

BUDGETARY PROCESS AND ECONOMIC POLICY ANALYSIS SUPPORT PROGRAM

(VE-0050)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Venezuela

EXECUTING AGENCY: The Congress and the Ministry of Finance

AMOUNT AND SOURCE: IDB: US\$6.4 million (OC)
Local counterpart funding: US\$2.1 million
Total: US\$8.5 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Disbursement period: 4 years
Interest rate: Variable
Inspection and supervision: 1%
Credit fee: 0.75%

OBJECTIVES: The overall program objective is to strengthen the capacity of the Venezuelan State to formulate, analyze and monitor macroeconomic policy, achieving consistency between fiscal and monetary-financial variables and ensuring follow-up in the nonfinancial sector.

DESCRIPTION: The program will be structured in two self-contained components, providing technical assistance and financing to set up and place in operation two macroeconomic and fiscal advisory units, as follows:

(i) A **Macroeconomic Analysis Unit (MAU)** attached to the Congress, designed to create institutional capacity within the legislative branch for analysis of fiscal policy and its macroeconomic impact. The MAU's principal functions will be as follows: (a) analysis of the policy consistency and macroeconomic impact of the Budget Act and the Public Credit Act within the overall context of the government's economic program; (b) monitoring and evaluation of fiscal management in the consolidated public sector and its macroeconomic impact; and (c) evaluation of the potential fiscal impact of legislation now being drafted or amended.

- (ii) Office of Macroeconomic Programming and Analysis (OMPA) attached to the Ministry of Finance, designed to remedy the institutional weakness within the Executive Branch with regard to programming and monitoring in monetary-financial and fiscal matters and matters relating to the nonfinancial sector. An advisory body will be set up under this component to serve Ministry of Finance needs in connection with these issues.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of April 8, 1996, classified this as a Category II operation.

BENEFITS:

In the short term: (i) development of capacity for macroeconomic analysis within the Ministry of Finance, to equip it to deal with the challenges posed by the current economic policy environment in general and the IMF agreement in particular; and (ii) provision of technical support to the Congress to assist in analysis of the draft 1997 Budget Act and Public Credit Act.

In the long term: (i) institutional consolidation of capacity for macroeconomic analysis within the Executive and Legislative Branches, to provide for ongoing monitoring of economic variables; (ii) support for fiscal prudence within the Legislative Branch, through the capacity to analyze the fiscal impact of legal measures now under discussion; and (iii) improvements in communication and coordination at the technical level between: (a) the Legislative and Executive Branches, and (b) the appropriate offices of the Executive Branch (Ministry of Finance, central bank and the national oil company) in connection with economic issues; and (iv) a new legal system governing public finance.

RISKS:

The proposed operation involves the following risks:

- (i) The possibility that the units created are not made part of the permanent institutional structure. This risk has been minimized by making the operation's presentation to the Board conditional on prior legal establishment of the OMPA and the MAU by decree and by a congressional decision, respectively.
- (ii) There is a potential for institutional conflict in connection with leadership in macroeconomic programming, owing mainly to overlapping legal powers of various State institutions. This

risk has been minimized by having the decree creating the OMPA provide for the simultaneous creation of a Macroeconomic Programming and Analysis Commission made up of representatives of the Ministry of Finance, the central bank, the national oil company, the Ministry of Energy and Mines, the Planning Office, and the Ministry of Development, as well as the Chief of the Central Budget Office.

- (iii) There is a risk that the staff of the units may not possess a high level of professionalism and technical skill. This risk is expected to be minimized through the staff selection process. Professionals for both units will be selected by the unit coordinators through public competition, subject to the Bank's nonobjection. The appointment and contract renewal of the MAU coordinator will require approval by two thirds of the members of the legislative body designated to this end.

**THE BANK'S
COUNTRY STRATEGY:**

The proposed operation is consistent with the Bank's country strategy, which focuses on three main areas: (i) modernization of the State, including strengthening of the budgetary process; (ii) support for crisis resolution in the financial sector through the design and implementation of appropriate supervision mechanisms; and (iii) support for social sectors and the environment in priority areas through operations targeted to low-income groups. The project proposed herein is one element in the area of modernization of the State, as a first step in public sector reform initiatives. In the Bank's project pipeline are operations to support (i) public sector reform, with three components: administrative reform, human resources, and support for decentralization, including privatization efforts; (ii) an increase in public revenues, by bringing customs operations into the tax administration (SENIAT-II); and (iii) social security reform.

