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Analyzing fiscal implementation gaps in Venezuela: the policy design of a new “rentier” architecture (2000-2010)

Cecilia Medrano Caviedes

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Institut d'études politiques de Paris
ÉCOLE DOCTORALE DE SCIENCES PO
Programme doctoral Amérique latine
Centre de recherches internationales (CERI)
Doctorat en Science politique

Analyzing fiscal implementation gaps in Venezuela

The policy design of a new 'rentier' architecture (2000-2010)

Cecilia Medrano Caviedes

Thèse dirigée par M. Guillaume Fontaine

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Jury :

M. Javier Corrales, Professor, Amherst College, Massachusetts
M. Olivier Dabène, Professeur des Universités, Institut d'études politiques, Paris
M. Guillaume Fontaine, Profesor, Facultad Latinoamericana de Ciencias Sociales, Quito
M. Andrés Mejía, Senior Lecturer, King's College, London (rapporteur)
M. José-Manuel Puente, Profesor, Instituto de Estudios Superiores de Administración,
Caracas (rapporteur)
Mme. Isabelle Rousseau, Profesora, El Colegio de México, México

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Introduction

There is a general consensus about the overall underperformance of many of the contemporary petro-states. The successive failure of different oil economies to design and successfully implement enduring economic and development strategies despite possessing the necessary funds to finance them has become a conundrum in the academic and political thought of the past decades. Multiple studies have tried to identify the common pattern around the political, social and economic features of these countries to develop explanatory theories of the observed phenomenon. The analytical contribution of different disciplines has definitely illuminated the discussion but it has also revealed the complexities of the resource paradox where many countries endowed with petroleum (and in many instances with other natural riches), persistently exhibit low, unstable or ephemeral growth rates, along with other significant social, political and developmental shortcomings.

In the first waves of debates, the literature on the resource paradox mainly grew around economic and political explanations producing different methods and approaches to analytically and empirically assess the observed phenomenon. As this examination process evolved, two important observations reoriented the research into more integrated and comprehensive approaches. The first observation was that resource-rich countries could underperform in comparison to their resource-poor counterparts. The second was that many naturally endowed countries, including oil producing economies, were in fact benefiting from their wealth, and they were improving their socio-economic and developmental indicators. Both of these considerations urged the discussion to move into more integrated and multifaceted approaches, able to redirect efforts at the analysis of the institutional mechanisms that would permeate the so-called distorted economic and political incentives. Subsequently, from political economy and institutional arguments a new generation of studies emerged, to inquire about the role and influence of overarching institutional settings in exploiting and consuming petroleum resources and other natural riches.

Broadly speaking, the literature on natural resources has put forward almost unanimously that – in very simplified words – it is the intrinsic volatility of commodities, alongside adverse economic effects (resulting from wealthy endowments exploitation) and distorted political incentives, that create a complex mix of negative conditions that ultimately result in the underperformance of naturally resource rich countries. Underlying this mixture of undesirable factors, there is institutional weakness as a generic condition that allows and contributes to the perpetuation of such dynamics (Collier 2010; Karl 1997; Barma et al. 2012; Sinnot, Nash, and

De la Torre 2010; Rodríguez Sosa and Rodríguez Pardo 2012).

Yet in studying the set of under performing oil exporting countries in particular, it was perceived that despite significant geographical, historical and cultural differences, these countries seemed to share a distinctive institutional framework (Karl 1997) that would reproduce an embedded dependence on the sale and export of petroleum resources to finance important portions of their fiscal obligations. This dependence would render these countries as 'rentier states' and their common profile in the management of oil resources would be described as the 'rentier paradigm,' by which states tend to live beyond their means (Rodríguez and Sachs 1999) exhibiting a generalized propensity to overspend (Tornell and Lane 1999; Spilimbergo 2005).

In this sense, the managerial profile of 'rentier states' has been stigmatized as embedding a 'voracity effect' (Tornell and Lane 1999) by which powerful rent-seeking groups can appropriate for themselves and in consecutive turns, big shares of natural wealth through discretionary fiscal redistribution mechanisms when there are weak institutional barriers and fragile legal-political infrastructure settings. In this particular regard, it would seem that the institutional factor, as a framing matter, implies the organization of the extractive sector in close relationship to the resource management system in place. Thenceforth, the way the state organizes and regulates the sector as well as the type and quality of interplays among different policy actors involved, can delimit the scope of action in both extractive and managerial activities, shaping to an extent the structure and governance mode of the industry and the institutional frame of the sector (Balza and Espinasa 2015; Fontaine 2011).

All in all, the rentier paradigm seems to essentially describe a general pattern in which fiscal policy regimes are designed beyond their actual capacity and exhibit significant levels of fiscal indiscipline. This work aims to contribute to the ongoing debate by focusing on the complex design of fiscal policies as a sub-product of the framing governance mode at overarching levels of public action including those that frame the resource sector, through which public spending decisions and the overall management of natural resources, are configured.

While political economy and institutional studies have contributed significantly to the subject, there are still some missing links in the explanatory theories they have put forth. On one side they still tend to confer an exceedingly deterministic role to commodities or to oil rents in themselves, as the initial 'resource curse' theories did. On the other side, despite holding institutions responsible for shaping and reproducing most elements of the rentier paradigm and its effects, little has been accomplished in terms of clarifying the inner-processes of their

work in molding such rentier decisions. This study offers a look at such inner institutional processes through the particularities and explicit components of policy designs: the policy instruments mix. Primarily, the study of fiscal policy designs integrates the multi-level and nested system of interactions that determine policy action, to understand how policy mixes are constructed and deployed, and ultimately address the rentier paradigm and its mechanics from a more solid and concrete perspective.

This study examines fiscal policy designs by focusing on one particular case: Venezuela during the period 2000-2010. The selection of this particular case of study allows the integration of two prominent aspects known to have important effects on rentier performance: a striking oil boom from 2004-2008 and the introduction of a new political regime widely characterized as semi-authoritarian or as a hybrid regime combining both democratic and autocratic practices, in other words, an ‘authoritarian democracy’ (Carroll 2013).

During the first decade of the 21st century, the political regime of Venezuela was substantially transformed, modifying the overarching governance modes in the country and especially those of the resource sector. The fiscal institution of Venezuela changed considerably in the 2000s with a new vision over the management of oil rents. The ‘sowing the oil’ paradigm was displaced by a model of direct distribution of oil rents through a centralized spending system (Ochoa 2008). With a newly elected government and the enactment of a new Constitution in 1999, a series of substantial changes were begun, introducing institutional makeovers and new dynamics across political, economic and social spheres. These multiple institutional rearrangements drew a dividing line from previous time periods, progressively developing a discernible preference for centralizing policy-making decisions, circumventing institutional structures and restructuring policy arrangements to make them compatible with the newly established governance modes. In this sense, the assessment of Public Finance Management (hereinafter “PFM”) adjustments in the light of controlling expanding resource rents can potentially contribute to the study of fiscal implementation distortions in naturally endowed economies in particular.

Fiscal policies, which are pivotal and strategic to accomplish major policy aims, were adjusted to meet new demands and abide by new unfolding rules. As a result, the fiscal scheme, among many other areas, entered into a continuous process of adjustment. Several legal reforms were gradually introduced to change the rules of the PFM system and those of the budgetary game, generating new dynamics in public spending arrangements, rent allocation patterns and resource management overall. The general adjustment of the PFM configuration took place through consecutive alterations to fiscal rules, the eradication of

preceding ones, budget regulations, the foundation of new special fiscal institutions (SFIs), legal reforms to existing stabilization funds, as well as to monetary and financial institutions, etc. Such transformation of the PFM archetype had a decisive impact on public income generation, public spending arrangements and resource allocation patterns, creating new fiscal designs and more importantly, a new public financial architecture.

This dissertation does not intend to claim that the rentier paradigm in Venezuela is the result of a new political regime or a new fiscal arrangement. On the contrary, Venezuela has had a long tradition of fiscal indiscipline that can be traced back a long way. However, even if the fiscal trajectory of Venezuela has invariably shown a tendency to systematically deviate from public spending agreements; during the period 2000-2010 a new makeover of the PFM system exacerbates this established trend providing a recent and probably more complex case study to analyze rentier mechanics through implementation gaps in public spending engagements.

This study aims to explore the relationship between the policy mix of the new financial architecture with the pre-existing rentier logics that have characterized the fiscal trajectory of the country, as there tends to be better integration of new policy developments when there is some degree of compatibility between new and preceding policy elements (Howlett and Cashore 2009; Howlett and Rayner 2007; Howlett and Rayner 2009; Howlett, Kim, and Weaver 2006). Nevertheless, the continued changes, dismantling and amendment of institutions and rules of the fiscal regime, seem to suggest the difficulties that the new policy order confronted when trying to reach enduring or transitory equilibriums. Therefore, this study focuses on the analysis of the policy design of the new financial architecture to identify the elements that may generate policy instability.

By focusing on the fiscal policy designs of one specific case study going through a bonanza period in a hybrid political regime environment, this analytical work sets the stage for future comparative works while contributing to a better understanding of the so called resource paradox and in particular, the rentier paradigm. In this sense, one foundational case study seems promising and methodologically practical. The contributions of this work are manifold. On one hand, it recognizes the role of institutions in shaping and reproducing rentier mechanics. On the other, the period selected for this study allows the observation of accommodating institutions before the oil boom kicked in; hence, it provides more evidence on how institutions can mold the way oil rents are used instead of the other way around, in which the intrinsic nature of oil rents alone has been the dominant explanation for the resource paradox. Finally, this study calls the attention in this regard, and proposes instead

that the institutional scheme combined with the influence of oil rents can greatly explain policy developments.

This dissertation is structured as follows. Chapter 1 develops an introductory discussion on how the literature of natural resources has approached the resource paradox phenomenon, and in particular the case of petro-states as rentier states. This Chapter elaborates an analytical review of the main postulates widely advanced in the study of rentier states, trying to identify the elements that have greatly contributed to the discussion, as well as some important limitations on the issue that can be further explored.

Chapter 2 develops the theoretical framework and methodological structure to be followed in the empirical assessment presented in Chapters 3 and 4. In this Chapter it is also built an analytical justification for approaching the study of fiscal breaches in Venezuela from a policy design perspective as opposed to a conventional assessment of the public policy making processes. Basically, approaching the rentier paradigm through the policy-making rationale would have been primarily anchored on the budget policy-making process with an unavoidable and logical emphasis on the obvious problems of budget implementation. This approach, while highly informative and necessary, has been already developed providing interesting conclusions on the miscalculation of budgetary premises during its formulation and on the excessive use of supplementary spending formulas during its execution stages. Nevertheless, this analytical scheme does not address the structural problems of the ‘rentier’ budget *per se*, nor does it elaborate on a convincing explanation for the institutionalized practice of supplementary spending other than the generic and ambiguous arguments about political economy dynamics extensively utilized in the social sciences domain.

On the contrary, approaching rentier mechanics from the study of policy designs, allows the observation and assessment of many other fiscal pieces of the puzzle, as the analysis is based on fiscal policy instrumentation, the policy mix, within the fiscal policy regime as a whole. Therefore, this perspective incorporates the multiplicity of fiscal policy tools colliding with budgets in strategic ways that are aligned with fiscal reforms within the PFM system altogether. Ultimately, this approach offers a more robust explanation for the ‘rentier paradigm,’ that endorses the fiscal implementation gaps typically observed through irregular and undermined budgets. Moreover, grounding the analysis of rentier issues on the study of policy designs, helps incorporate path dependence trajectories and policy legacy considerations that uncover underlying determinants and can better explain fiscal policy dynamics overall.

Additionally, the analysis of fiscal policy designs incorporates the multi-level system and

nested nature of policy actions that are not considered in the traditional stagist studies of policy-making, but that directly address the different elements that might determine and constraint the configuration of policy goals and instruments. Indeed, policy designs are not the result of isolated efforts of policy makers in concealed or bounded policy areas, but they are rather the result of nested relationships across different levels of policy action that codetermine and influence each other in an integrated system. Finding the ‘unifying overall logic’ of policy arrangements (Howlett and Rayner 2009) is a meaningful step into decoding policy designs overall and especially so, in the particular case of interest of this work, that of fiscal policy designs in Venezuela for the period 2000-2010.

Finally, this Chapter proposes a brief mapping scheme to guide and organize the analytical endeavor. First, the methodological frame suggests the characterization of the policy area to be examined in order to better delimit and understand the particular context-dependent features and dynamics at the sectorial level. Second, fiscal policy designs are assessed through their instrument mixes by 1) analyzing the consistency and coherence of policy aims and their selected matching tools, 2) analyzing the consistency of different primary policy instruments selected, and 3) analyzing the consistency and congruence of primary (substantive) and secondary (procedural) types of policy tools in bundles.

Subsequently, Chapter 3 is devoted to presenting the case of study: the Venezuelan fiscal scheme during the period 2000-2010. Following the analytical framework presented on Chapter 2, this Chapter develops a characterization of the fiscal policy sector, to elaborate a comprehensive narrative on the fiscal scheme next. An effort to decode the fiscal scheme is then ventured on by identifying at the *meta*, *meso* and *micro* levels of policy action the main dynamics that frame the nature of the fiscal policy regime.

This Chapter is particularly important in drafting the empirical case to be examined, as it thoroughly describes the introduction of the new political regime from 1999 and the new governance modes that were progressively established with it. This contextual information is not only methodologically necessary and appropriate, but it also provides with an overarching description of the political and economic scenarios that would directly and indirectly affect decisions in the fiscal regime. Additionally, this Chapter presents a comprehensive description of the PFM scheme, identifying and describing the role of pivotal agencies and programs to detect the nature and boundaries of the sector, as well as the concrete ‘on-the-ground’ fiscal programs pursued through the calibration of the policy tools available according to the fiscal policy regime logics. It also identifies and delimits the general mechanics of rentier effects as the consecutive ad-hoc adjustments, revisions and alterations

to on-the-ground fiscal instruments (at the *micro* level of public action), or to dominant types of instruments within the PFM scheme (at the *meso* level of fiscal dynamics); while recognizing that this pattern tends to closely follow and react to oil price variations. One of the primary outcomes of this Chapter apart from constructing an exhaustive description of the fiscal regime is the identification of leading policy objectives and distinctive policy tools across the different levels of policy action.

