee will be: (i) to review and revise the annual operating plans (AOPs) and determine the guidelines for the program's annual budget; (ii) to evaluate the management performance of the Program Coordinating Unit to ensure that objectives are met and operations are properly executed; (iii) to review and issue opinions on the activities financed with program resources, based on confirming the extent to which they match the AOPs and program objectives; and (iv) to coordinate and supervise execution of the program. The executing agency established this committee by virtue of a ministerial resolution. As a contractual condition, the borrower will be required to maintain this level of management and these same levels of responsibility.

###### b. Execution of the program

- 3.4 The program is to be executed by Cordiplan, which will create a Program Coordinating Unit with exclusive responsibility for resources provided by the IDB loan and the World Bank. This unit



will coordinate the project and provide support for monitoring the progress of the reforms, supervise contract performance, oversee disbursements, prepare semi-annual progress reports and offer assistance to the Bank during its monitoring missions.

- 3.5 The functions of PCU will be as follows: (i) to coordinate the program; (ii) to support and monitor the modernization and decentralization of the public sector through regional units (RUs); (iii) to provide support for the identification of assets to be privatized or operated under concessions, and areas in which public services can be made more efficient through outsourcing, etc.; (iv) to represent the federal government in matters regarding performance under subsidiary participation agreements (SPAs) signed with participating states; (v) to carry out all of the steps necessary to guarantee timely availability of the resources contributed by the federal government; (vi) to submit to the Bank the terms of reference prepared by the RUs for consultants, whose contracts exceed the thresholds fixed for the program (see paragraph 3.18); these terms of reference will describe the parameters of the technical studies needed; and (vii) to prepare the APOs and semi-annual progress reports in order to keep the Oversight Committee and the Banks informed.

c. Program implementation in the states

- 3.6 A regional unit (RU) will be created within each participating state's government, and will serve as the contact point between the PCU and the respective state. The primary duties of the RU will be: (i) to represent the state government regarding the performance of SPAs signed with the federal government; (ii) to prepare the documentation required by the Banks for replenishment of funds in the Special Account established for management of the program's resources; (iii) to draft terms of reference outlining the scope of the technical studies; (iv) to proceed with the awarding of contracts to consultants and consulting firms, in accordance with the Bank's procedures; (v) to supervise and approve the studies conducted by the consultants and consulting firms; (vi) to draw up annual operating plans and semi-annual progress reports for the respective state; and (vii) to handle relations with fiduciary agents (i.e. recruitment and hiring of the agent, negotiating the trust agreement, ordering the transfer of funds to agents, etc.).

B. Subsidiary participation agreements

- 3.7 Subsidiary participation agreements will be signed between the national government and the states which will specify the obligations assumed with respect to implementation of the program, and the conditions governing the transfer of resources between the two levels of government. As a contractual condition, the borrower will be required to enter into subsidiary participation agreements with eligible states participating in the project.

C. Investment schedule

- 3.8 The investment schedule for the operation is set forth in the following table:

DISBURSEMENT SCHEDULE FOR THE PROGRAM (in thousands of US\$)					
YEAR	IDB	WB	LOCAL	TOTAL	%
1	1,890	1,890	720	4,500	24
2	2,856	2,856	1,088	6,800	36
3	3,254	3,254	1,192	7,700	40
TOTAL	8,000	8,000	3,000	19,000	100
%	42	42	16	100	

D. Eligibility criteria

1. For the states

- 3.9 So far three states have been identified as participants, but given its budget and approach the program could be expanded to include a total of approximately four states. To participate, states must: (i) demonstrate a political commitment to seek the means to grant concessions, privatize or outsource public services to civil society organizations so that these services will be delivered more efficiently, through initiatives already under way; (ii) submit a formal list of activities to be financed, indicating the potential for carrying out privatizations or awarding concessions for or outsourcing services as a result of the financing of said activities; and (iii) be prepared to sign a subsidiary participation agreement. As contractual conditions, the borrower will be required (i) to verify that the states participating in the project satisfy these requirements, and (ii) to reach agreement with the Bank on the participating states prior to signature of the subsidiary participation agreements.