**CONTRACTING OF
GOODS AND
SERVICES:**

The loan proceeds will not be used to carry out works, and the procurement of computer equipment valued in excess of US\$350,000 will be subject to international competitive bidding; below that amount, procurement will take place in accordance with national guidelines.

**APPROVAL
PROCEDURE:**

Pursuant to Part III, Section 2(a), of the Regulations of the Board of Executive Directors, this operation is to be submitted for consideration by the Committee of the Whole.

I. BACKGROUND

A. The macroeconomic setting

- 1.1 Venezuela's macroeconomic imbalances have been exacerbated since 1992 by the effects of, and consequent policy response to, a series of shocks: *inter alia*, two attempted military coups in 1992, the impeachment of the President in 1993, and a severe banking crisis in 1994. Halfway through 1994, the government imposed foreign exchange controls in the form of a fixed exchange rate, coupled with a series of selective price controls. However, falling international reserves and an onerous debt service burden led the authorities to redefine their macroeconomic policy in late 1995, including the initiation of formal talks with the International Monetary Fund. Subsequently, in April 1996, the authorities adjusted the domestic price for gasoline and freed up interest and exchange rates, and in May 1996, the government signed a 12-month standby agreement with the IMF.

B. Background of the program

- 1.2 The government's efforts to stabilize macroeconomic variables and foster growth have been hindered by institutional weaknesses in economic analysis and programming. In addition, the Legislative Branch has no unit that is expressly responsible for evaluating overall economic performance and advising on fiscal and financial policy. Moreover, the Executive Branch institutions responsible for performing these functions have been weakened, both by the lack of permanent technical teams with relevant experience (as a result of low public sector pay levels) and by the lack of legal mechanisms to ensure coordination among the institutions involved in monetary and financial programming. The situation as it stands, then, features problems with the coordination of economic policy, both within the Executive Branch and between the Executive and Legislative Branch. In addition, there is no entity exclusively responsible for macroeconomic programming that would bring together the efforts of the various units taking part in the preparation of economic policy. Finally, the Congress has no unit to advise it on fiscal and budgetary policy issues, including the projected potential fiscal impact of the bills of law placed before it. These weaknesses have been recognized by the Venezuelan authorities and must be remedied as soon as possible in order to deal with the major economic policy challenges now facing the country.
- 1.3 The Congress has expressed interest to the Bank in creating a technical office specializing in macroeconomic analysis, with particular emphasis on fiscal issues. This would lead to greater transparency in the budgetary process and would contribute significantly to enhance discussion of macroeconomic issues between the Executive and Legislative Branches. This office would also

assist in amending the Budget Act and designing a new organizational structure for public finance.

- 1.4 In addition, there is a consensus among the Venezuelan authorities that fiscal and financial programming would benefit greatly if the creation of this unit in the Congress were accompanied by the creation of another office attached to the Ministry of Finance, which would be responsible for consolidated financial programming and macroeconomic analysis for the public sector and the economy as a whole. This office would also assist in amending the Budget Act and designing a new organizational structure for public finance. Both units would have to coordinate their work with their counterparts at the central bank, the Planning Office, the national oil company, and the other public institutions concerned. These offices will also be responsible for monitoring compliance with commitments to multilateral institutions, within their sphere of competence.
- 1.5 These specialized offices will complement the integrated system for public finance management and control (SIGECOF), which was designed to integrate and modernize the systems involved in financial administration in the public sector.

C. The Bank's country strategy

- 1.6 The proposed operation is consistent with the Bank's country strategy, which focuses on three main areas: (i) modernization of the State, including strengthening of the budgetary process and measures to make the State apparatus more effective; (ii) support for crisis resolution in the financial sector through the design and implementation of appropriate supervision mechanisms; and (iii) support for social sectors and the environment in priority areas through operations targeted to low-income groups. The proposed project, as the first stage of public sector reform, will contribute to the modernization of the State. The Bank's project pipeline includes: (i) public sector reform, with three subcomponents: administrative reform, human resources, and support for decentralization, including privatization initiatives; (ii) improving public revenues by merging customs with the tax administration (SENIAT-II); and (iii) social security reform.