Finally, Chapter 4 is focused on the analysis of the rentier paradigm, using implementation gaps in public spending agreements in Venezuela during the period 2000-2010, as the main indicator of the fiscal breaches that resulted from the new financial architecture. The design of the new fiscal policy regime is thenceforth taken as the cornerstone of a new ‘rentier’ architecture subject of meticulous evaluation and main inspiration to this work. The evaluation is primarily conducted by the assessment of instruments choices, paying special attention to the combination of instrument mixes and their internal and external coherence within the policy mix, as methodologically set in Chapter 2 and with the inputs generated throughout Chapter 3.

The analytical developments of this Chapter correspond to the interpretations of the author, but are based on the narrative advanced in Chapter 3 and rely on the theoretical grounds of the study of policy designs outlined in Chapter 2. Since this study is based on a chronological documentation of official legal reforms that transformed the PFM system importantly impacting the design of fiscal policies, a list of the most important legal reforms is outlined in the Annexes to provide access to facts to the interested reader, as a complement to the information and analytical discussions developed in Chapters 3 and 4.

One final remark that must be considered; in order to preserve the axial interest of this work while maintaining a reasonable scope, there were certain elements that were only partially discussed and not evaluated or assessed in depth. Those factors specifically refer to public debt strategies, the design of oil policies or monetary and exchange rate policies; all of which are directly related to both the formulation and implementation of fiscal policies but also convey highly complex policy dynamics on their own.

I. Natural resources and some of their dynamics

“Petroleum after all, is nothing but a black viscous material” (Karl 1997,6)

Natural resources have been a critical piece of the currents of economic and political thought for centuries. Adam Smith, David Ricardo, John S. Mill, Karl Marx and Thomas Malthus, just to name a few of the most influential thinkers of the 18th and 19th centuries, spent much energy on theorizing about the use, exploitation and management of natural resources as key elements in their different economic and political quandaries. Early theoretical conventions about the role and benefits that natural riches should or would convey to nations, along with more recent studies on economic development and growth theories, have been inquired by the fact that many naturally endowed countries have found themselves plunged in what would seem to be a clear contradiction. The conundrum results from remarking that numerous resource abundant countries have consistently registered low, unstable and/or ephemeral growth rates often combined with authoritarian or unstable political regimes, high levels of poverty and inequality, and armed conflicts among some other dismays (Ross 2012; Daban and Héris 2010).

Even more puzzling has been the observation of many resource-rich countries exhibiting slower or more erratic growth rates than those of their resource-poor counterparts (Auty 2000; Auty 2002; Rodríguez and Sachs 1999; Sachs and Warner 1997). Such empirical findings surely called the attention of social science disciplines and their representative experts. Subsequently, it followed the extensive development of specialized literature initially focused mostly around economic and political explanations that would try to address from different perspectives and schools of thought the intricate wealth puzzle. On a second round of efforts, the literature started to increasingly synthesize and integrate many of the first-generation postulates elaborated by mainstream disciplines independently, acquiring more of a multidisciplinary methodology to understand the resource abundance puzzles.

The paradox of plenty, as Karl has named the riddle (1997) refers to the notional incongruity of having rich natural endowments and still experiencing significant economic, political and developmental shortcomings; or as Ross reasonably asserts it (2012), being naturally gifted and not outperforming, as it would be conventionally expected given the natural wealth available. Clearly, as Rodríguez and Sachs would put it (1999), it is rather puzzling to explain

a possible association between registering lower growth rates while simultaneously having higher levels of income. An even when conceding that natural resources are not necessarily an advantage to economic growth, it remains unclear why they would actually pose a disadvantage at all (Sachs and Warner 1997); or, as a last analytical resort, why countries rich in natural resources, have not been able to compensate their losses in terms of growth with the exceptional revenues generated by the rents but instead in many cases end up being poorer (Collier 2007). These generation of analysis and reflections set the stage to consider natural resources as a curse, or at best a trap for growth and development.

Certainly, thinking of resource abundance as an important determinant of economic failure is definitely not conventional from an economic logic, but it undoubtedly became an increasingly important trend in academic thinking. Nonetheless, several studies also started remarking that some resource-abundant countries had truly benefited from their wealth and as a result, did attain more stable growth rates (Sinnot, Nash, and De la Torre 2010; Auty 2000) and prominent development advancements. Therefore, the question surrounding natural resources fairly adjusted to investigate the conditions under which the exploitation of natural wealth would lead to long-term growth and, on other cases, what factors would make natural resources fall short of expectations, become a trap or even turn into a curse in the path towards development and economic growth. Then, a new current of studies started introducing a conditional for the curse to be unleashed, the level of development of the host country.

For decades, analytical and empirical assessments have flooded academia with technical and philosophical contributions of various degrees of sophistication. Economic and political sciences have undoubtedly been the core pillars of this discussion as they irrefutably intersect and interrelate in complex and significant ways. More recently, a multidisciplinary approach based on political economy perspectives and institutional theories, has been progressively taking over the prospects with much more articulated proposals and theoretical developments. Certainly, the multiplicity of approaches has illuminated the debate but it has also and indubitably opened up the complexities of the observed phenomenon.

Yielding debates have put forward almost unanimously that – in very simplified words – it is the intrinsic volatility of riches, that are sold as commodities in international markets, alongside adverse economic effects resulting from the exploitation of wealthy endowments, and distorted political incentives, the three main elements creating a complex mix of negative conditions that ultimately lead to the underperformance of naturally rich countries. Underlying this mixture of undesirable factors, there is a fourth causal mechanism, transversal

to the previous three that perhaps introduces the biggest challenge to advancements in the social sciences spectrum as it is particularly hard to assess and thoroughly use in comparative analysis: a weak institutional framework (Collier 2010; Karl 1997; Puente et al. 2006; Barma et al. 2012; Sinnot, Nash, and De la Torre 2010) and/or governance problems (Auty 2000; Ross 2012) as broad conditions allowing and contributing to the perpetuation of such adverse dynamics. This fourth mechanism is the inspiration and *raison-d'être* of this particular study.

Overall, it is almost unanimous across the literature that there is a special dynamic generated by natural wealth endowments; particularly by petroleum resources, which have drawn special attention among other natural riches, as they are capable of generating especially large-scale revenues and yet many of the countries exploiting them, have shown striking signs of suffering the paradoxical phenomenon (Sinnot, Nash, and De la Torre 2010; Ross 2012). Certainly, the hydrocarbons industry produces two of the most used fuel and energy supplies in the world, petroleum and gas (Mieres 2010); and according to Yates (1996), the oil business in particular, represents “the largest and most widely integrated of all the global commodity networks” (1).

However, there is a general consensus recognizing the overall underperformance of many of the contemporary ‘petro-states’, as Karl refers to a specific set of oil exporting countries highly dependent on revenues from oil exports and where institutions are greatly shaped by petrodollars (1997). As it will be further discussed, these countries, despite significant geographical and cultural differences, seem to share a similar pattern in the management of their oil resources, their overall policy decisions and hence, their subsequent policy outcomes.

Furthermore, the resource puzzle shortly described in preceding paragraphs, turned into an even more perplexing issue when empirical evidence implied that major oil booms were followed by severe economic declines and deteriorated political environments in some of the leading oil exporting countries (Karl 1997; Ross 2012). Boom and bust cycles have been experienced in several countries, like Venezuela which experienced a dramatic economic decay and a deep political crisis after the significant oil booms of the 1970s and 1980s (Karl 1997; Ross 2012), and more recently, (during and) after the oil boom of the 2000s, which constitutes the main empirical and analytical focus of this work. This remark led to yet another interesting perspective on the resource curse theory, that would point out that what was actually more important for resource-rich countries was not their aggregate growth performance, but rather their limited capacity to recover from adverse shocks (Hausmann and Rodríguez 2014a). Therefore, the authors contend that instead of considering natural resources a curse or even a trap, attention should be given to ‘specialization traps’ in which

countries may fall into. Or differently said, poor growth in naturally endowed countries, has more to do with specialization patterns and concentration on exports as the main economic strategy, than with abundance in itself (Manzano 2014; Manzano 2012; Hausmann and Rodríguez 2014a).

Juan Pablo Pérez Alfonzo, one of the founders of the Organization of Petroleum Exporting Countries (OPEC), would refer to oil as being the ‘devil’s excrement’ (Pérez Alfonzo 2011; Karl 1997); a type of wealth that is ‘not earned’ because it is not generated by economic activities, but it is rather the result of extracting and exploiting pre-existent assets that should be somehow injected back into the economy but only with extreme caution as they are essentially a ‘dangerous medicine’ (Pérez Alfonzo 2011, 40). On the other side, there are scholars that recognize a two-faced nature in oil resources, one as a mere generator of oil rents and the other as a highly productive industry; being these two faces indivisible and complementary (Rodríguez Sosa and Rodríguez Pardo 2012).

Undoubtedly, the political economy of having a natural resource as economically powerful as petroleum also tends to highlight the implications of generating ‘rents’ rather than ordinary revenues (Baptista 2006); distinction that becomes highly important to discuss at this point. The discernment between rents and revenues originated in classical economic theories that differentiated among the types of remuneration that each of the means of production utilized in production endeavors would receive. According to this economic understanding, the main factors of production were classified into three main groups a) the labor force provided by men and women as workers; b) the capital, which refers to physical assets such as machineries, tools, equipment and, more contemporaneously, financial assets; and c) the land, comprising all types of natural resources available to be employed in a production cycle. Broadly stated, the proprietaries of the labor force would be remunerated with salaries and wages, while those owning capital assets would earn profits and lastly, those who possessed the land would get the rents (Baptista 2010).

Beyond the theoretical details sustaining this theory, there is a highly relevant implication revealed by the distinctive terminology of this early convention: rents were the specific type of remuneration assigned to ‘unproduced’ means of production (Baptista 2010). Thus, apart from the ‘possession’ of the land, or of natural resources, there was no major human involvement in their creation as factors of production, yet they would receive a distinctive type of revenue called ‘rent’. Subsequently, the initial definition given to rents was associated to the remuneration of natural assets merely by the virtue of their existence, posing practical

and technical difficulties in terms of the appropriate scales for measurement or proportions for such types of compensation.

In more contemporary settings, the discernment between revenues and rents can be generally attributed to a matter of magnitude since rents are primarily associated to extraordinary revenues that exceed production costs and surely surpass what would be considered ‘normal’ returns to capital investments (Auty 2002), hence, they can be associated with larger than initially expected earnings. Also, in an even more practical way, oil rents are considered to be the result of the difference between international market prices and the costs of domestic production (Niculescu and Moreno 2010; Collier 2007).

Moreover and from another angle, contemporary contexts also consider commodities as generally “traded, non-branded, bulk goods with little processing, (...) supplied without qualitative differentiation across a market (...). Commodities are natural resources (minerals, oil, and gas) or goods produced directly by exploiting natural resources (...)” (Sinnot, Nash, and De la Torre 2010, 2). In this way, the conceptual evolution of rents to land can be now be thought of as applying to commodities in general.

Generally speaking, the non-concrete way in which rents compensate commodities sheds light into some of the complexities of the so-called resource paradox that so many authors have come to tag as a ‘curse’. In terms of the discussion about oil dynamics, and more generally about natural resources overall, the conceptual distinction of using the terminology of rents is fundamental to better grasp the ‘rentier paradigm’, the ‘rentier state’ profile and the associated vices (Baptista 2010).

The rentier paradigm, the rentier state and other rent-related affections

The special dynamic associated to the dependence on natural resources is captured by the rentier paradigm concept. However, it shouldn’t be understood as an immediate one-time effect arising over the trade of commodities, but more as a continuous outcome and a pattern of a nested system. Essentially, the rentier paradigm is an abstract and conjectural terminology that describes a complex but established dependency over rents and all the limiting features that come with such dependence. More concretely, the rentier paradigm has to do with the social, economic and political dependence on rents generated by the sale and export of basic commodities (Sinnot, Nash, and De la Torre 2010; Karl 1997). As it was discussed in the previous subsection, depending on rents means depending on a specific type of revenue. Moreover, it tends to create a demand, from the side of social, economic and

political actors, to access and use resource rents for private instead of public use and benefits (Corrales and Penfold 2012), which has been widely described as rent-seeking behavior.

Tornell and Lane associate the rentier pattern, to a 'voracity effect' by which powerful rent-seeking groups can appropriate for themselves and in consecutive turns, big shares of natural wealth through discretionary fiscal redistribution mechanisms when there are weak institutional barriers and fragile legal-political infrastructure settings (Tornell and Lane 1999). In close relationship to the 'rentier paradigm', the need and reliance on commodity rents to finance national budgets and organize fiscal policies, has led to the categorization of 'rentier states' or commodity-states (Karl 1997). However, the rentier state label goes beyond a financial dependence on the profits generated by the trade of commodities, and defines a pattern for the economic and political organization of the state. The rentier state depicts the political economy of a governance system dependent on commodity rents and organized around the extractive sector that generates them. Precisely, the type of organization of the resource sector as defined by the State through regulation, interplays between the state and other key actors, importantly shapes and structures governance modes over the extractive industry and the institutional frame (Balza and Espinasa 2015; Fontaine 2011). As Fontaine argues, more relevant than the existence of rich resources, is the way in which the State organizes the governance of the extractive sector what better explains, from an institutional perspective, the rentier state (Fontaine 2011).

In general terms, the rentier paradigm is constructed in the ideas that surround and define the use and deployment of resource rents, the way policy actors conceive the policy problems related to rents and their intrinsic characteristics (volatility, instability, exhaustibility, etc.), along with how they react to them and design strategies and techniques to deal with these problems.

Theoretically, the profile of a rentier state is based on a particular institutional framework in which rentier dynamics are reproduced as the centripetal force of policy-making dynamics; hence, rent-seeking decisions are rewarded while inefficient policies prevail in a continuous vicious cycle. In this sense, powerful rent-seeking groups when tempted to grab greater shares of national wealth are able to do so by demanding more transfers, as described by Tornell and Lane (1999) when referring to the voracity effect, or alternatively, the rentier effect.