2. For activities to be financed under the loan

- 3.10 Only technical-cooperation activities meeting the following general requirements will be eligible for funding under the financing provided to states: (i) consulting services for the design of transactions 5/ involving the subcontracting of public services,

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5/ The transactions to be financed will be in sectors which have no regulatory problems or, where such problems exist, which can demonstrate that a national strategy for reform already exists.

privatization projects or awarding of concessions, including the development of a sales strategy, organization of auctions, devising of plans for participation by the private sector or civil society in the provision of services, preparation of contracts and bidding documents, and assistance for the negotiation and concluding of contracts; and (ii) consulting services and training for institutional strengthening of state governments so that they are able to organize transactions of the type just mentioned, and upgrade supervisory and monitoring capacity to ensure the sustainability of initiatives involving concessions, privatization projects and outsourcing.

E. Action plan and annual operating plans

- 3.11 The technical cooperation will be carried out in accordance with an action plan prepared by the executing agency and agreed on with the Banks. This plan contains the guidelines for implementing the program as well as the administrative and financial arrangements. In addition, the executing agency will submit annual plans of operations (APOs) which must be consistent with the information supplied by the MTC and the RUs set up in participating states. The APOs will contain information on: (i) the sequencing of activities to be carried out during the year aimed at improving delivery of public services through subcontracting, privatization or operation of state assets under concessions; (ii) the sequencing of activities for the institutional restructuring of the MTC; (iii) the specific studies for modernization of the public sector; (iv) the specific goals and objectives to be accomplished by means of the activities carried out; and (v) the expenditures to be incurred, purchase of goods, hiring of consultants and training activities to be carried out. The borrower will be required to present through the executing agency, 45 days prior to the close of each year of project execution, an annual plan of operations containing the information described above.

F. Environmental and social impact, and proposed corrective measures

- 3.12 One of the aims of this program is to improve regulatory and supervisory functions among decentralized entities, so that they are better able to enforce existing standards for the different public services. To this end, the review, updating and issuance of new legal instruments will ensure that they include clear and specialized provisions governing the treatment and handling of the environmental effects occurring in each sector. Strengthening the capacity of states to supervise and monitor the services that are outsourced or operated under concessions through their regulatory structures or units will enable them to give all due consideration to the need to enforce compliance with environmental standards. However, it is important to remember that responsibility for environmental enforcement lies primarily with the Ministry of the Environment and Natural Resources (MARNR).

- 3.13 To ensure that these benefits are achieved, the Bank hired a specialized consultant during the analysis phase of the program to prepare a manual of operations for environmental and social issues that will be duly applied during execution of this operation. This manual incorporates the recommendations made by CESI, identifies the principal types of studies and consultants to be financed under the program, and provides direction for the PCU regarding: (i) terms of reference for environmental and social impact studies and surveying of environmental or social liabilities in the case of operations under way, including determining responsibility for purposes of incorporating this factor into contract documents; (ii) current national legislation on the environment and requirements for environmental permits and other pertinent procedures; and (iii) implementation of mechanisms for social participation to improve the level of control and monitoring of the quality and impact of services by the local population. In addition, this technical-cooperation operation will finance training events and distribution of the manual within the central administration and in participating states. All events will place special emphasis on encouraging participation by civil society and women in privatization and outsourcing projects.

G. Conditions precedent to the first disbursement

- 3.14 Before the first disbursement is made under the program, the borrower shall demonstrate that: (i) a subsidiary participation agreement has been signed with at least one of the participating states, and (ii) a financial administration system has been set up for the project to reflect the accounts, records, operations, resources, and expenses of the project in accordance with the terms and conditions previously agreed on with the Bank.