D. The country's request

- 1.7 On November 16, 1995, the Speaker of the House of Representatives, the Minister of Finance, and the Bank signed an aide-mémoire containing a request for Bank support for the technical-cooperation program outlined herein.

II. OBJECTIVES

A. General objective

- 2.1 The general program objective is to strengthen the capacity of the Venezuelan State to formulate, analyze and monitor macroeconomic policy by achieving consistency between fiscal and monetary-financial variables and ensuring follow-up in the nonfinancial sector.

B. Specific objectives

- 2.2 In order to attain the aforesaid general objective, the program will seek to achieve the following specific objectives:
- a. Development of institutional capacity within the Legislative Branch to monitor macroeconomic developments, with special emphasis on fiscal and budget issues.
 - b. Institutional strengthening of the Ministry of Finance to improve technical instruments and mechanisms available for the formulation, programming, coordination and monitoring of fiscal, monetary and financial policy, as well as monitoring of the nonfinancial sector of the economy.

III. PROGRAM DESCRIPTION

A. Program structure

- 3.1 The program will be structured in two self-contained components, providing technical assistance and financing to set up and place in operation two macroeconomic and fiscal advisory units, as follows: a Macroeconomic Analysis Unit (MAU) attached to the Congress, and an Office of Macroeconomic Programming and Analysis (OMPA) attached to the Ministry of Finance.

B. Component I: Macroeconomic Analysis Unit of the Congress

- 3.2 The intention is to create institutional capacity within the Legislative Branch for the analysis of fiscal policy and its macroeconomic impact. Under this component, a Macroeconomic Analysis Unit will be created within the Congress particularly to advise the standing Finance Committees of the House of Representatives and the Senate. The MAU's major functions will be as follows:
- a. Analysis of policy consistency and macroeconomic impact of the Budget Act and the Public Credit Act, within the overall context of the government's economic program.

- b. Monitoring and evaluation of fiscal management in the consolidated public sector and its macroeconomic impact.
- c. Evaluation of the potential fiscal impact of legislation now being drafted or amended.
- d. Organization of seminars on economic trends for national and international institutions in Venezuela, in particular seminars on economic projections.
- e. Conduct of special studies at the request of various congressional committees.
- f. Coordination of studies and actions with OMPA and SIGECOF with a view to amending the Budget Act and designing a new system of public finance.

1. Component activities

3.3 Program funds estimated at US\$4.25 million will be used to finance four specific items:

- a. Hiring of consultants. The Congress will hire the following consultants under the program: (i) a unit coordinator to carry out general supervision; (ii) three senior professionals in the fiscal, monetary-financial (public debt) and nonfinancial sector areas; (iii) seven professionals in the areas described, to work under the supervision of the senior professionals; (iv) an information technology adviser; and (v) a component administrator; as well as defraying (vi) per diems and airfare for official missions. An amount will also be set aside to hire consultants from time to time on a short-term basis for specific studies.
- b. Special programs. Training courses, traineeships and seminars will be financed under the program, to be offered by international experts, on such topics as the monitoring of fiscal management, analysis of the efficiency of public spending, macroeconomic and fiscal sustainability studies, with a mandatory course on monetary-financial programming methodology. A technical library will also be set up using program funds.
- c. Equipment. The principal support in this area will consist of the purchase and installation of leading-edge computer equipment for economic analysis and the production of specialized studies. Support will also be provided for adapting the premises earmarked for unit operations by the Congress.
- d. Other operating expenses. This item will cover operating expenses not included in the foregoing items, such as

secretarial and support staff, stationery, basic services, computer maintenance, and contingencies.

2. Legal and organizational considerations

- 3.4 Prior to presentation of the operation to the Board of Executive Directors, the MAU was created by a congressional ruling, and its administrative and functional features defined according to the recommendations of the standing Finance Committees of both legislative bodies. The technical-cooperation funding will be used to finance the unit's startup and operations for a four-year period based on the following disbursement schedule: (i) for the first two years, the Bank will finance 100% of all program expenses; (ii) for year three, the Bank will finance 50% of the expenses entailed in hiring consultants, training, and other operating expenses; (iii) for year four, the Bank will finance 30% of expenses; and (iv) the Congress will defray the differential up to year four and will take over all operating expenses starting in year five.