Another rent-related affection can be the overarching 'rentier fiscal contract' in which the evolution of the State and society in oil-led economies, progressively develops a tacit fiscal contract not particularly based on tax collection for the provision of services, but rather on the legitimate struggle of the State to maximize oil rents and then provide at discretion certain

services and special grants without necessarily asking for tributes (taxes) or for any type of collective production whatsoever (Rodríguez Sosa and Rodríguez Pardo 2012).

More generally, the increasing number of studies on the resource paradox has come to identify the rentier paradigm as a common pattern among resource rich countries in which fiscal policies are designed beyond their actual capacity, or where States tend to live beyond their means (Rodríguez and Sachs 1999). The underlying feature is a generalized propensity to overspend or to dramatically increase public spending levels during positive but punctual price shocks experiences (Tornell and Lane 1999). Indeed, fiscal policy making in rentier economies “has been shaped by the mistaken belief – mainly during periods of high world commodity prices – that a virtually unlimited revenue flow from natural resources can support a high level of public expenditures without an adequate domestic non-resource tax effort” (Spilimbergo 2005, 4).

While the rentier paradigm describes a general pattern of fiscal indiscipline, it also essentially encloses an underlying critical inconsistency in policy designs. Such inconsistency gets systematically materialized through chronic fiscal implementation gaps that end up establishing and even institutionalizing fiscal breaches as normal and regular components of fiscal regime dynamics. The core of this project is devoted to analyze such inconsistencies, considered effects of the underlying rentier paradigm, and by emphasizing the role of fiscal policy designs and the institutional environment that frames them. In Chapter 3 and 4 of this work, a thorough analysis and an empirical assessment are developed to support these arguments.

A value chain for natural resources

In order to better assess the discussion on natural resources, there is a technical and methodological concern that should be considered regarding the different phases that cover the topic. Barma et al (2012) develop a very practical scheme to position the discussion correctly and separate the currents of debates in a more precise manner. Such a scheme considers the value chain of natural resources in order to separate or conceptually organize the different moments and activities involved in the process that refer to different sets of actors, interests at stake, power relations, etc. This perspective aims to map in a chain of causality, the road from resource extraction to the final use of the rents associated to the commercialization of commodities, offering a stagist view of the sector’s governance, the political economy dynamics at play, as well as different sectors for policy-making and policy interactions that may provide practical insights for the analysis.

Basically, the scheme proposed by Barma et al covers five main dimensions: 1) Sector organization and the award of contracts and licenses; 2) regulation and monitoring of operations; 3) tax and royalties collection; 4) revenue distribution and public investment management; and 5) implementation of sustainable development policies (2012). Across these different causal links, there are constant interactions among institutions, actors and preconceived ideas that shape political economy settings, institutional frameworks and policy dynamics of the host country. The particular relationships and balances of power of the different actors involved in these dynamics, change across the value chain from rent extraction to final use and evolves through time responding to external and internal stimulus (Barma et al. 2012).

Altogether, the main contribution of this stagist scheme comes with the distinction between two main areas within what the authors call the natural resource management, that are very different in nature, that is, upstream and downstream activities that correspond to the generation of rents and to their final use or consumption. Thus, the value chain of natural resources is therefore fundamentally separated into two main ‘rent arenas’, one referring to their generation and the other corresponding to their ultimate utilization. Both arenas assuredly contain other several sub-systems and stages in their own as the scheme of five areas previously described would clearly suggest. Figure 1 below presents the two main arenas of the natural resources value chain, the upstream arena where resource rents are generated, and a downstream arena in which rents are distributed.

Figure 1. Rent Arenas in the Natural Resource Value Chain



Source: Adapted from Barma et al (2012)

In the first branch of the value chain or the upstream arena of natural resources, the process of generation of rents takes place. Exploration and extraction of natural assets are subject to contractual negotiations among the state and organized interest groups, representatives of the

private sector, multinational companies, workers' unions, environmental groups, civil society, local communities, non-governmental organizations, etc. And the discussions might cover pollution and environmental impacts, spillover effects, redistributive issues, political representation, working opportunities, etc. as well as other types of negotiations related to the structure of ownership and participation, fiscal duties such as taxes and royalties, etc. Overall, the upstream side of the value chain is about defining the exploitation dynamics of natural resources, in which transcendental definitions get formed regarding who does what, how and when; what are the rights and duties of each of the agents involved, and what are the general rules for the extractive activities. Across the upstream phase of the natural resources' exploitation, there are important variances in the levels of exploration, investment and installation risks that can affect the relationship between the actors involved for instance.

On the other hand, the other arena of the value chain takes care of the downstream side of natural resources in which the use of the rents generated upstream is defined through public spending arrangements (Barma et al. 2012). In this arena, the downstream management is focused on already generated rents that enter the public sphere as fiscal revenues for public spending considerations. Therefore, decisions made in downstream grounds involve resolutions over the consumption and depletion of assembled rents and overall fiscal policy configurations. In this sense, the downstream management of rents is crucial for national treasury departments, sector agencies and ultimately, rent beneficiaries. It is on this stage of the cycle where this work takes its biggest interest; indeed, a central contention of this project, argues that a key mechanism through which the resource paradox manifests itself is via public spending arrangements; understood as the set of policy choices regarding the allocation and redistribution of resource rents already generated and more importantly, the policy designs for the systematic management of public resources. As Tornell and Lane argue (1999), it is in fiscal processes where powerful rent-seeking groups can attempt to find discretionary fiscal redistribution mechanisms to appropriate national resources for themselves.

How do rentier states spend?

Since it is in the downstream arm of the natural resources value chain where resource-abundant countries decide how to redistribute and allocate the amassed amounts of oil rents generated through extractive activities (according to established and negotiated regulations for income taxes, royalties, extraction taxes, exports' dynamics, etc.); it is also in the downstream division, where the final use of rents gets defined through the design of fiscal policies and public spending arrangements. A crucial question to depart from when approaching the resource paradox is how do naturally endowed countries use their rents? What are the public

spending trends that characterize them as ‘rentier states’? The patterns for rents allocation are especially relevant since they reveal policy choices for resource management and redistribution.

The management of rents involves policy decisions over the consumption and depletion of rents. It is in this stage where the intrinsic volatility of commodities seems to be transferred to policies in part through public spending mechanisms. Suboptimal policy decisions in terms of redistribution of rents have to do with the time horizons considered, the pro-cyclical nature of investment and spending, and the lack of discipline over funds according to commodity cycles (Barma et al. 2012).

In general, the challenge behind mobilizing resources involves the development of a resource base, the mechanisms for redistribution and the sustainability of such allocations. Fiscal decisions define allocation policies of already assembled resources, normally, through budget processes. Public expenditures are a powerful tool with which governments can interact in the economy and political spheres. They embed the means to exert an important role in the economic performance of a country.

Once oil rents have been generated it is all a matter of how they are channeled through public spending arrangements. One of the main mechanisms through which volatility of commodity prices is transferred to policy agendas is via public spending arrangements. Volatility of public spending takes shape in part through the budget process where a big proportion of resource rents is allocated in formal procedures. However, and more importantly, the biggest source of the fiscal indiscipline so typically observed in petro-states is the result of supplementary budgets and extraordinary rent allocations that are possible when large amounts of petro-dollars flow in lax institutional frameworks with weak accountability mechanisms.

According to Tornell and Lane (1999), the fiscal process is crucial to channel discretionary fiscal redistribution mechanisms in countries with few institutional barriers and powerful rent-seeking groups. Supplementary or extraordinary budgets can certainly avoid bureaucratic obstacles and be more rapidly executed, thus they can give flexibility to fixed budgets and make them more adaptable to non-anticipated contingencies; nonetheless they also embed a perfect vehicle for rent-seeking behavior and corruption, they do not contemplate sustainability or accountability mechanisms and they can easily distort macroeconomic balances. Volatile public spending takes form both through formal budget’s construction and execution, and through parallel rent allocations that are more freely executed. All in all, public spending agreed in annual budgets or realized in extra-budgetary forms, conform a

substantial channel for resource volatility that inadequately overwhelms the economy in a pervasive pattern.

The variable of time is one of the first important dimensions of the analysis. The management of rents ‘downstream’ contains a considerable temporal factor since it implies deciding when to use rents, as well as how to schedule their consumption and depletion over time (Barma et al. 2012). Indeed, one of the most controversial issues that rentier states face is related to time perspectives in the use of their commodity rents. Mainly economists refer to a common inter-temporal distortion of policy choices across rentier economies has to do in part with the incentives to defer savings or investment and favor present consumption with weak planning and weak implementation capacity. The discount rate is high because, among other reasons, present consumption increases the opportunities for rent seeking. Also, because in boom periods, rents tend to be more visible to the public than other revenues, hence, pressure on governments for public action grow and politicians have incentives to bypass budget cycles and procedural rules to use rents more discretionally (Barma et al. 2012).

It is in this stage where the intrinsic volatility of commodities seems to be transferred to policies in part through public spending mechanisms. Suboptimal policy decisions in terms of redistribution of rents have to do with the time horizons considered, the pro-cyclical nature of investment and spending, and the lack of discipline over funds according to commodity cycles (Barma et al. 2012). The ad-hoc adjustment of budgets can easily accentuate the booms and bust price cycles and increase resource dependence and financial vulnerability.

In principle, natural assets generate rents that are collected by governmental institutions and are then channeled downstream through a formal budgetary process in the form of policies, programs and projects. The budget process is where the decisions for allocating public funds are made and it follows a number of formal and informal rules overarched by a particular political system structure. The political economy of rentier economies undoubtedly shapes the budget process in particular ways that will be further developed in this section. In general, this process involves a number of actors that ponder differently and at several stages, the many priorities, sectors and levels that will be recipient to public resources. The budget process has generally three main distinctive moments: the proposal, the approval and the execution stages. Along its formation and especially in the first two stages, spending priorities are highly influenced by interest groups, spatial distribution of votes and party support (Barma et al. 2012). “Political parties and politicians at large, with their tendency for short term results that could provide them with an enhanced political stance, tend to pressure in different stages of

the allocation of resources to specific projects, sectors or geographic regions of their interest” (Puente et al. 2006, 18).

In rentier economies, the State has a crucial role in smoothing the intrinsic volatility of commodities by controlling expenditures and refraining excessive or inefficient spending. The budget is a powerful instrument to isolate volatility of commodities from the rest of the economy, or at least to avoid its direct transference. The main challenge for fiscal discipline in rentier economies is to reach a reasonable fiscal policy; not too expansionary during commodity booms so that longer-term spending budgets can be progressively achieved; but aggressive enough to invest in diversification initiatives. The ultimate goal is to delink public spending from resource revenues and limit the economic distortions propelled by the disproportionate exploitation of wealthy sectors.

What do commodities bring to economic and political scenarios?

To better understand what makes natural resources, and specially oil endowments, a distinct factor of economic and political dynamics, some important generic features must be addressed. To begin with, natural assets or oil reserves are collectively owned but their exploitation and management is ordinarily delegated to the State as the sovereign representative of social wealth (Collier 2010; Baptista 2010; Manzano and Monaldi 2008).

It is also a general feature that extractive industries, especially those in the oil sector, are highly capital-intensive (Auty 2002), depending on systematic and large investments to keep up production, expand extraction and improve efficiency (Barma et al. 2012). Additionally, in the petroleum business, there are weak productive linkages that oil extractive activities have to other sectors of the economy, revealing the small multiplier effect associated to the industry along with its low capacity to absorb the unemployed (Karl 1997; Auty 2002; Karl 2007; Ross 2012; Sinnott, Nash, and De la Torre 2010). Hence, the productive apparatus behind the generation of oil rents is in disproportion to the rest of the economy and there is a strong disparity in the use of factors of production, and coming back to the preceding discussion, in the remuneration they receive. All in all, the uneven use of factors of production along with the disproportion with the rest of the economy generates prolific discussions around resource management and how the efforts for redistribution should be channeled when designing growth strategies (Baptista 2006). Another relevant factor is that non-renewable natural resources, like oil, are by definition temporary and exhaustible and the rents they generate are extremely volatile, thus, unreliable (Collier 2010; Barma et al. 2012). Additionally, as Hausmann and Rodríguez would contend, “the specialized inputs,

knowledge, and institutions necessary to produce oil efficiently are not very valuable for the production of other goods” (2014b, 23); therefore, when facing declines in oil exports, it becomes really hard for countries to reallocate resources in new industries. Basically, the authors argue that the pattern of specialization on the production of goods affects the emergence of new ones.

Resuming the discussion on the four leading explicative mechanisms proposed by political and economic streams when addressing the resource paradox phenomenon, in what follows, a brief discussion on each will be developed. These causal mechanisms widely portrayed in the literature are, in a very succinct way, the following: a) the volatility of income produced by volatile commodity prices; b) the Dutch disease, effected by having rich endowments; c) distorted political incentives when managing resource rents; and d) weak institutions or governance problems that permeate and reproduce inadequate ‘policy decisions’. The first two mechanisms are generic economic arguments to explain the adverse effects generated by the exploitation of rich endowments; while the second set of two are arguments more aligned with political analyses of the phenomenon observed. Each of these mechanisms or ‘commodity concerns’ (Sinnot, Nash, and De la Torre 2010) applies to petroleum dynamics and is of high relevance to this study. Even though they are presented separately, it is more than apparent and the discussion will reveal it itself, that these explicative mechanisms are all interrelated and interdependent from each other.

a) The volatility of income comes about with uncertain dynamics in the commercialization of commodities in international markets. Estimating income associated to the commercialization of resource rents is highly difficult considering all international factors that can influence market prices for commodities; nonetheless, export revenues tend to be critical in budget-making processes of many resource-rich countries. The instability of commodity prices usually results in a chronic difficulty to conquer budgetary discipline; expansive and restrictive budgets come and go continuously, negatively impacting policy funds and debilitating long-term perspectives for policy-makers and investors. Thus, price volatility brings on the stop-go fiscal pattern where public expenditures ratchet during “booms to levels that cannot be efficiently absorbed or sustained over time” (Sinnot, Nash, and De la Torre 2010, 27) and then have to adjust during bust cycles, often at the price of large fiscal deficits, increased levels of debt and distorted economic indicators.

b) Most economic analyses of the resource paradox tend to converge on the study of the ‘Dutch Disease’ phenomenon initially observed in the Netherlands where poor economic performance surprisingly followed the discovery of oil in the North Sea. The explanatory

theory describes the loss of competitiveness in international markets due to a real appreciation of local currency relative to external currencies, which becomes a disadvantage to the rest of national production that would aim to participate in international markets and diversify the economy (Collier 2010). Additionally, domestic production has to compete with imports that also become more affordable as more rents from commodities' exports enter the economy. From this economic argument, it follows that rich natural assets can potentially become a curse, or at best a trap, if measures are not taken to soften the economic distortions generated by having natural wealth.