H. Supervision

- 3.15 Following successful completion of the design phase of the program, the two banks will work together to supervise the operation, sharing information and optimizing administrative missions and contacts with the PCU. Within the IDB, responsibility for this loan falls primarily on the Bank's Country Office in Venezuela, whereas the project team which prepared the operation remains technically responsible - which will greatly simplify coordination with the World Bank in Washington. This coordination will be fundamental to the learning process for management of large-scale programs that build on this pilot program, especially in the area of modernization of the state, and to expand this experience to Venezuela's other states.
- 3.16 Through the PCU, the borrower will submit a report to the banks every six months describing the progress of the action plan and the APOs agreed on. In addition, the PCU will be required to submit a final report within 60 days of the date on which the term for disbursement of the financing expires. This report will include a

summary of the work completed and the outcomes achieved, based on the methodology and in accordance with the guidelines agreed on with the Bank.

- 3.17 By means of monitoring missions conducted in coordination with the World Bank, the IDB will evaluate the implementation of the processes begun with the studies financed by the program. Eighteen months after the effective date of the contract, the banks and the government will perform an evaluation of program execution. If any significant deficiencies are found, the banks will withhold authorization for the commitment of additional funds until corrective measures have been taken.

I. Other aspects of program execution

1. Procedures for hiring consulting services and procurement of goods

- 3.18 A number of individual, short-term consultants will need to be hired to carry out some of the proposed activities for the program. To streamline the hiring process and simplify procedures for the two banks, it is recommended that contracts valued at up to the equivalent of US\$50,000 in the case of individual consultants and of US\$100,000 in the case of consulting firms be let directly by the executing agency or co-executing agencies. This would make it unnecessary to submit either terms of reference or short lists of qualified bidders to the Banks for approval. In all cases, the executing agency will need to provide the banks with ex post notification of contract awards and retain all necessary supporting documentation for review by either bank upon request. In preparing the AOPs, the use made of this mechanism will be evaluated to decide whether or not it should continue to be used. An evaluation will be made as well of the PCU's capacity to award contracts in this manner, and a sampling system will be devised and used by the IDB's Country Office as part of the ex post review process accepted for this contracting arrangement.
- 3.19 For contracts valued at more than these thresholds, but less than US\$200,000, the executing agency will be required to submit, for the banks' nonobjection, the terms of reference, selection procedures to be used, and a short list of eligible consultants and/or consulting firms.
- 3.20 For contracts valued at more than US\$200,000, the IDB's procedures will need to be followed and a copy of these procedures will be included in Annex C to the technical-cooperation agreement. In order to streamline announcement procedures and prequalification of bidders, once the activities contained in the first AOP have been approved, the respective announcements will be forwarded to *Development Business* for publication.

- 3.21 Given the unique features of the international market for consultants specializing in privatization projects and concessions to operate public services (investments banks or consortia led by investment banks), which make price a determining factor in the awarding of contracts, it is recommended that a procedure permitting combined technical and economic evaluation of the proposals be adopted for contracts valued at over US\$200,000. The invitations to submit proposals in such cases will need to specify that price is a determining factor in the evaluation process. This will ensure that the procedures for selection and awarding of contracts for this type of operation are substantially similar to those used by the IDB and the World Bank.
- 3.22 This program does not include significant purchases of equipment. All purchases, however, will be carried out in conformity with the procedures set out in Annex B to the loan contract. International competitive bidding will be compulsory for the procurement of goods valued in excess of US\$350,000. This threshold is justified by the fact that similar projects in Venezuela do not attract foreign bidders at amounts below this figure. Contracts valued at less than this threshold will be let in accordance with Venezuela law which requires competitive bidding for goods valued over the equivalent of US\$150,000, and limited bidding for lesser amounts.
- 3.23 If a consultant or consulting firm that is selected or has the winning bid is a firm belonging to a member country of the IBRD, that is not also a member country of the IDB, the borrower will need to use only IBRD or counterpart funds for the financing. The greater disbursement of IBRD resources in such cases will be offset through changes in the proportion of IDB-IBRD financing for other activities.