C. Component II: Office of Macroeconomic Programming and Analysis (OMPA) of the Ministry of Finance

- 3.5 In order to remedy the institutional weakness within the Executive Branch with regard to programming and monitoring in monetary-financial and fiscal matters and matters relating to the nonfinancial sector, an advisory body will be set up under this component to serve Ministry of Finance needs in connection with these issues. The functions of this office, *inter alia*, will be:
- a. To develop a methodology for monetary-financial programming.
 - b. To design the monetary-financial program for the consolidated public sector and coordinate activities with other institutions related to the public sector (PDVSA, SENIAT, OCEPRE, Public Credit, National Treasury, CORDIPLAN, and the central bank) in order to compile, centralize and process the information required for the program. The Minister of Finance will be updated from time to time on the progress of this activity; information records and processing will be sent to the MAU on a timely basis.
 - c. To design and start up a system to monitor macroeconomic policy and trends.
 - d. To draw up annual and quarterly reports including an evaluation of the previous period and economic policy recommendations for the subsequent period.
 - e. To perform studies and draw up reports on special topics at the request of the Minister of Finance.

- f. To coordinate with the MAU, SIGECOF, and other appropriate public agencies concerning the flow of information and technical analyses generated by its ongoing activities, as well as recommending studies and actions needed to amend the Budget Act and design a new organizational structure for public finance.

1. Component activities

- 3.6 Program funds estimated at US\$4.25 million will be used to finance four specific items:

- a. Hiring of consultants. The Ministry of Finance will hire the following consultants under the program: (i) a unit coordinator to be responsible for general supervision; (ii) four senior economists to be in charge of monetary-financial, fiscal, balance-of-payments and nonfinancial-sector matters; (iii) five economists for the areas described, to work under the supervision of the senior economists; (iv) an information technology adviser; and (v) a component administrator; as well as defraying (vi) per diems and airfare for special missions to conduct research on special economic topics. An amount will also be set aside to hire consultants from time to time on a short-term basis for specific studies.
- b. Special programs. The program will finance training courses, traineeships and seminars, offered by international experts, on topics such as methodology for monetary-financial programming, analysis of efficiency in public spending, and fiscal sustainability models, with a mandatory course on monetary-financial programming methodology. A technical library will also be set up with program funds.
- c. Equipment. The principal support in this area will consist of the purchase and installation of leading-edge computer equipment for economic modelling and setting up a data base. Support will also be provided for adapting the premises earmarked for unit operations by the Ministry of Finance.
- d. Other operating expenses. This item will cover operating expenses not included in the foregoing items, such as secretarial and support staff, stationery, basic services, computer maintenance, and contingencies.

2. Legal and organizational considerations

- 3.7 Prior to presentation of the operation to the Board of Executive Directors, the OMPA will be created by decree as a permanent body within the organizational structure of the Ministry of Finance. The technical-cooperation funding will be used to finance the unit's startup and operations for a four-year period, according to the following disbursement schedule: (i) for the first two years,

the Bank will finance 100% of all program expenses; (ii) for year three, the Bank will finance 50% of the expenses entailed in hiring consultants, training, and other operating expenses; (iii) for year four, the Bank will finance 30% of expenses; and (iv) the Ministry of Finance will defray the differential up to year four and will take over all operating expenses starting in year five.

D. Program execution

- 3.8 The borrower will be the Republic of Venezuela, represented by the Ministry of Finance. The Congress will act as executing agency for component I of the proposed program and the Ministry of Finance will act as executing agency for component II; they will also be the beneficiaries. The work schedule to achieve the program objectives will be carried out over a four-year period during which the activities outlined above will take place.