Regarding this particular aspect, Ross (2012) articulates a very interesting reflection when claiming that if oil rents are so enormous, the Dutch disease effect should be more than compensated by oil payouts. Hence, it would remain a 'policy decision' to invest oil revenues back into the sectors that are being hampered by the economic unbalance prompted by increasing exports. Nonetheless, the author notes, that the effects of the Dutch disease are more than just economic isolated facts and do reflect a more complex dynamic that forces the economy towards specialization. The main reasons are that other productive sectors when loosing competitiveness tend to rely on governments' support through targeted policies and subsidies in order to survive. Simultaneously, the only sectors that are not directly threatened by the exchange rate unbalances produced by oil exports are the sectors of non-tradable goods, which are the goods and services that are not subject to be exported or exchanged in international markets. Therefore, the services sector or tertiary sectors of oil-led economies tend to grow more than primary and secondary sectors (agricultural, manufacturing) which need more governmental intervention in order to compete in international markets or to survive domestically. As a result, governments' apparatus tend to grow more than in other economic scenarios and there is a discernible concentration force towards the exporting and the services sector (Ross 2012).

c) The debates around distorted incentives have to do with both the adequate rates of natural resources' extraction, as well as with the use given to the resource rents obtained. The idea that resource endowments generate political incentives to 'over-extract natural resources relative to efficient extraction' has to do with politicians over-discounting the future, especially during resource booms (Robinson, Torvik, and Verdier 2006; Collier 2010).

On the side of the use given to rents, abundance of rent flows can distort the incentives for proper allocation and management. The value of being in power especially increases during resource booms and politicians' hopes of influencing electoral outcomes can lead to inadequate use of abundant resources (Robinson, Torvik, and Verdier 2006). Patronage, for

instance, is a common political instrument to try to maintain power while misallocating resource rents (Collier 2010). In brief, shortsightedness of state actors can negatively influence distributive arrangements, adding to the formation of the ‘rentier effect’ (Barma et al. 2012; Ross 1999).

d) It has been extensively argued how there is a ‘distinctive type of institutional setting’ (Karl 1997, 16) in naturally endowed countries. This particular institutional framework is apparently unable to control resource booms and fiscal stability as it allows for distorted political incentives to systematically doom policy-making. The intrinsic institutional weakness of developing oil-led economies has been widely portrayed as part of the explanation to the common pattern of rent mismanagement and overall poor economic performance (Robinson, Torvik, y Verdier 2006; Collier 2010; Karl 1997). If generally, the abundance of rich natural resources can be considered an independent variable detonating unilaterally paradoxical effects through political and economic channels, it essentially remains a governance challenge to mitigate the adverse effects produced by natural wealth and to harness its benefits. “Dependence on natural resources shapes state institutions and the decision-making framework and calculus facing political and economic elites, which affects the possibility of achieving the higher-order objectives that can aid in overcoming adverse outcomes, such as the need to deepen institutionalization, to bolster credibility, and to extend time horizons” (Barma et al. 2012, 9).

If the existence of resource wealth has important effects on the political system of the host country that can contribute to weakening governance and institutions, causality could run in both ways and weak governance might too feed back into the resource sector’s dynamics, dictating the way natural endowments are used. Resource wealth affects political systems while politics affect their exploitation in a bidirectional interrelation (Barma et al. 2012; Collier 2010). Hence, the social value of natural assets is a function of the political system, as it will determine the ability to harness the goodness of such assets; and the political system is a function of the existence of natural assets since it will be influenced by it (Collier 2010). As Collier briefly puts it, “the political economy of natural resources is about the interplay between politics and valuable natural assets” (2010, 1105–1106).

Resource wealth introduces complex dynamics into governance and institutions through “intense political or bureaucratic battles between powerful interest groups for control over natural resource rents and the State institutions responsible for collecting and distributing them” (Barma et al. 2012, 45). Even if the State is a central player along the entire natural assets’ cycle, there are elites that can have a determinant role in the rentier policy patterns.

These elites frequently show an “umbilical relationship with the State” and tend to favor the rent-seeking opportunities across the value chain of resource rents that will strengthen their power positions (Barma et al. 2012).

A very relevant institutional aspect of resource abundant countries is that fiscal funds can be raised with small levels of tax collection. Resource rents are able to provide important proportions of the budget needs; hence, the electorate doesn't scrutinize their governments, which gradually undermines the “core tax-accountability linkage between state and society” (Barma et al. 2012, 45) and gives room to discretionary use of rents (Puente et al. 2006). Low levels of taxation induces weak accountability and monitoring mechanisms, which in turn encourages black boxes around public finances, debilitates institutional capacity to provide social services and public goods transparently, and deteriorates the quality of public spending. A vicious circle is generated when citizens become less demanding towards public finances but also more reluctant to be taxed (Cárdenas Antoni, Liu, and Lozano Uriz 2012; Ross 2012).

The diminished need for other forms of government revenue generation also limits progressively the institutional capacity building process of administrative agencies (Barma et al. 2012); while there are enough funds and incentives to benefit elites and corrupted public agencies and avoid established checks and balances of democracy (Collier 2010). Overall, natural wealth provides the means to finance all sorts of political tricks to extend office tenure, which implies the embezzlement of resource rents at discretion (Collier 2010). In short, as Barma et al sagely state it, resource rents are a ‘political currency’ (Barma et al. 2012, 47), fundamental to sustain particular political bargains at an enormous social price.

Empiric evidence shows that most oil-led developing economies have followed a similar path in the use of their resources when trying to attain social goals for development; consequently they have followed resembling policy patterns and have ultimately produced comparable policy outcomes (Karl 1997). A strong dependence on oil rents to finance most social policies underlies the emulated model; however, commodity prices being highly volatile unmistakably affect the scenarios for policymaking processes at different levels and stages. While this instability of prices can strongly destabilize fiscal revenues, “commodities in themselves are not creative or destructive forces, and major explanatory power cannot be attributed to their particular character alone or even to the economic dynamics they encourage” (Karl 1997, 8).

Revisiting the resource paradox theory and some of its explicative linkages

Among the extensive literature on natural resources and the affluent debates it has engendered, there are still some important limitations surrounding many of the explicative mechanisms proposed, particularly regarding the causal linkages between natural wealth and the rentier paradigm.

Firstly, conceding that rich natural resources like minerals such as oil, or other hydrocarbons and precious metals like gold are inherently a curse, can be refuted, to a big extent, by the counterfactual of several countries having successfully managed their equally wealthy natural endowments in a much more prosperous way, including the experience of many oil exporting countries. Even though these first theories have been mostly substituted by institutional explanations of the poor economic performance of naturally endowed countries, there are some reformed versions of the ‘curse theory’ asserting that it is in developing countries where natural resources ultimately become a curse for economic growth and development aspirations. Hence, there is a convergence towards a conditioned resource curse theory in which the curse is unleashed by weak institutional frameworks (Rodríguez Sosa and Rodríguez Pardo 2012).

For instance, Ross (2012) asserts that oil is certainly a curse for institutionally weak environments such as those present in developing economies, because they cannot effectively and strategically manage wealthy resources to attain economic prosperity and developmental goals, and instead, end up generating dynamics that are inevitably set to reproduce the typical rentier paradigm. In a similar vein, Auty uses empirical evidence to support the thesis that governance problems in resource-abundant countries can lead to the adoption of poor policy-decisions (Auty 2000), and despite recognizing “the dominance of the policy variable in determining the outcome” (2002, 7), the author bases his approach on the resource curse thesis and mainly conducts an economic study of the policies adopted by selected mineral countries in a particular selected period.

Most generally, curse theories can be considered as rather deterministic views of the fate that different countries will be doomed to encounter if natural resources are to be found and exploited. Thus, these theories are bounded to provide merely descriptive aspects of the phenomenon itself. On the contrary, more recent studies have advanced interesting analyses to contest the ‘curse theory’ with fairly solid approaches that seem to better respond to the dynamics observed. To this account, there are numerous works signaling the influence and role that institutions play in the management and control of natural resources’ exploitation and natural wealth endowments. Authors like Karl (1997; 2007) have put forward the idea of

institutional frameworks and governance issues affecting ‘policy decisions’ as the core problem that rentier states experience. To this account, other meaningful perspectives have been developed on the governance mode of the extractive sectors as more powerful determinants of the institutional frame than the abundance of resources per se (Fontaine 2011). In this regard, the way the state organizes and regulates the sector as well as the type and quality of interplays among different policy actors involved, significantly determines the institutional structures of the extractive sector and its relationship to the institutional arrangements for rent redistribution in place (Fontaine 2010; Fontaine 2011; Balza and Espinasa 2015).

Karl develops a theory based on the existence of a ‘distinctive institutional framework’ allegedly shared among ‘petro-states’, which limits the scope for policy-decisions and shapes the preferences of policy-makers in a direction that is not conducive to development (Karl 1997). Karl’s scheme provides at least two main fronts of analysis that are worth considering in more detail for the purposes of this particular research venture. In what follows, a short inquiry will be developed, identifying what are considered to be important contributions to the resource paradox discussion, as well as some of the limitations that could be further explored.

First, beyond identifying the existence of distinctive institutional settings in commodity-states or petro-states, Karl’s suggests that the specific mechanism purportedly altering or shaping the institutional frame is the type and origin of public revenues on which governments mostly rely. Differently said, according to Karl, the source of public revenues on which governments depend the most, has a direct and profound structuring impact on the institutional development of the country, ergo, on the configuration of its political economy. Certainly, for some resource-abundant countries, the ones that raise the paradox issue, the most important source of public revenues comes indeed from commodities’ exports, and thus, commodity rents would be, according to Karl’s thesis, the core factors molding their political, economic and social institutions. It is worth commenting that not all resource-rich countries depend on their commodity rents, as it is the case of Canada, Norway or the United States of America, for instance.

To complement this argument, Karl asserts that this shaping influence does not affect all countries or all institutions equally as the ‘commodity effect’ is constrained by the level of maturity or development of the institutional context that was already in place before facing the presumably adverse influence that commodity-rents can potentially propel. Hence, comparatively aligned with Ross’ argument, Karl proposes that countries having strong

institutional settings before dealing with the management of natural resources tend to maintain their institutional and political economy configurations; while countries with weaker institutional contexts are more prone to permeate and adjust to the influence of commodity-rents, eventually developing institutional assemblies that define and structure the political economy of rentier states. To this account, the author asserts that “(...) what matters for the social consequences generated by petroleum dependence are, first, the type of pre-existing political, social and economic institutions available to manage oil wealth as it comes on-stream and, second, the extent to which oil revenues subsequently transform these institutions in a rentier direction” (Karl, 2007). Similarly, Karl also attributes to the ‘dependence on oil rents’ the main source of influence that adversely affects the preferences of policy-making actors and consequently, their policy decisions. In short, Karl’s approach puts forth an institutional and a behavioral thesis to explain the paradox phenomenon.

Generally speaking, this first angle of Karl’s contention assigns alternately to oil rents or to the dependence on oil rents, the main distorting influence that shapes and affects institutions and policy-makers’ preferences. Therefore, as with other thesis, Karl’s approach assigns a big role to oil rents (or to the dependence on oil rents) as the key factor shaping institutions of weak states. “Oil determines the pattern of acquisition of state capacities. It molds institutional development, and it affects patterns of taxation and administration, viability to mobilize and direct resources, and the range of behaviors policy makers are likely to adopt” (Karl 1997, 46). Although it is not clearly stated how oil would impair institutional capacity by mere dependence, a strong argument advanced by Karl and widely adopted in the natural resource literature refers, as it was previously discussed, to the development of a weak linkage between governments and citizens as non-oil taxes are scarcely needed to finance public expenditures, leading to a low capacity tax system and a distorted fiscal contract with society, the ‘rentier fiscal contract’ previously discussed.

Notably, Karl’s thesis follows a quite deterministic view of the resource paradox as the description of this molding experience is presumed to be irreversible. The author claims that oil rents end up affecting host country institutions in such a way, that barriers are raised to disable any attempt to change the adopted policy patterns, and “(...) lock countries into the initial choice of a rentier development path” (Karl 1997, 42). Under this approach, countries with weak institutional armors are doomed to recreate the resource paradox indefinitely. The institutional assembly of petro-states or commodity-states deals and recreates particular interests among which, rent-seeking behavior and opportunistic policy-makers play a determinant role. Hence, rentier institutions that are formed under the influence of oil rents

provide an apparently ‘permanent’ structuring principle to the policy-making processes and they do so, through policy decisions as it is presented next.

Nonetheless, despite its deterministic and even absolutist view, Karl’s thesis provides with attractive insights to the study of natural resources from a policy-making perspective. Principally, the analysis of the institutional development of commodity or petro-states and the particular factors affecting the preferences of policy-makers of these states, are elements that certainly connect to the study of how governments engender and cultivate ‘governance styles or modes’ that tend to stick over time even when not efficient (Howlett, Ramesh, and Perl 2009). The establishment of policy paradigms, reflecting the systematic adoption of certain type of policy-decisions at different levels of the policy-making process, and following a particular adopted pattern, can certainly relate to the incentive structures or structuring principles of petro-states proposed in Karl’s analysis and will be further developed in the following Chapter.

The second front of consideration in Karl’s postulates is focused on the policy-making processes of petro-states and the ‘petrolization’ of the policy environment. A considerable side of Karl’s thesis is that rentier institutional constructions have a direct and profound effect on policy-making processes, particularly by distorting the preferences of decision-makers and the decision spectrum at their disposal. Hence, rentier institutions generate two main structuring principles: they distort the preferences of policy-makers and they limit the range of policy decisions to be adopted.