## 2. Disbursements

- 3.24 In accordance with the Bank's new procedures governing advances of funds (document CC-5411), disbursements of up to 5% of the IDB contribution under this technical cooperation loan may be made in the form of a revolving fund. To ensure that this fund is kept separate at all times, amounts will be deposited in a special account for the borrower.

## 3. External audit

- 3.25 Beginning in the first year and continuing throughout the execution period, the PCU must provide the banks with financial statements for the program, duly audited by a firm of independent public accountants.

## 4. Coordination with the World Bank

- 3.26 The following measures have been added to streamline the procedures for implementing the program: (i) similar conditions precedent to the first disbursement, (ii) similar requirements for the program action plan and the annual plans of operations, (iii) single

semiannual progress reports for the two banks, (iv) coordinated administration missions, (v) terms of reference reviewed only by the bank financing the operation requested, and (vi) standardized procedures for contracts awarded with the World Bank, including the economic variable in criteria for selecting specialized consultants.

#### IV. BENEFITS, FEASIBILITY AND RISKS OF THE PROGRAM

##### A. Benefits

- 4.1 Decentralization profoundly alters the power structure and the organization of the state, and the changes it brings do not follow a uniform pattern nor do they take place all at once. Indeed, it is a process consisting of a series of political decisions which must be firmly rooted in social consensus in order to ensure continuity of implementation. Despite the progress made in Venezuela, it is common knowledge that the formula has not yet been found which is capable of reconciling efficiency and equity in the process of decentralization, and which will permit application of the principles of interdependence and subsidiarity. Nevertheless, the present project is conclusive proof of the commitment, at the levels of both the national government and Venezuela's state governments, to seek pragmatic solutions to the problem of increasing the efficiency with which public services are provided.
- 4.2 The implementation of this program will make it possible to achieve clear improvements in the allocation of priorities and the quality of services by facilitating participation by private companies and organized groups within civil society itself (foundations, microenterprises, etc.) in the delivery of such services. The states are well positioned to identify local needs and determine the ability of consumers to pay for them.
- 4.3 The efficiency of local governments in determining priorities in public services is closely related to the democratic system and the new forms of participation by the private sector and the citizenry which this program is seeking to encourage. The exercise of a citizen's right to participate in direct elections of government authorities as an expression of approval/disapproval of their performance is a cornerstone of the decentralization process, which promotes excellence in administration of the state and seeks solutions tailored to local circumstances. Added to this, and even more important, is the addition of social participation, i.e. the mobilization of civil society in seeking solutions to the problems within one's own community, and its relationship with cooperation and control of the quality of services. At the same time, this program will guide this process through modernization of public administration at the level of the MTC (one of the agencies that has already transferred many of its functions to the states), with a focus on the regulatory and supervisory functions.

##### B. Feasibility

- 4.4 Its status as a pilot project, together with the direct participation of state governments which are at the cutting edge of the decentralization process, augers well for the feasibility of



this operation. Economic growth is picking up speed at the state level in Venezuela. This is particularly true in the states participating in this program which have led the way in this process, providing clear proof of their commitment to the modernization of government, their desire to improve the administration of public services, their capacity for innovation and their ability to raise public awareness of the benefits of state reforms. The central government is supporting these efforts and encouraging the development of this program.

- 4.5 To demonstrate the feasibility of the program, one need only examine the progress achieved by the participating states. For example, in the state of Falcón various seminars and workshops on privatization have been held for state officials involved in the reform process; tourism facilities have been sold, one highway concession has been awarded and a concession for operation of port facilities is being prepared with resources provided under the Global Preinvestment Technical Assistance Program. In addition, the state of Aragua has moved forward in awarding contracts to NGOs and foundations for the provision of social services (two hospitals and services for young offenders), and the state of Mérida has done the same with certain types of medical care services.