E. Performance indicators

| Component | Expected Output | Timing |
|---|--|--|
| Creation of the Macroeconomic Analysis Office of the Congress | <ul style="list-style-type: none"> a. Report on macroeconomic aspects of Budget Act and Public Credit Act b. Economic situation reports, with emphasis on fiscal trends c. Report on potential fiscal impact of reforms or new legislation under discussion d. Ad hoc studies on economic topics at the request of the Finance Committee | <ul style="list-style-type: none"> 30 days after placing the draft budget before the Executive Branch Quarterly 30 days after placing the draft legislation before the Executive Branch Ad hoc |
| Creation of the Office of Macroeconomic Programming and Analysis of the Ministry of Finance | <ul style="list-style-type: none"> a. Monetary-financial programming tables b. Reports on monetary-financial and fiscal simulations, indicating macroeconomic impact c. Quarterly evaluation reports and economic policy recommendations d. Ad hoc studies on economic topics at the request of the Macroeconomic Programming and Analysis Committee and the Ministry of Finance | <ul style="list-style-type: none"> Yearly, with quarterly reviews Annual and quarterly Quarterly Ad hoc |

F. Cost and financing

- 3.9 The total program cost will be US\$8.5 million, of which the Bank will contribute US\$6,391,000 equivalent on a reimbursable basis from the ordinary capital. The table below contains a summary budget.

SUMMARY BUDGET

| Item | IDB | Local | Total |
|--------------------------|------------------|------------------|------------------|
| A. MAU | | | |
| Hiring of consultants | 1,832,570 | 986,930 | 2,819,800 |
| Special programs | 150,000 | | 150,000 |
| Equipment | 541,138 | | 541,138 |
| Other operating expenses | 671,492 | 67,570 | 739,062 |
| Subtotal | 3,195,500 | 1,054,500 | 4,250,000 |
| B. OMPA | | | |
| Hiring of consultants | 1,832,870 | 986,930 | 2,819,800 |
| Special programs | 150,000 | | 150,000 |
| Equipment | 541,138 | | 541,138 |
| Other operating expenses | 671,492 | 67,570 | 739,062 |
| Subtotal | 3,195,500 | 1,054,500 | 4,250,000 |
| TOTAL | 6,391,000 | 2,109,000 | 8,500,000 |

G. Disbursements

- 3.10 The Bank's contribution will be in the form of a loan from the ordinary capital and will be disbursed in U.S. dollars equivalent; the borrower will contribute US\$2,109,000 equivalent on a timely basis. Disbursements are scheduled over a maximum period of four years.
- 3.11 The loan proceeds will be disbursed at the government's request and deposited in the special account designated by it. In order to provide funds for hiring consultants and contracting studies, two revolving funds may be set up in an amount not exceeding 10% of the Bank's contribution; the funds would be replenished against presentation by the MAU and OMPA of supporting documentation for expenses incurred in advance in order to facilitate the timing of operations, provided the terms and conditions established by the Bank have been fulfilled.

- 3.12 According to prevailing guidelines, the Bank financing will be subject to the following financial terms and conditions:

| | |
|---------------------------------|----------|
| Amortization period: | 20 years |
| Disbursement period: | 4 years |
| Interest rate: | Variable |
| Credit fee: | 0.75% |
| Inspection and supervision fee: | 1% |

H. Procurement of goods and services

- 3.13 The program does not call for using the loan proceeds to perform works. The procurement of goods and services is to take place in accordance with the procedures set forth in Annex B to the loan contract. International competitive bidding will be mandatory for the procurement of goods valued in excess of US\$350,000, for which similar projects in the country elicit foreign bids when amounts are substantially in excess of that amount. Procurements for less than that amount will take place in accordance with national legislation, which calls for procurement of computer equipment valued at less than US\$350,000 to be subject to a closed bidding process under Venezuelan legislation. The latter provides for five companies to participate by direct invitation, with a minimum of three required in order for the process to be valid.
- 3.14 Support will be provided for the execution of the above-described activities in the form of national and international consulting services. The project calls for hiring international and national consultants in accordance with the terms of reference and the Bank's procedures.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 In the **short term**: (i) development of capacity for macroeconomic analysis within the Ministry of Finance, to equip it to deal with the challenges posed by the current economic policy environment in general and the IMF agreement in particular; and (ii) provision of technical support to the Congress to assist in analysis of the draft 1997 Budget Act and Public Credit Act.
- 4.2 In the **long term**: (i) institutional consolidation of capacity for macroeconomic analysis within the Executive and Legislative Branches, to provide for ongoing monitoring of economic variables; (ii) support for fiscal prudence within the Legislative Branch, through the capacity to analyze the fiscal impact of legal measures now under discussion; and (iii) improvements in communication and coordination at the technical level between the Ministry of

Finance, the central bank and the national oil company in connection with economic issues; and a new organizational structure for public finance.