Taking all together, oil has an influencing and molding power over institutions, which in turn distort policy-makers’ preferences and limit their choices. The resource paradox is thus essentially materialized through policy decisions, and the rentier paradigm is reproduced during the decision-making stage of policy-making processes. To stress this particular argument, Karl asserts that during oil booms when governments can have access to staggering oil rents from exports and face opportunity windows to change inefficient policy patterns, they instead choose to rather stay in the same rentier path and reinforce prevailing rentier models (Karl 2007).

Certainly, there are decisions on the management of commodity-rents that are greatly influenced by the institutional setting previously described, and can potentially lead to the resource paradox. However, there are some limitations in the assumptions underlying Karl’s construct that are worth considering. First, it is assumed that since there is a rentier paradigm propelled by rentier institutions, the preferences of policy-makers will be distorted in such a way that at least on average, most relevant policy-decisions will be perverse and inefficient, to

the point of indefinitely recreating the rentier paradigm. Such an assumption is extremely hard to identify and assess empirically and seems too deterministic to be entirely accurate. A second underlying assumption is that distorted preferences are irreversible because the 'rentier development path' has been chosen at some point in time, and it is set to indefinitely reproduce adverse interests and dynamics that block any attempt for change. This too, seems to be extremely difficult to sustain empirically and highly improbable in real policy-making dynamics.

But most importantly for the interest of this particular research endeavor, is the basic conceptual assumption given to policy decisions. Karl's approach seems to be based on the notion that policy-decisions are absolute mandates that translate immediately into actions, and strictly follow initial prescriptions; as if policy outcomes would directly, linearly and proportionally represent the original decisions that generated policy-actions without presenting distortions or gaps throughout implementation exercises; or as if policy-making would only be about the effort of making decisions to reach the expected results. If policy-decisions were so automatic, it would just take the right decision to put an end to rentier dynamics and give a good use to oil rents. It then follows, that even though there is no explicit analysis on policy contents, one basic assumption in Karl's postulate is that policy decisions in rentier states are by definition perverse and adverse to development; otherwise policy actors would have just needed to correctly decide the exit from adverse cycles and they would have certainly succeeded at any given time. Indeed, Karl approaches the Dutch disease by inquiring that economic adversities are not automatic, instead, there are policy decisions reproducing it and policy-makers choose not to opt for change because they are trapped in the rentier development path. They openly and repeatedly 'decide' to reproduce poor-decisions in order to preserve the rentier status quo, and they do so, because the institutional setting is locked into a rentier pattern, where the policy-environment is petrolized and the incentive structures reproduce these perverse dynamics indeterminately.

Overall, the institutional theory developed by Karl, includes behavioral assumptions that seem to underestimate the intricacy of policy-decisions and of policy-making dynamics overall. "(...) if we looked at only policy decisions *per se*, then describing government policy would be both straightforward and easy compared to the effort required to understand in more general terms *why* a state adopted the policy it did" (Howlett, Ramesh, and Perl 2009, 7). Or as North would contend, the motivation of policy actors tends to be more complicated and their preferences less stable than it is generally assumed in theory (North 1990).

Individual decisions bear a tremendous degree of complexity, especially when they are accompanied of other sets of individual decisions to be possible or feasible, as it is generally the case in most policy-making processes. To further add to this point, “(...) most policies involve a *series of decisions* that cumulatively contribute to an outcome” (Howlett, Ramesh, and Perl 2009, 6). Indeed, individual decisions are only a piece of a very complex and dynamic system that constantly adds and combines different sets of decisions directed to accomplish a certain action (Howlett, Ramesh, and Perl 2009). Moreover, the aggregation of multiple individual decisions is not always harmonic, consistent and/or congruent, to the contrary, “individuals make choices based on subjectively derived models that diverge among individuals and the information the actors receive is so incomplete that in most cases these divergent subjective models show no tendency to converge” (North 1990, 17).

Reducing the resource paradox to a generalized conception of ‘policy decisions’ exhibits important limitations that need to be further explored and addressed. The complexity of policy-making processes requires thorough analyses that target policy design and implementation issues that can address the conundrum. An interesting alternative to explain the role of institutions on the management of natural resources is developed by Monaldi, Penfold et al (2005; 2014) by looking at how the quality of institutional constructions can induce or thwart cooperation among policy actors to sustain inter-temporal policy commitments. The authors claim that poor institutional frameworks can lead to low-quality policy-making processes with high policy volatility because they do not provide the conditions to foster political cooperation among policy actors in charge of assuming policy commitments. Therefore, uncertainty and uncooperative settings generated by low-quality institutions, affect policy-making processes by deteriorating the likelihood of commitment among policy actors, which in turn negatively impacts final policy outcomes.

According to this view, formulating what might be considered a set of ‘good’ or ‘appropriate’ policies will still be contingent on some attributes of the institutional frame in order to potentially yield good economic performance; these positive attributes being their capacity to promote stable policy inter-temporal commitments among policy actors, if assuming that such cooperative policy processes would tend to produce ‘good-quality’ types of policies (Monaldi and Penfold 2014). Another remarkable contribution of the institutional approach is developed by Przeworski and adapted by Monaldi and Penfold for the analysis of oil-led economies. This point being the stakes of power that political institutions may engender, referring to the value that policy actors may attribute to being in power or in the opposition, and hence, to their willingness to cooperate and respect policy commitments or not. In this

sense, high stakes of power as those released during oil booms, may deter policy cooperation and democratic governance increasing the likelihood of political instability, polarization or the establishment of authoritarian regimes (Monaldi and Penfold 2014).

While these institutional considerations greatly contribute to expanding and deepening the understanding of the resource paradox phenomenon, they only seem to consider the broad influence that overarching institutions may induce on general policy dynamics. This particular analytical enterprise incorporates the institutional approach from a policy design perspective in which institutional settings influence policy-making processes throughout the multi-level and nested system of policy interactions. Hence, the study of the rentier paradigm through policy designs assessments, instead of analyzing the generic institutional influence on also generic policy-making dynamics, identifies the different set of institutions that may propel a structuring influence on each of the different levels of policy action. The theoretical discussion of this model will be introduced in more detail in Chapter 2, while Chapters 3 and 4 will develop an empirical application.

Attributing the rentier paradigm to oil rents alone or to the influence of oil rents cannot fully explain, for instance, the change of the political regime taking place in Venezuela during the period 2000-2010 (Corrales and Penfold 2012); a transformed political regime that still reproduced the rentier model, and more over, one that drastically exacerbated it. The authors claim that the change of the political regime was indeed influenced by oil, as the oil boom registered from the 2000s onwards and more starkly in the years 2004-2008 pushed for the rebalancing of power and catalyzed the political ambitions of the new incumbent. Nonetheless, it was also the result of an institutional rearrangement promoted by Chávez that ultimately allowed for the direct discretionary use of oil rents and the set of policy outcomes deriving from such model. Without the institutional transformation, Chávez would not have been able to use oil rents as he did, and the political transformation of the country could, most likely, have a different evolution. Essentially, it was the new Constitution of 1999, along with the profound institutional makeover, which opened the door to the direct and discretionary use of oil rents, without which Chavez would have had a much narrower room for maneuver (Corrales and Penfold 2012). As a result, the authors continue, it is the combined dynamics of oil rents and institutional roles what can explain the political transformation of Venezuela and the policy outcomes observed during the period 2000-2010. These issues are at the base of this project and will be examined in depth in Chapters 3 and 4.

II. Analyzing the rentier paradigm through policy designs

*“Theory is most creative when it directs attention to hitherto neglected areas of investigation and stimulates the invention of new procedures of observation”
(Laswell 1943)¹*

The main objective of this particular study is to develop an analysis of the rentier paradigm from a public policy perspective, specifically through the careful study of policy instrument choices and policy designs. It pursues this goal by relying on the empiric assessment of a specific case of study: The case of Venezuela during the period 2000-2010. The exploratory aim is to construct an explanation from the complex study of public policies in order to refine and at some points contest many of the arguments developed by institutional theories and political economy principles of the resource paradox and the rentier paradigm. In this chapter, a conceptual justification for the intended approach is elaborated, as well as the theoretical foundations that sustain it.

Approaching the dilemmas posed by natural resources dynamics from a political economy perspective, has certainly contributed much to their study by identifying the consecutive interplay of key economic, sociological and political elements that influence each other, reproducing a highly complex phenomenon that would not have been equally seized from any of these theoretical doctrines separately. Consequently, it has also led to the conclusion that economic theories alone cannot provide complete explanations to the resource paradox, nor can sociological or political thesis entirely clarify the conundrum. Hence, the political economy approach has irretrievably opened the door for multidisciplinary considerations that can certainly produce more nuanced assessments of the problem.

As it was developed in the previous Chapter, the study of political economy dynamics has developed a corpus of literature that recognizes a common pattern among ‘rentier states’. It is also from this broad perspective that institutional theories have got central stage in the natural resource discussions over recent decades, and have in turn provided critical insights for more thorough analyses. Certainly, recognizing the crucial role of institutional settings in the configuration of rentier states has been a significant analytical development towards a more

¹ (in Lasswell, Brunner, and Willard 2003, 77)

exhaustive study of the phenomenon. It has provided more robust elucidations about the differences observed and the similarities found across different resource-rich countries and how they have resolved to manage their commodity booms and busts cycles. It has also generated valuable insights for the study of public policies, policy regimes and governance modes.

Nonetheless, overarching management patterns and institutional configurations can still be considered too broad and generic to answer some of the pending questions. For instance, there are still no conclusive studies developed from any of the traditional disciplines standing individually, or from wider political economy studies, over the factors that determine both policy change and policy inertia in resource-rich developing countries, the determinants of systematic policy failures in naturally endowed economies, or more importantly, the policy mixes and policy designs that might be reproducing the rentier paradigm. The analysis of this last concern constitutes the main objective of this particular research project.

As a matter of fact, some of the argumentative constructions have developed interesting analyses that include policy aspects in the reproduction of the rentier paradigm; however, as it was discussed in Chapter one, the assumptions on which these arguments are based, are overly simplistic and fail to use policy analysis in a more specific way. In general, the majority of the causal mechanisms identified this far have shown considerable shortcomings in fully explaining the issue at debate and finding a comprehensive argument capable of integrating the elements observed in the natural resource paradox. And as Corrales and Penfold (2012) would put it, even when adopting institutional perspectives, the focus is almost invariably around oil dynamics and commodities but not centered on how institutions actually operate. In general, it could be argued that there are still some omitted linkages among the explicative theories proposed, and that many of the most recent and innovative theories are still nonspecific or ambiguous when addressing the rentier paradigm and the resource paradox. Overall, the ways in which the political economy doctrine has approached the subject have either remained on a descriptive stage of the problem or have provided just partial explanations, despite their degree of sophistication, as to how the rentier mechanisms actually occur.

Alternatively, policy science has developed over the past few decades, a quite prolific literature advancing arguments that respond, enrich and often challenge many of the views traditionally put forth by political economy studies and other mainline disciplines. It might be even claimed that over the past few decades, public policy studies have progressively developed research and analytical approaches that are better suited to address much of the

unsolved contemporary issues. Policy studies can go beyond the political economy approach to try to attain the causes and determinants that lead to the design of certain type of policies associated to the particular organization of political systems and the nature of political regimes, as both the content and form of public policy-making may vary depending on the links developed between policy-makers and society (Howlett, Ramesh, and Perl 2009).

Certainly, policy science has evolved into a highly exhaustive discipline capable of studying compound policy intricacies with much more specificity and analytical detail than other disciplines do. Most likely, part of the reason has to do with its roots and evolution process as a separate social discipline that assumed and embraced a multidisciplinary approach coming from decidedly bounded and fragmented social sciences such as economics, political science, psychology, sociology, law, etc.

According to Asher (1986), the origins of policy science find its way through *behavioralism*, a field of analysis arising in the 1920s and 1930s that profited from an interdisciplinary intellectual movement that tried to cross the boundaries of mainstream sciences to study the behavior of individuals. The focus of this movement was not bluntly on policy, but it would nonetheless devote much study to public affair matters as part of its aims of understanding human behavior. Additionally and yet more important is the fact that this current of thought attained the integration of disarticulated departments of social sciences, generating recognizable steps towards the construction of a separate and distinctive policy science (Asher 1986).

Despite having started as a combination of other traditional scientific disciplines, and borrowed concepts and techniques from mainstream theoretical foundations, policy science has progressively become a discipline on its own, with a particular terminology and specific methodological techniques (Howlett, Ramesh, and Perl 2009). Among social sciences it is particularly broad and flexible as it needs to consider extensive social grounds and contextual peculiarities with a multidisciplinary perspective; nonetheless, and this point is extremely important for the case of this project, policy science is comprehensively specific as it focuses on the study of policy dynamics and not on producing general one-size-fits-all types of laws and rules based on a list of fixed assumptions as other social sciences do from a rather standard and more dissociated level. In this sense, Asher would further add that the main unit of analysis of policy sciences is the policy process and not preconceived theoretical constructions that mainstream scientific disciplines would try to test, verify or quantitatively measure (1986).

Generally speaking, policy studies are relatively new if considered as a formal structured approach of social sciences; however, the critical inquiries that compose and characterize policy science domains have been part of social science analytics for fairly long (Howlett, Ramesh, and Perl 2009; Asher 1986). Policy science began its formal journey to become an individual field of study, amidst a convoluted period of human history, around the post-war era of World War II, when great policy theorists, analysts and scholars of the time tried to consolidate efforts to explore and answer increasing questionings about the purpose of governments and their actions toward solving social problems, the nature of societies and the relationship between citizens and the state (Howlett, Ramesh, and Perl 2009; Lasswell, Brunner, and Willard 2003; Parsons 1995; Mintrom and Williams 2013).