C. Risks inherent in the operation

1. Ability to carry out the program

- 4.6 The Bank's experience with the execution of projects in Venezuela has presented certain difficulties, including projects in which the states have participated, such as in the case of PROINSOL (administered by FONVIS). Based on the lessons learned from this experience, it is recommended that support be maintained for programs which are comparatively small, narrowly-targeted and designed to obtain tangible results in a relatively short period. In order to prevent problems in the execution of this program, resources from the Global Preinvestment Technical Assistance Program were used to hire institutional and legal consulting services to find a suitable operating plan for implementing the program.
- 4.7 Moreover, in the case of the MTC modernization component, one major risk concerns the capacity of the MTC itself to execute a program of this sort, considering that the pace in implementing other programs with the Bank (i.e. Highway III) has been slow and complex. To which must be added a series of operational problems which require immediate attention (i.e. in the airport sector, Caracas-La Guaira concession, etc.). To mitigate possible difficulties in executing this component, the Program Coordinating Unit will take charge of works related to the MTC.

2. Innovative character of the program

- 4.8 Another risk lies in the innovative nature of this program which relies heavily on participation by states that continue to suffer from weak institutions at all levels from the planning to program execution stage, and including the drafting of borrowing arrangements. In order to avoid possible operational problems, the program provides for: (i) strong support during the execution stage through a coordinating component that will seek to create and reinforce the institutional capacity of the states; and (ii) the establishment of subsidiary participation agreements, in which the rights and obligations of the parties will be clearly established.