B. Risks

4.3 The proposed operation involves the following risks:

- a. The possibility that the units created are not made part of the permanent institutional structure. This risk has been minimized by having the creation of the OMPA and MAU precede the operation's presentation to the Board.
- b. There is a potential for institutional conflict in connection with leadership in macroeconomic programming, owing mainly to overlapping legal powers of various State institutions. This risk has been minimized by having the decree creating the OMPA provide for the simultaneous creation of a Macroeconomic Programming and Analysis Committee to be headed by the Minister of Finance and with representatives of the central bank, the national oil company, the Ministry of Energy and Mines, the Planning Office, and the Ministry of Development, as well as the Chief of the Central Budget Office.
- c. There is a risk that the staff of the units may not possess a high level of professionalism and technical skill. This risk is expected to be minimized through the staff selection process. Professionals for both units will be selected by the unit coordinators through public competition, subject to the Bank's nonobjection. The appointment and contract renewal of the MAU coordinator will require approval by two thirds of the members of the legislative body designated to this end, i.e. the Congressional Committee.

V. MONITORING AND EVALUATION

A. Monitoring

- 5.1 The agreement to be entered into by the Bank and the Ministry of Finance is to establish the obligation of the latter and of the Congress to prepare various reports and forward them to the Bank's Country Office in Venezuela, which will bear basic responsibility for monitoring the project. The reports required, copies of which are to be sent to the Headquarters support units, are the following:

a. Initial report

Within 30 days after the appointment of the coordinator, initial reports by the MAU and OMPA containing the work plan and schedule, including a description of activities and of coordination and execution mechanisms for the first six months.

b. Progress reports

Within 30 days after the end of each six-month period throughout execution, a report on progress in program execution, to include a description of progress as compared to the original schedule, any discrepancies, and the proposed work plan for the coming six-month period.

c. Final report

Within 60 days after project execution is completed, a final report describing the results obtained, conclusions and recommendations.

B. Evaluation

- 5.2 Project evaluation will be an ongoing exercise conducted through the progress reports described above, to be prepared by the executing agency and forwarded to the Bank every six months. In addition, the Country Office in Venezuela will perform periodic inspections. The Bank will conduct technical supervision missions during program execution, making resources in combination with other purposes. The final evaluation will take place at the time and on the terms set forth in the final report.

**BUDGETARY PROCESS AND ECONOMIC POLICY ANALYSIS SUPPORT PROGRAM
(VE-0050)**

LOGICAL FRAMEWORK

| Objectives/components | Indicators | Means of verification | Risks |
|---|--|--|---|
| Objective: Strengthen the capacity of the state for setting, managing, and assessing economic policy, with a view to prudent fiscal policy concordant with macroeconomic targets | Fiscal and macroeconomic policy indicators (current and target) | Official Venezuelan government publications | Economy could experience shocks, beyond the control of Venezuelan government |
| Component of the Congress: Enhance the capacity of Congress to analyze and monitor strengthened fiscal policy | Approval of laws concordant with prudent fiscal policy | Official Venezuelan government publications | Absence of agreement within or between Congress and the Executive Branch |
| Component: Amend the Rules of the congressional budget office, entailing amendment of Rules of Congress. Inclusion in the Rules of Congress of the mandatory nature of MAU opinion on fiscal laws or amendments under discussion | Amendment of the Congressional Rules, before presentation to the Board Macroeconomic and budget reports presented to Congress as per work plan | Charter of office and hiring of consultants for first year's work | Failure by government authorities to meet budgetary commitments |
| Component: Analyze macroeconomic aspects of Budget Act and Public Credit Act Monitor economic trends, with emphasis on fiscal and debt Assess potential fiscal impact of new laws or amendments under discussion Conduct studies on specific issues | Publication of annual report on Budget Act and Public Credit Act Publication of quarterly report on economic trends Publication of report on potential fiscal impact Publication of economic studies on specific issues | Presentation of report to the Bank Presentation of report to the Bank Presentation of reports to the Bank Presentation of studies to the Bank | Delays in preparation of the reports Failure by consultants to prepare reports by agreed dates according to agreed terms and conditions to implement their recommendations Failure by consultants to prepare reports by agreed dates according to agreed terms and conditions to implement their recommendations Failure by consultants to prepare reports according to agreed terms and conditions, or failure to implement recommendations |
| Component of Ministry of Finance: Improvement of economic policy setting and implementation | Fiscal targets consistent with macroeconomic objectives | Venezuelan government documents setting out information on current and target macroeconomic variables | Non-adoption of consistent fiscal targets by Venezuelan government |