At the time, also converged the continued progress of scientific disciplines that would inevitably lead to an expansion of research efforts and breakthrough innovations across many, if not all, scientific domains. On parallel, a constant vacuity on policy and government issues was rather a refraining aspect from other longstanding traditional academic disciplines such as political sciences, to which the center of attention was instead placed on the study of elections, electoral cycles, political behavior and political parties (Aguilar Villanueva 1993). These scientific advancements combined with growing interaction trends around the world (mainly due to technological progress and mounting economic interrelations), created the conditions for a gradual convergence movement among social sciences that would form the 'perfect theoretical integration' (Lasswell, Brunner, and Willard 2003, 76) and would be focused on exploring the 'interstitial areas among older fields of knowledge' (Lasswell, Brunner, and Willard 2003, 77). Seen from another perspective, it was also the development of increasingly complex and demanding societies and governments, along with the need of organizing more efficient political systems and public sectors, which generated greater demands to build a better suited field of knowledge and a closer understanding of social needs and governments' roles in societies (Parsons 1995).

Harold D. Laswell, considered to be a pioneer of this school of thought, deeply valued the analytical gains that resulted from integrating multiple theoretical advancements and developments of the traditional scientific community and proposed in the 1940s the creation of a specialized institute of policy sciences and a national training program for future policy leaders (Lasswell, Brunner, and Willard 2003), whom would merge methods and principles from mainstream disciplines and direct them to the study of the actual dynamics of public affairs (Asher 1986). The idea was to narrow the gap between political theory and practice, by building a doctrine devoted to understanding the actions of governments and their policies, as

well as their organizational structures and the ways they would relate to citizens and society in general. The formation of a policy science “was expected to replace traditional political studies, integrating the study of political theory and political practice without falling into the sterility of formal, legal studies” (Howlett, Ramesh, and Perl 2009, 18).

However, the evolution of policy science has been far from following a unidirectional and straightforward course of maturation. Clearly, examining social currents is not an easy task. There are multiple perspectives from which methods and approaches are designed to disentangle social dynamics and practices, and there is not one unique technique or approach that irrefutably dominates over other scientific proposals. Indeed, epistemological studies of social sciences have questioned the appropriateness of considering the study of social concerns as a truly scientific venture at all, since the scientific methods selected for their study, greatly differ from those applied in the sciences of nature (Gellner 1984), being the large variance of approaches one fundamental element triggering epistemological doubts.

Initial policy studies were strongly based on mainline scientific disciplines. According to Asher (1986) the great success of *behavioralism* led to a refinement of the intellectual movement, which inadvertently developed, into the retaking of disciplinary boundaries and scientific specialization; it was the *neo-behavioralism* or the *positivist* approach to policy analysis. As Torgerson wisely points out (1985), in a context of advanced industrial societies, there is a sturdy tendency to rationalize analytical efforts and systematize analyses into technical formulas. After all, the origins of policy studies can be attributed to generally acknowledging the policy-making functions of governments and the nature of societies, as a result of an increasing rationalization of the state and its politics (Parsons 1995).

Early enough though, this ‘scientific’ trend exposed the influence those specialized analysts would imprint from their theoretical backgrounds, on methodological approaches as well as on final analytical conclusions (Howlett, Ramesh, and Perl 2009; Asher 1986). Moreover, as Lascoumes and Le Galès would add (2007), the formation of those theoretical principles would also be influenced, to a big extent, by historic, political and socioeconomic contexts. Therefore, policy analysts when approaching policy-making issues would predictably and unavoidably stamp both contextual and scientific training biases onto their studies.

Subsequently, the studies resulting from the *neo-behavioralism*, *positivist* trend, started to receive important criticisms on the grounds of being too rational, overly technical, isolated from real world dynamics and too quantitatively driven (Howlett, Ramesh, and Perl 2009). Critics would claim that strong scientific leanings would overlook real-world interactions that were key to understanding the actual policy process developments. Additionally, principles

such as objectivity and neutrality would neglect major political dynamics that are great determinants and influencers of policy-making processes. In short, disapproval among academics and scholars would contend that these types of approaches would limit in scope or in analytical richness the exercise of policy analysis and render policy studies sterile, vacuous and irrelevant (Asher 1986).

In turn, *post-positivists* analysts opposing *neo-behavioralists* and *positivists* would try to broaden the scope of policy studies, giving more room to political determinants of policy as well as to contextual settings and place-based characteristics that would expand the analysis and put some distance from strict technical and objective approaches. In this regard, Lasswell (1970) interestingly described the need for flexibility and applicability of policy science as a discipline that should be capable of contextualizing and not fragmenting on its approaches; after all, policy science is essentially, a very practical, pragmatic and applicable discipline (Lasswell 1970; Howlett, Ramesh, and Perl 2009; Asher 1986). One of its most advantageous features, being its interdisciplinary approach that allows the study of public policies at different levels, from different analytical frameworks, and considering numerous variables and analytical angles.

Altogether, policy science is about the study of public policy. It is above all, a discipline concerned with the study and analysis of public policies in all forms, sectors and contexts. Public policies refer to a very complex system of decisions, actions and policy actors. An important number of ambiguous definitions have been developed to refer to public policies (Parsons 1995). Nonetheless, a simpler and non-restrictive way to place them as units of analysis in the policy science domain, is to use the broadest possible sense to refer to them as in an ‘everyday discourse’ as Wildavsky and Pressman (1984) would put it; corresponding to the sets of decisions made by governments towards particular issues, or as governmental statements of intentions to accomplish certain identified goals and objectives. Broadly speaking, public policies enclose complex decisions and interrelations among policy makers and society.

Lasswell, being one of the pioneers and founders of policy science, understood the great level of complexity of policy studies and proposed a stagist view that would separate the policy process into individual, sequential and yet interrelated phases (Howlett, Ramesh, and Perl 2009). The scheme through stages would allow the analysis to be more assertive and better focused, while facilitating the study of the policy-making world by the aphorism “we can only point in one direction at a time” (Pressman and Wildavsky 1984, xvi).

As Howlett et al recount it (2009; 2011), Lasswell's first stagist scheme was subject to successive adjustments and new proposals by different academic researchers and analysts, but the logic was more or less structured around a synthesized chain of causal actions implicitly directed at solving identified problems. A general consensus was reached around the study of policy-making cycles along five separated stages: I) Agenda-setting, II) Formulation, III) Decision-making, IV) Implementation, and V) Evaluation. Along these stages, problems are identified and ranked, actions are formulated to solve them, then decisions are made to opt for some of the formulated solutions, these chosen methods are put into action and finally they are evaluated to see if the outcomes are as they were expected or if some corrections are to be made to the approach taken.

Because policy science was originally conceived and oriented as a problem-solving discipline (Howlett 2011; Howlett, Ramesh, and Perl 2009; Asher 1986; Torgerson 1985; Lasswell 1970), a significant part of policy studies have been inevitably concentrated on detecting and analyzing faulty policies or deviations from initial solving intentions, with the purpose of finding the errors and to the extent of possibility, correcting them. Finding the causes that may impede complete policy implementation, or that may interfere with the full attainment of policy objectives has therefore engaged big part of policy studying efforts.

Pressman and Wildavsky around the 1970s presented an analytical work focused on the study of several complications arising in the execution of a very promising policy program in the United States of America. Implementation problems were identified as the main causes of the policy failure and behind the frustration of initial policy intentions. Then, in the early 1980s the authors along with other commentators and analysts, continued to expand the discussion introducing new elements and reflections about the significance of execution and evaluation processes in policy-making dynamics. The work developed by Pressman and Wildavsky gained much attention among academics and scholars, who started placing a potent interest on studying implementation dynamics as the policy stage to discover why policies would, more often than not, deviate from original statements, or prove incapable of reaching their claimed goals. As a result, implementation studies became an important stream of policy science and much was developed around them.

Facing policy failures: enquiring the implementation phase

The systematic failure of many promising policy initiatives did incontestably propel a vigorous analytical movement concerning the study of policy-making processes overall. Thereupon, the observation of persistent gaps between policy intentions and final outcomes

despite considerable policy efforts heightened the interest on further and more specialized types of analyses. As a result, policy sciences concerted an important area of studies to analyze implementation difficulties and the appropriate evaluation mechanisms that would help unveil hidden or undetected problems; after all, an important amount of policy scientists claimed that policy problems would occur only through implementation processes, or alternatively, they would claim that policy difficulties would only be discovered through the implementation phase of policy cycles.

The policy-making cycle stipulates that policy formulation, once all decisions have been made, is followed by a phase of policy implementation. Certainly, once a policy plan has been prepared and approved, one would expect to implement it, to put it to work by executing the designed plan of action. Implementation refers to the process of carrying out a policy and implies “the ability to forge subsequent links in the causal chain so as to obtain the desired results” (Pressman and Wildavsky 1984, xxiii). Under this logic, the implementation phase in policy cycles, refers to translating into action a formulated plan whatever that plan entails, even including, as Howlett et al would point out, the option for inaction or strictly doing nothing about a particular situation (2009). In all cases, at least one (if any) of many possible policy choices discussed is selected to address and hopefully solve a particular problem or situation; the approved official course of action is usually made explicit in a formal or informal statement of intent that can take the form of a law, regulation or a policy package (Howlett, Ramesh, and Perl 2009).

View from this perspective, policy formulation is only one piece of the policy-making puzzle and albeit it is a very significant one, it still depends on some operational actions to move closer to the ambitioned outcomes, regardless of if it does it rather poorly or highly successfully. Indeed, the efforts made into formulating a policy can be considered a work in vain if the goals are not delivered, if its implementation is vastly defective or yet worse, if it remains only on paper (CIPE 2012). Thus, it becomes reasonable to enquiry what is in fact more challenging, the preparation and careful design of policies, or ensuring their proper implementation? Policy challenges surely exist along the entire policy-making process but early works that focused on implementation dynamics to find the causes of policy disappointments, did engender philosophical queries as to what was the actual sensitive stage to care more about if satisfying results were to be reached.

In this sense, Pressman and Wildavsky (1984) argued that even if it is in the formulation phase where policy details and content are actually produced, it is during implementation dynamics where policy errors can be effectively detected and potentially remedied. The

authors claimed that “in a world that changes programs as they are carried out, implementation is the only source of experience that managers can use to test and improve their programs” (Pressman and Wildavsky 1984, xviii). Additionally, in their initial work, the authors placed great emphasis on evaluation as the proper mechanism to diagnose blunders during the implementation phase of policy cycles (1984).

Furthermore and stressing the same line of arguments, the authors claimed that policy evaluation, when going beyond the mere measurement of outcomes and focusing on the causes of either progress or deficiencies, was able to identify not only policy problems arising during implementation dynamics, but it could also become the point of departure for crucial learning processes in which errors could be effectively apprehended and timely corrected. In fact, they claimed that there was a bidirectional dynamic arising between evaluation and implementation phases, as there is a learning process resulting from each round of evaluation and the subsequent adjustments applied during new rounds of implementation (Pressman and Wildavsky 1984).

Subsequently and according to Pressman and Wildavsky (1984), evaluation processes would eventually become the real essence of policy analysis and would embrace meaningful studies of every piece of the policy-making puzzle from original intention to actual implementation movements. On the other hand however, Lascoumes and Le Galès asserted that rather than neglecting policy formulation, the introduction of implementation studies actually highlighted the importance of truly understanding what would happen during the formulation of policies and what the policy preparation process would entail (2007).

In general terms, many analysts and scholars associated policy failures to implementation difficulties identified during evaluation activities. According to this perspective, it would seem that the formulation and decision-making stages of the policy-making cycle were sealed steps, and errors were to be found only during execution moments of the process. On this point, Majone and Wildavsky added a middle ground argument in which they asserted that there could be elements that actually constrained full policy application, but were hidden in the policy design and could only be uncovered during tangible implementation stages (1984). All in all, policy failure was assumed to be wrapped around the execution and evaluation stages of the policy-making cycle, since important miscalculations and misalignments could only be detected and properly rectified during the implementation phase which is subject to continuous monitoring and evaluation exercises.

Whereas the dividing lines across policy stages were only suggested to facilitate the analysis, they can certainly introduce blurriness and confusion to the study of policy failures. There are

recurrent questionings about when the formulation stage finishes to enable the execution stage initiate its course of action in a regular policy-making cycle. Although in practice these temporal or procedural distinctions are not as sharp, inquiries around them become significantly relevant when trying to assess policy problems, as analysts would certainly want to detect and pinpoint the errors and miscalculations along the process. Moreover, such analytical efforts can become more of an uphill climb when considering the iterative nature of policy processes that can endlessly repeat policy cycles and reproduce in each of the rounds, the reactions and feedback generated throughout different stages of the causal chain of policy actions. Nonetheless, in order to better target the study of implementation dynamics there tends to be a general agreement on the conceptual and technical separation between policy phases, and an emphasis on designating the implementation stage as the camp of battle where policy problems will emerge.

Besides, as Majone and Wildavsky warned, separating implementation-to-be from implementing policies, can imply that “(...) implementation is completely divorced from policy success or failure” (1984, 167). On a similar line of argument is the statement of Pressman and Wildavsky on how “the study of implementation is shaken from its safe cognitive anchorage in prior objectives and future consequences that do or do not measure up to original expectations” (1984, xvii). According to this claim, there are significant elements influencing and shaping implementation dynamics that might not be directly related to previous formulating stages, but need to be considered in comprehensive policy analysis efforts. All things considered, there is not much controversy about the fact that the distinction between policy formulation and implementation, does essentially denote the involvement of new policy actors and dynamics along new policy subsystems (Majone and Wildavsky 1984; Howlett, Ramesh, and Perl 2009; Lascoumes and Le Galès 2007).

Generally, academics and researchers also differentiate policy designers from implementers, as if they appertained to different policy environments. Majone and Wildavsky claim (1984), for instance, that while the most generic category of implementers should certainly know how to be effective when executing policies, ‘street-level’ bureaucrats are too busy to literally reproduce policy statements, and yet ‘high-level’ officials do not necessarily feel they have to commit to following policy mandates to the letter. Yet another claim in this perspective refers to the possible misalignment of political, economic or socio-cultural incentives between policy-formulators and implementers as an explanation for poor implementation of policy statements (CIPE 2012). Therefore, there are clear conceptual and practical distinctions between policy stages that involve different sets of policy actors, different institutions and

policy settings, as well as different incentives and interests at play. While formulation and decision-making dynamics are associated to the definition and conception of policy problems and solutions; implementation dynamics refer to the interpretation of such policy designs by those in charge of executing policy schemes.