**PILOT PROGRAM FOR DECENTRALIZATION AND  
MODERNIZATION OF GOVERNMENT  
LOGICAL FRAMEWORK**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>improve efficiency in the administration of enterprises, infrastructure and public services and to promote participation by private enterprises</p>	<p>1.1 Increase production</p> <p>1.1.2 Increase private investment in concessions/privatization</p>	<p>1.1.1 Monitoring of reports from the PCU</p> <p>1.1.2 Annual reports from firms/concessionaires</p>	<p>Government willingness to pursue strategy to develop the private sector</p>
<p>improve the fiscal and financial situation of participating in the pilot project</p>	<p>1.2.1 Payments received for concessions</p> <p>1.2.2 Fees from users and/or income</p> <p>1.2.3 Primary responsibility for investment in concessions/privatization transferred to the private sector</p>	<p>1.2.1 Financial reports and state budget</p> <p>1.2.3 Concession contracts</p> <p>1.2.4 State budget performance</p>	<p>Government's commitment to a strategy for modernizing the public sector in order to rationalize institutional structures, roles and sizes</p>
<p>strengthen the regulatory framework and standards in transport subsectors</p>	<p>2.1 Legal and regulatory framework adopted by the airport sector and other possible transport subsectors</p>	<p>2.1 Legal and regulatory framework approved by the legislature</p>	<p>Government's commitment to the decentralization process</p>
<p>reorganize institutional structures</p>	<p>2.2 Restructuring plan approved and structural efficiency adopted within 18 months into the project</p>	<p>2.2 Reports from consultants</p>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Privatization program adopted in states and implemented in pilot project</p> <p>Governments develop the capacity to manage private sector participation, and to evaluate and monitor the contracts</p>	<p>1.1 Plan for privatization/granting of concessions for state infrastructure projects and productive activities (prepared in month 5)</p> <p>1.2 Documents for the first major bidding competition in Falcón must be drawn up by month 2, and by December 1998 for Aragua and Mérida</p> <p>1.3 The first major transaction in Falcón must be implemented by month 24 and by month 30 in Aragua and Mérida</p> <p>1.4 Three transactions need to be completed in each state by month 36</p> <p>2.1 Training in privatization for key personnel to be carried out by month 12</p> <p>2.2 Coordination units in operation by month 1</p> <p>2.3 Supervisory units to be in operation by month 12</p>	<p>1.1 Privatization programs, personnel and individual consultants up and running</p> <p>1.2.1 TOR, consultants' contracts, investment banks, specialized companies and legal counsel, consultants' reports</p> <p>1.2.2 Specific transactions for social/environmental impact assessments</p> <p>1.3 Bidding competitions, public participation plans, concession contracts</p> <p>1.4 Contracts signed</p> <p>2.1 Training schedules</p> <p>2.2 Consultants' reports, purchase and operation of equipment</p> <p>2.3 System of control and evaluation, consultants' reports</p>	<p>Participation by the private sector, transparency and responsibility</p> <p>Support from the national government in handling problems (legal, financial, institutional, etc.)</p> <p>Sustainable mechanisms for monitoring and control</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>ening for participation by workers and ety, and development of productive in states participating in the pilot</p> <p>ment of a new relationship between the state governments and the national ent</p> <p>ulatory framework in the airport sector</p> <p>ulatory agency for the airport sector</p> <p>ze the structures and personnel of the d other entities</p> <p>ment's action plan to modernize the ector, government initiatives in priority</p>	<p>3.1 Local population participating in ownership of a portion of privatized activities</p> <p>3.2 Establishment of small businesses and micro-enterprises to provide services under outsourcing arrangements</p> <p>5. Legal, institutional and regulatory framework for the airport sector implemented by month 30</p> <p>6. New regulatory agency in operation with sufficient budget and autonomy</p> <p>7. Number of agencies consolidated and reductions in force</p>	<p>3.1 Plan for public participation in privatized activities</p> <p>3.2 Number of microenterprises created and active participation by women</p> <p>4.1 Subsidiary participation agreement</p> <p>4.2 Record of disbursements</p> <p>5.1 TOR, list and contracts for companies to provide specialized legal advice on regulatory framework</p> <p>5.2 Draft of competent institutional and regulatory framework</p> <p>6. Approval by the legislature</p> <p>7. Reports from consultants and the PCU</p> <p>8. Studies and action plans</p>	<p>Little protection for shareholders</p> <p>Willingness to allow regulatory a be independent (including finan autonomy)</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>1. Privatization among state governments — states participating in the pilot project (Aragua, Falcón, and one other to be identified — Sucre at the institutional level)</p> <p>2. Implementation of transactions in privatization programs, sales strategy for sale of shares; organize auctions; reports, bidding documents and contracts; and provide support in negotiations)</p> <p>3. Strengthening the capacity of subnational governments to design and implement privatization programs, supervise contracts and evaluate transactions, and create an institutional and regulatory framework that will ensure the sustainability of initiatives</p> <p>4. Decentralization of the central government (beneficiaries, MTC, Cordiplan)</p> <p>5. Institutional strengthening - supervision, monitoring and evaluation and administration of</p>	<p>1. Privatization among state governments, including:</p> <ul style="list-style-type: none"> <li>- Training for transparent and responsible privatization</li> <li>- Long-term consultants to help design and administer the privatization program, and short-term specialists to support specific sectors</li> <li>- Investment banks and specialized companies will develop privatization/concession strategies and organize/administer the international bidding process</li> <li>- Local and international legal consulting firms will prepare the concession contracts</li> <li>- Strengthening of the control system with consultants, training and equipment</li> </ul> <p>2. Decentralization and reform of the central government, including:</p> <ul style="list-style-type: none"> <li>- Local and international legal consulting firms will prepare the draft regulatory and institutional framework for the airport sector</li> </ul>	<p>1.1.1 Proposed short lists and TOR for consultants, investment banks and legal consulting firms</p> <p>1.1.2 Bidding documents and contracts</p> <p>1.1.3 Consultants' reports and design of proposals</p> <p>1.2.1 Training schedules</p> <p>1.2.2 Equipment</p> <p>1.2.3 Consultants' reports</p> <p>2.1.1 Consultants' reports and training registration</p>	<p>Weak capacity for implementation</p> <p>Lag between approval and effect</p> <p>Commitment of the state to participate</p> <p>Development of an efficient mechanism for making disbursements to the state</p> <p>Perception by the international private sector of political stability, respect for property rights and formal contracts, secure setting for investors</p> <p>Institutional instability</p> <p>Weak institutional capacity</p> <p>Lack of counterpart funds</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>a regulatory framework for seaports ports</p> <p>and personnel audits related to ing of institutions and rationalization of in target entities</p> <p>on institutional restructuring in support ogram to modernize the public sector of rnment</p> <p>tion of the project and implementation nce</p> <p>Coordinating Unit</p> <p>g team for the privatization program in s</p> <p>modernization of the public sector</p> <p>unit for Aragua</p> <p>unit for Falcón</p> <p>unit for Mérida</p> <p>unit for one additional state</p>	<ul style="list-style-type: none"> <li>- Strengthening of the supervision, regulation and evaluation capacity and the project administration, with consulting services, equipment and training</li> <li>- Auditing services and consultants to carry out studies and personnel audits, and determine staff reductions and the costs for institutional restructuring and rationalizing of functions and operations</li> </ul> <p>Project coordination and implementation of assistance</p>	<p>2.1.2.1 TOR, short list and contracts for legal consulting firms</p> <p>2.1.2.2 Draft of the regulatory framework</p> <p>2.1.3 Studies and personnel audits</p> <p>2.2 Plan of action for institutional reform, and performance indicators established</p> <p>3.1 Reports and audits by the PCU</p>	