| Objectives/components | Indicators | Means of verification | Risks |
|---|---|---|--|
| macroeconomic analysis and programming | Preparation of Presidential Order, prior to presentation to the Board | Publication of Order setting up macroeconomic programming and analysis office | Failure by authorities to comply with budgetary commitments |
| macroeconomic policy programming and committee | Macroeconomic reports presented according to agreed work plan | Publication of Order setting up the committee | Failure to set up committee with the Bank |
| financial programming tables | Preparation of macroeconomic programming tables and presentation to Macroeconomic Programming and Analysis Committee | Presentation of tables to the Bank | Failure by consultants to prepare reports in accordance with terms of reference, or failure to implement their recommendations |
| monetary-financial and fiscal simulations, macroeconomic impact | Preparation of reports on macroeconomic simulations and presentation to Macroeconomic Programming and Analysis Committee | Presentation of reports to the Bank | Failure by consultants to prepare reports in accordance with terms of reference, or failure to implement their recommendations |
| progress reports and economic policy recommendations | Preparation of quarterly progress reports and economic policy recommendations, and presentation to Macroeconomic Programming and Analysis Committee | Presentation of reports to the Bank | Failure by consultants to prepare reports by estimated dates and according to agreed terms and conditions, or failure to implement their recommendations |
| studies on specific issues | Publication of economic studies on specific issues | Presentation of studies to the Bank | Failure by consultants to prepare reports according to agreed terms and conditions, or failure to implement their recommendations |

**PROCUREMENT PLAN
(VE-0050)**

| Major procurement items | Financing | | Procedure | Estimated date of publication (half/yr) |
|--------------------------------|-----------|-------|-----------------------|---|
| | IDB | Local | | |
| Computer hardware and software | 394,000 | | International bidding | 2/96 |
| Other office equipment | 40,000 | | Local bidding | 2/96 |
| Furniture and equipment | 248,276 | | Local bidding | 2/96 |

SUMMARY BUDGET (U.S. DOLLARS)

| Expenditure item | Bank contribution | Local contribution | Total |
|---------------------------|------------------------------|-------------------------------|------------------|
| 2. Consultants | 2,898,640 | 1,506,960 | 4,405,600 |
| 2.1 Fees | 2,798,640 | 1,506,960 | |
| 2.5 Airfare and per diems | 100,000 | | |
| 6. General support | 1,949,376 | 466,900 | 2,416,276 |
| 6.1 Equipment | 682,276 | | |
| 6.4 Library | 400,000 | | |
| 6.6 Support staff | 867,100 | 466,900 | |
| 7. Publications | 703,884 | | 703,884 |
| 7.1 Reproduction | 703,884 | | |
| 97. Special program | 300,000 | | 300,000 |
| 97.1 Seminars | 300,000 | | |
| 98. Contingencies | 539,100 | 135,140 | 674,240 |
| TOTAL | 6,391,000 | 2,109,000 | 8,500,000 |

PROPOSED RESOLUTION

VENEZUELA. TECHNICAL COOPERATION LOAN No. /OC-VE
SUPPORT OF THE BUDGETARY PROCESS AND STRENGTHENING
OF ECONOMIC POLICY ANALYSIS

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document PR-_____ with respect to a technical cooperation loan with the Republic of Venezuela for the execution of a program to support the budgetary process and strengthen economic policy analysis.

2. That up to the sum of US\$6,391,000 or its equivalent in other currencies, except the currency of Venezuela, is authorized for the purposes of this resolution, chargeable to the Ordinary Capital resources of the Bank.

3. That the above-mentioned amount is to be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.