Indeed, there has been a tendency to approach the analysis of public policy, using tools and techniques characteristic of economic principles and models. An example of this type of approach, that is very useful for the purpose of this work, is the principal-agent theory, which is a behavioral model developed as part of economic theories that has been used to explain policy failures using institutional contexts and problems in the relationship between principals (decision-makers) and agents (implementers). The model includes a series of assumptions on incentives, contracts and behavioral performance that try to explain policy distortions such as gaps between policy decisions and final implementation (Hindmoor 2006; Howlett, Ramesh, and Perl 2009). The level of complexity of this theoretical model increases once the evaluation reaches more complex policies that involve the participation of numerous agencies and sets of actors, requiring more administrative layers to be examined and bigger analytical efforts to assess coordination and interactions among policy actors (Howlett, Ramesh, and Perl 2009).

An interesting observation is that the implementation stage is hardly ever about merely executing a script as if a policy program was exclusively an imposed sanction on executers; instead, the formulation stage produces a set of messages to be interpreted by the new sets of policy actors in other policy subsystems with a series of different coordination challenges (Howlett, Ramesh, and Perl 2009; Lascoumes and Le Galès 2007). As Majone and Wildavsky wisely assert, the interpretation of policies can only be limited by the richness of the interpreting minds (1984). Indeed, implementation ceases to be static when it incorporates preferences and the means to achieve what is truly aimed by policy actors (Browne and Wildavsky 1984). Actors perceive and share a particular institutional context, where they face constraints and alternatives and they commit to certain actions in a constant interaction process that forces them to interrelate and adjust (Lascoumes and Le Galès 2007; Majone and Wildavsky 1984).

During the implementation stage new dynamics take over the policy cycle and what was arranged and decided during the formulation phase represents a message to depart from; at times a mere guideline towards policy action (Lascoumes and Le Galès 2007). Broadly speaking, policy actors construct their interpretation and mobilization upon uncertainty and ambiguity, interacting with other relevant organizations involved and dealing with social and

political pressures (Lascoumes and Le Galès 2007). A short note from a report on *Closing the Implementation Gap between Law and Practice* prepared by the CIPE² is presented in order to emphasize the point at discussion: “without clear delineation of responsibility and accountability among government agencies, civil servants are left with an excessive degree of discretion to implement the law the way they please or not implement it at all” (2012, 14). However, there is no precise account on how to delineate policy guidelines or enforce responsibility among implementers in a successful way such that no policy distortions occur during implementation, at least not on a systematic basis across different policy areas and contexts as a one-size-fits-all type of formula.

A fundamental idea underlying the implementation process is its dynamic nature and the constant change in the relationships among policy participants (Browne and Wildavsky 1984). It is a process that involves constant efforts to harmonize the programmed and discretionary elements of the policy package. According to Lascoumes et Le Galès (2007), the large extent of ambiguity and intrinsic contradictions that policies and programs often have, creates the conditions for implementation dynamics to actually introduce new bargains in the policy-making process. The dynamic nature of implementation activities and the real possibility of deviating from initial policy statements or mandates can be somewhat reflected in the following sentence: “As programs are altered by their environments and organizations are affected by their programs, mutual adaptation changes both the context and content of what is implemented” (Pressman and Wildavsky 1984, xvii).

At this point, Lascoumes and Le Galès introduce a very interesting point from a sociological perspective, which refers to the appropriation of a space for public action by implementers during the implementation phase. Additionally, the authors claim that local policy networks as well as the active link that might exist with other ongoing policies can greatly interfere, shape or complement the implementation of a particular policy program. An interesting claim of Majone and Wildavsky comes with the assertion that “the central problem of implementation is not whether implementers conform to prescribed policy, but whether the implementation process results in consensus on goals, individual autonomy, and commitment to policy on the part of those who carry it out” (1984, 167).

Similarly, there are other elements to consider when analyzing implementation, for instance it is important to recognize the role that the direct policy beneficiaries (Lascoumes and Le Galès 2007), as well as other indirectly affected groups, might have on the evolving process of

² CIPE – The Center for International Private Enterprise and Global Integrity

policy application and delivery, after all, the ultimate goal of public policies is precisely to generate some kind of impact on social spheres; and even though policy-makers might have a well-defined ambitious impact on mind, real dynamics tend to prove that initial goals might not necessarily translate into final outcomes, and can also produce unintended effects and disturbances across different social groups. Besides, as Peters points out (2002), second or third order beneficiaries might be crucial to the political success of a program, explaining why some policies might perpetuate even when not reaching the initially intended goals and/or beneficiaries.

It seems clear now that there is considerable room for maneuver during policy implementation and that there are numerous factors that can take place to influence such movements. It would appear that the inventory of elements to consider when trying to appraise policy deficiencies through implementation dynamics is significantly vast and multifaceted. Indeed, it almost seems unrealistic to consider that the intricacy and multiplicity of factors affecting policy performance can be actually analyzed through any of the stages of the policy-making cycle separately. A broader analytical orientation has progressively evolved to account for the manifold elements and dynamic nature of policy-making cycles.

In fact, the analysis of policy designs is especially concerned with the study of instruments selection that will be crucial in implementation dynamics (Howlett 2011). Whether it is the selection of policy tools, or the consistency between policy objectives and means across different levels of interaction, etc., policy designs might shed light into the actual problems that ultimately lead to policy failure.

Policy designs, a better targeted approach

Another wave of developments on the study of policy failures, puts forth a different yet highly ambitious approach that points out to policy designs as epicenters of policy dynamics, their structure and their complex functioning. The policy design approach focuses on policy instrumentation choice as the marrow of policy-making processes where efforts to match means and goals ultimately result in the configuration of policy tools bundles. The latter being what deserves the greatest focus if searching for answers about policy performance. In this sense, the policy design approach does not necessarily exclude or discards implementation problems as possible sources of policy failures; instead, it considers them to be part of design schemes, while enclosing particular combinations of policy tools and means.

From this perspective, it is worth exploring policy designs as a multifaceted process before adventuring on the sterile analysis of execution activities separately. Indeed, policy processes

respond to a multilevel nature where goals and means exist at different levels of application (Howlett 2009a) and are embedded in contextual frameworks that influence and restrict them. Therefore, from a policy design perspective, implementation gaps are indicators of misaligned strategies in the confection of policy instrumentation; or better said, in the process of trying to match aims with means given certain restrictions. As Howlett claims (2009a), successful policy designs require: coherence among policy aims and objectives, consistency between implementation preferences, policy tools and calibrations, and finally, convergence and congruency among policy objectives and policy tools.

An important analytical distinction between the policy design approach and implementation studies is the recognition of the fact that when public policies encounter difficulties during their application stage, those problems are not isolated from how policies were conceived in the first place. The powerful statement “(...) the idea is embodied in the action” by Majone and Wildavsky (1984, 177), bears the reflection of the causal chain logic in policy-making; whatever happens in the implementation process must forcefully respond to its conception process, just as much as it will in turn affect next rounds of formulating endeavors.

In order to better assess implementation problems, it is fundamental to seize the decisions made during the formulation stage where methods and instruments to achieve particular goals are carefully designed and/or chosen. Indeed, it is during the formulation process, that most parameters to be considered during the implementation stage are defined; as much as it is in the implementation process where policy content can take concrete shapes (completely or partially aligned with initial programs). “Policy content shapes implementation by defining the arena in which the process takes place, the identity and role of the principal actors, the range of permissible tools for action, and of course by supplying resources” (Majone and Wildavsky 1984, 174). Under this perspective, the formulation of a policy, as a stage of the policy-making cycle, is ingrained in the implementation process not only chronologically but in essence: it is the origin and the main source of it; and in turn, the implementation stage represents an undividable part of the circuit linked to the attainment of policy outcomes implying the full or partial carrying out of formulated plans.

Analyzing policy frustrations from a stagist policy-making approach, thus, neglects to a big extent, the multilevel and interrelated nature of policy processes. In this sense, the general framework that the five policy-making stages provide, remains a useful tool for understanding the policy development course, but it does not much to explain the actual substance of policy processes (Howlett and Giest 2013). Therefore, the interrelation of policy stages needs to be understood in the broadest possible sense in order to capture the causal and subtle linkages

among stages; specially when incorporating new policy actors, new balancing power games, and new layers of policy subsystems, among many of the multifaceted elements that truly and constantly determine policy. Additionally, a wider view of the policy process, as will be further discussed in this work, can pledge the proper recognition of the multi-level and nested nature of public policies offering a deeper understanding of *meta*, *meso* and *micro* levels of policy instrumentation that may restrict or predetermine overall policy decisions (Howlett 2009a).

Certainly, and most naturally, there can appear unaccounted factors beyond formulation designs and during the implementation stage that might interfere with initial program configurations set at higher levels of policy dynamics. Nonetheless, these elements must be analyzed with a contextual orientation and considering the articulation of the numerous constraints and dynamics arising along the entire process (Howlett 2011), the study of policy designs offers such an approach. Relying on a policy design perspective, holds as a strong argument that the substantive content of a policy, along with the ideas that support it and the identified objectives it aims to achieve, should be part of the analysis when explaining policy outcomes (Majone and Wildavsky 1984; Howlett, Ramesh, and Perl 2009). Henceforth, policy outcomes should not be separated from formulation dynamics and should not be regarded as mere results of operational stages; the substance and content of policies cannot be disassociated from any of the phases of the process that generates them.

Correspondingly, the overarching approach of policy design views policy processes from a wider angle that does not disarticulate their functional stages in fragmenting ways, but rather incorporates contextual and dynamic interrelations into the analysis. In this sense, the design approach is more closely aligned with Lasswell's initial thoughts and aspirations on how policy sciences should evolve among the social sciences spectrum: as a flexible and broad discipline able to contextualize rather than fragment in their methods of analysis (1970).

An interesting and recent approach to the study of policy-making dynamics pays significant attention to the role of institutions. Spiller, Stein and Tommasi for instance (2008), consider institutions as substantial policy determinants that need to be broadly understood if trying to assess and grasp particular policy outcomes. In their view, policy-making processes are grounded on political institutions and practices, and to that extent, the quality of these bases determines the quality of policy results. The main mechanism to transfer institutional quality into policy processes is through the capacity of policy actors to cooperate, reach agreements and commit to them over time. Therefore, the authors claim that "in environments that facilitate political agreements, policymaking will be more cooperative, leading to public

policies that are more effective, more sustainable, and more flexible in responding to changing economic or social conditions” (Spiller, Stein, and Tommasi 2008, 6).

In this sense, this approach considers the importance and role that major institutional structures and rules of the game may play on policy-making dynamics at the country level overall, for instance, political regimes, electoral dynamics, the nature of the government (parliamentary, presidential, etc.), the existence of independent judiciaries, property rights etc. However, this approach does not specify how overarching institutional constructions, such as the parliamentary or presidential nature of government or broad electoral systems might affect inter-temporal commitments of policy actors at street-level agencies or within small and temporary policy commissions for instance. It would appear, thus, that there is no specified mechanism to explain the institutional influence throughout complex policy dynamics. In other words, there is not an explicit causal mechanism between high order institutions and low-level policy action. Instead, the approach could be better applied if opening up the intricacies of the policy-making processes through the analysis of policy designs.

The argument developed in this particular project is that the institutional framework does indeed play a significant role in the policy-making processes but it does so at different levels of the policy process, through the complex articulation of selected policy instruments that are designed to pursue distinct policy goals. In this sense, when different analysts and scholars claim that political institutions such as regime type, electoral system, party structure and other contextual features significantly influence the levels of political cooperation and commitment among policy actors, as well as policy stability and policy outcomes, this work puts forth that these features are only one part to consider of the policy design process and that part corresponds to the governance arrangements of the *meta* level of policy processes.

These governance arrangements at the *meta* level certainly set implementation preferences and styles that will indubitably restrict and considerably determine policy actions. Nevertheless, there are also *meso* and *micro* levels to consider in the policy-making processes that correspondingly intervene in how policy outcomes are pursued and ultimately reached. Institutional settings imprint an influence on policy outcomes and in this regard this work concurs with institutional approaches such as the ones proposed by Spiller, Stein and Tommasi, nonetheless, instead of attributing this influence to a broad and for the most part normative concept of ‘good or bad governance’, this work proposes, from a policy design perspective, that it is the coherence and consistency of policy designs, articulated along each of the nested levels of policy action what determines final policy outcomes. In other words,

coherent and consistent policy designs are the structuring forces that lead to policy outcomes, and institutions are one of the factors to consider in the policy design assembly.

Generally speaking, an important part of policy design studies refer to formulation dynamics and the decision-making processes associated to the definition and conception of policy problems and solutions. Formulating policies is a highly complex process that can be compressed in the twofold practice of finding solutions to identified problems by the strategic management of accessible resources. Thus, on one side there is an underlying theory that corresponds to the set of preconceived ideas of policy actors and provides the conceptualization of the policy problem and the possible ways to solve it (Howlett, Ramesh, and Perl 2009; Majone and Wildavsky 1984); while on the other, policy actors formulate strategic mechanisms to manage the governmental resources that are available to them in the articulation of problem-solving practices (Howlett, Ramesh, and Perl 2009). The study of policy designs is essentially concerned with both aspects of the process: policy goals and policy means, "(...) since goal articulation inevitably involves considerations of feasibility, or what is practical or possible to achieve in given conjunctures or circumstances considering the means at hand" (Howlett 2011, 20).

Altogether, policy-making is primarily about combining available means and directing them at the realization of nominated goals. As Majone and Wildavsky summarize it (1984), the essential components of any given policy are objectives and resources; the former being the fundamental expectations that any government might be pursuing while the latter corresponds to the actual means and techniques they can practice in order to attain those particular goals (Howlett 2011). Certainly, Howlett further develops that the process of defining and deciding on policy goals and means is highly constrained and contentious but it lies at the core of the policy design process (2011). Largely, policy substance results from these two basic but complex defining processes.