### TENTATIVE PROCUREMENT AND CONTRACTING PLAN

Activity	Financing	Method	Prequalif.	Date
<b>Consulting firms</b>				
<b>CORDIPLAN/PCU</b>				
Group 1 ..... US\$170,000 Studies for modernization of the public sector	WB 60% LOCAL 40%	ICB	no	I/98
<b>Ministry of Transport and Communications</b>				
Group 1 ..... US\$180,000 Studies for proposed institutional restructuring	WB 60% LOCAL 40%	ICB	no	I/98
Group 2 ..... US\$192,000 Human resources audit	IDB 100%	LCB	yes	I/98
<b>State of Mérida</b>				
Group 1 ..... US\$290,000 Studies for sale of convention centers and concessions to operate wholesale market and cable railway	IDB 100%	ICB	yes	II/98
Group 2 ..... US\$160,000 Studies for highway concession	WB 100%	ICB	no	II/98
<b>State of Aragua</b>				
Group 1 ..... US\$250,000 Studies for concession to operate ports	IDB 100%	ICB	yes	II/98
Group 2 ..... US\$150,000 Studies for airport concession	WB 100%	ICB	no	II/98
<b>State of Falcón</b>				
Group 1 ..... US\$250,000 Studies for airport concession	IDB 100%	ICB	yes	II/98
Group 2 ..... US\$150,000 Studies for privatization of ports	WB 100%	ICB	no	I/98

**Notes:**

- Dates refer to first or second half of the year.
- ICB = international competitive bidding  
LCB = local competitive bidding
- A large number and variety of individual consultants, both local and international, will be hired for this program.
- The activities described here cover year one of the program. Full details of the remaining activities will be furnished in the APOs for years two and three.



PROPOSED RESOLUTION

VENEZUELA. TECHNICAL COOPERATION LOAN /OC-VE TO THE REPUBLICA DE VENEZUELA  
(Pilot Program for Decentralization and Modernization of Government)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Venezuela, as Borrower, for the purpose of granting a technical cooperation loan to cooperate in the execution of the Pilot Program for Decentralization and Modernization of Government. Such financing will be for the amount of eight million dollars of the United States of America (US\$8,000,000) from the Single Currency Facility of the Ordinary Capital Resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.