While a great deal of exploration had been done on the identification of problems and definition of policy goals, mainly through the study of agenda-setting dynamics, little has been advanced on the design of techniques and strategies to deal with those goals, that is, on policy instrumentation. Around the 1970s, efforts for improving policy-making processes started to give more importance to analyzing the impact of particular implementation tools on final results, but it didn't take long before the entire policy analysis approach evolved to focus on the study of instrument choices and their impacts on policy outcomes (Howlett 2011). Salamon and Bardach, for instance, in the early 1980s suggested that earlier works on policy issues had been focused on the wrong unit of analysis when looking at individual policy

programs; the authors argued that they should have rather centered around the governmental tools that actually embody authentic and concrete techniques of social intervention (in Howlett 2011).

The growing literature on policy tools and instrument choice rapidly started advancing inventories and taxonomies of the extensive assortment of policy instruments to then construct models for their selection and analyses on their dynamics, effects and implications. Behavioral models were developed to try to explain the adoption of certain policy instruments over other available pool of options, as well as the development of policy patterns, policy regimes, implementation styles, governance modes and more generally, what would imply the selection of certain techniques of intervention on the policy-making cycles altogether.

This stream of studies firstly departed from acknowledging that all governments must ineludibly face a long list of limitations of many types and sources that bound and delineate their scope for action, it then becomes evident that a crucial aspect of policy design requires identifying the actions that are technically, financially, politically or administratively feasible (Howlett, Ramesh, and Perl 2009). As Majone and Wildavsky would claim, “as long as we cannot determine what is feasible, we cannot carry out any well-defined policy univocally, all we can do is carry along a cluster of potential policies” (1984, 169). Howlett et al (2009) for instance, point out the existence of two major types of governmental limitations, different in kind but highly inter-related: substantive and procedural. While substantive constraints “are innate to the nature of the problem itself” (112), procedural obstacles refer to the process of adopting or implementing a particular policy option, meaning the institutional dispositions, actors and (preconceived) ideas that may interfere in the adoption or the carrying out of particular policy decisions.

It follows that selecting policy instruments to use across policy constructions vastly depends on both governmental resources available and curbing constraints; however, as Howlett wisely asserts “(...) while the choice of policy means is context driven and resource contingent, the toolbox with which designers must work is essentially generic” (Howlett 2011, 57), referring to the natural boundaries in place that also limit the availability of possible choices.

An additional conceptual consideration is that policy instruments are by and large ‘multipurpose’ or ‘multifaceted’ as they can be part of all and each of the stages of the policy-making circuit, playing different roles and pursuing diverse goals in each of them (Howlett 2011). This particular point, highlights the importance of the multilevel nature of policy dynamics, that goes beyond the stagist view of causal chains in the policy process to reveal a

nested set of relationships occurring within broad frames of governance modes and under certain policy regime logics (Howlett 2009a). Consequently and most significantly for the purposes of this work is the fact that instrument choice essentially encloses a deliberate decision-making procedure where technical, political, economic and/or ideological principles may all weight and exert some influence on the different stages and levels of the process.

One of the first highly influential works on the categorization of policy instruments was Lowi's four-cell matrix of governmental activities, which the author produced with what he identified to be regular or long-lasting types of policies in the United States of America adopted for lengthy periods of time. This scheme combined and extended previous taxonomy developments advanced by Cushman in 1941 and Dahl and Lindblom in 1953 (Howlett, Ramesh, and Perl 2009), to suggest that governments would mainly elaborate four³ major types of policies using their coercive functions, targets of interest and likelihood of full application: 1) Distributive policies, individually targeted and weakly sanctioned, 2) Regulatory policies, individually targeted but strongly sanctioned, 3) Redistributive policies, generally targeted and strongly sanctioned, and 4) Constituent policies, generally targeted but weakly targeted (Lowi 1972; Howlett 2011). Even though Lowi's scheme proved difficult to apply in other settings and further analyses, it introduced, according to Howlett (2011), the idea of the multi-level and nested nature of selecting policy instruments that would be later adopted in analytical developments to come.

In 1986, Christopher Hood developed the NATO model in which policy instruments were classified according to the main governmental resources they would rely on. According to Hood, governments would mainly employ four categories of the limited resources available, generally in combinations, to construct their policy strategies. These resource-based classifications would be: informative means (nodality), legal powers (authority), financial means or money-related resources (treasure) and institutional organizations (organizations) (Howlett 2011; Howlett, Ramesh, and Perl 2009). As a result, Hood's matrix offers an eight-cell space to inventory and typify policy tools according to their main purposes and to the resources they mostly employ. Hood's scheme, presented in Table 1 below with some examples, was also the result of improving or complementing on preceding works on the subject.

³ The author had initially proposed three types of policies and later added a fourth one.

Table 1. Hood's Scheme for a resource-based classification of policy instruments (NATO)

Principal Use	Governing Resources			
	Nodality	Authority	Treasure	Organization
Detectors	Surveys Advise committees	Licensing Advisory committees	Policing	Record-keeping
Effectors	Advertising Commissions Public information campaigns Information release	Regulation Self-regulation Command and control	Subsidies Grants Taxes User charges Loans	Government agencies

Source: Adapted from Howlett 2011 and Howlett et al 2009

According to Hood's classification, policy instruments would be first grouped into a category referring to the principal use the tool is expected to produce: detectors when perceiving changes in the policy environment or effectors when in charge of producing them (Howlett 2011). Next, Hood's governing resources (columns) for policy tools based on the use of information (nodality) mainly refer to public campaigns and disclosure efforts to inform the public about particular dynamics, processes, performance, achievements, decisions, laws, etc. Disseminating information can take the form of regular reports, performance indicators, special studies as well as short-period campaigns to introduce policy insights, specific situations or resolutions. Using information campaigns to exhort people to act in certain ways or modify their actions is also part of a policy strategy that tries to influence preferences and behavior. Information-based tools can be also utilized to collect informative material from society or targeted groups of the public, for later processing as inputs for policy formulation. Usually, dissemination efforts go in conjunction with other policy measures, as the intention to influence preferences or exhort particular actions is highly dependent on interpretation, real access to the information disclosed, etc. Another type of information-based tool can be the creation of special commissions to debate and define policy problems and possible solutions with the general public. In this way, academic and specialized sectors can be invited to discuss particular issues and generate relevant information in the matter of interest (Howlett, Ramesh, and Perl 2009).

Next in the matrix is the authority-based type of instruments, which have more to do with the regulatory and coercive functions of governments. For example, the creation of rules, laws, prohibitions, and other type of controlling measures serving as policy tools to regulate economic issues or social behavior. Regulations are usually administered by special agencies or governmental departments and require coordination efforts for compliance (Howlett, Ramesh, and Perl 2009). Treasure-based instruments, on the other side, are those policy tools

that require the governments' ability to raise and disburse funds in order to incentive or disincentive certain activities. These instruments normally reward or penalize private actors through some sort of financial transfers arrangements, such as grants, subsidies, loans, taxes and user charges (Howlett, Ramesh, and Perl 2009). At last, organization-based policy instruments basically refer to the use of governmental bureaucracy. Public sector's agencies, public and mixed enterprises, public-private partnerships and/or different types of specialized public institutions among others can be used to manage policy formulations.

Yet an additional critical dimension must be considered when categorizing policy instruments. Considering the substantive and procedural nature of governmental constraints as Howlett et al would suggest (2009), it follows that there are policy tools to correct these interfering limitations: substantive and procedural tools. Correspondingly, for substantive constraints "innate to the nature of the problem itself" (112), there are substantive tools that intend to affect the core of policy problems (production, distribution of goods and services in society, their types, prices, and main characteristics). In the same vein, for procedural obstacles referring to the process of adopting or implementing a particular policy option, there are procedural tools to address policy processes and foster the suitable articulation of goals and means (Howlett 2011; Howlett, Ramesh, and Perl 2009). On balance, these two overarching types of implementation instruments could entirely assemble the vast tool inventory identified throughout years of research.

Once inventories and taxonomies were vastly developed across the literature, analytical efforts were still needed to disentangle the rationale behind the selection of instruments and the design of techniques for policy action through either one or a combination of the numerous policy instruments inventoried; the challenge was consequently placed on better understanding the factors that would explain instrument choice and overall governmental preferences for certain types of policy tools over others. For instance, some policy tools might be chosen for particular approaches in which targeted groups or specific goals orientate the decisions, whereas some others might respond more to ideological, economic, political or technical criteria.

The selection of policy instruments is, according to some analysts, considered to be an inherently political process (Peters 2002), where interests and benefits can be conferred to some and refused to others. Or where particular political dynamics get systematic support and promotion, legitimizing the efforts done by governments to solve noticeable problems. It might be a political concern, for instance, the visibility and intrusiveness of some policy instruments, effecting disapproval and distress among societal groups (Peters 2000), or to the

contrary, it can be politically inconvenient to have scarce diffusion of policy initiatives that are especially targeted at some beneficiaries in particular. Many studies have also suggested technical and cost-effective types of considerations as rationales behind the adoption of certain policy mixes.

Instrument strategies represent and embrace governing resources. After all, policy instruments are essentially planned and calculated techniques of governance (Howlett and Rayner 2007). In this sense, whereas feasibility and practical limitations are important determinants of instrument choice, previous policy choices are crucial factors too, indicating the important historical dimension of instruments' selection processes. Incremental policy learning, positive or negative feedbacks and increasing returns may have a considerable weight in the reformulation of policies and on the assembling of new instruments mix.

In practice, governments tend to choose from a historically-determined range of instruments out of all available options, creating implementation styles that tend to stick over long periods of time despite their actual levels of efficacy, and to institutionalize policy practices and regimes (Howlett and Rayner 2007). Ultimately, it appears that it is a combination of constraints and policy-makers preferences, what predominantly determines the choice for some set of instruments over others (Howlett and Giest 2013); which basically accounts for many of the political, economic, ideological and technical dimensions to contemplate and ponder when choosing among policy tools. For each policy round, the cocktail of selected policy tools is to a great extent the result of dynamic interrelations of crucial factors that within larger frameworks, tend to reproduce established governance modes and policy regimes logics (Howlett 2009a).

A better understanding of policy designs would unmistakably lead to the study of optimality and effectiveness of policy mixes, just as policy problems once guided the efforts for the analysis of implementation problems. The study of policy mixes and instrument choice dynamics is a very promising base to disentangle effective complementarities as well as interfering conflicts among policy instruments.

Designing policies undoubtedly represents a very complex process that needs to be consistent not only internally in terms of the goals pursued and the means available, but also appropriately fitting its surroundings and contextual frameworks in order to be applicable or implementable. Hence, policy designs are the actual generators and containers of applicable or inapplicable formulas, and enclose the elements that are used during the implementation phase to meet consensually (or authoritative) agreed goals. Policy designs, can be said to

contain the codes to channel either greater or fewer opportunities for diversion from initial intent of policy statements.

Certainly, governments must work with a given and limited amount of resources, thus, policy instruments or policy tools represent a substantial part of their techniques and strategies to address chosen targets (Howlett, Ramesh, and Perl 2009). Thence, when it comes to finding the criteria that governs their selection and design for each of the policy phases, and more emphatically for implementation purposes, it is rigorously a policy design concern and a philosophical puzzle that has dominated policy science studies for long, and more predominantly over the past few decades.

Analyzing the rentier paradigm through fiscal policy designs: the methodological framework

As it was previously announced, the main objective of this particular study is to analyze the rentier paradigm from the study of fiscal policy designs in Venezuela during the period 2000-2010. It pursues this goal through the assessment of fiscal policy instrumentation, which implies the analysis of the deliberate selection, combination and implementation of particular sets or bundles of policy tools, that is, the policy mix or the instruments mix. Indeed, this project aims to assess the consistency, coherence and congruence of fiscal policy designs through its instrument mixes by: 1) analyzing the consistency of policy aims and objectives with the selected instruments across multi levels of policy dynamics; 2) analyzing the substantive consistency of policy tools across different categories; and 3) analyzing the consistency and congruence of the substantive and procedural policy tools selected. In what follows a methodological frame is presented as a brief mapping scheme of how this analytical endeavor is guided and organized. It starts with the characterization of the policy area or sector to be examined, to then introduce the three major categories of analysis of policy design.

Characterizing the policy area

In order to start a policy design study it is imperative to identify and delimit the policy sector or area under scrutiny. A thorough understanding and characterization of the policy sector should facilitate the detection of the typical types of policy tools available or the influential factors that may play substantial roles in the policy-making dynamics of that particular sector. Indeed, identifying the kinds of tools available to be mixed approximates the analysis through a NATO scheme model. Generally, the construction of policy mixes can be considerably determined by context-dependent features of a policy domain (Howlett and Rayner 2007),

associated to particular context-dependent problems or dynamics that are exclusive to that precise sector (Howlett, Kim, and Weaver 2006). This initial effort aligns with one of the three main techniques utilized to assess the instrument components of governance strategies: *'The conventional approach: instrument use in policy domains'* in which the natural boundaries and categories of a policy sector or field ease the identification of instruments (Howlett, Kim, and Weaver 2006).

Besides, not all policy sectors are equally complex or extensive, having policy sets that involve different numbers of programs, agencies and policy actors. The typical programs in one policy area can be particularly intricate and involve many agencies, while in others policy programs can be relatively simple and straightforward. Similarly, some policy areas may require big functional agencies to operationalize their programs, while in other sectors small and less complex types of agencies might be well enough, and so forth. In this sense, characterizing the policy area allows for delimiting natural borders and limits, as well as the typical profile of the main agencies and programs usually involved. Trying to assess the different programs of a policy domain relates to the *'Program method'* technique in which exploring government organizational charts, public accounts, and other records can help discern governmental activities in specific policy fields for the purposes of analyzing policy instruments (Howlett, Kim, and Weaver 2006).

In practice, it is worth noting that the interrelation of a policy domain towards an agency and a program is not necessarily based on a 'one-to-one' scheme (Howlett, Kim, and Weaver 2006), on the contrary, it is highly possible that intricate connections exist between each of the policy elements. Decoding the subtleties and complex relationships of the elements of a particular policy sector is undoubtedly a first approach of the design study. From another perspective, defining and seizing the extensions of a policy area, is a way to address its complexity, as a first step of the analysis that allows the capturing of policy regime logics and its overall nature.

Consistency and coherence of policy aims and policy means

A second step of the analysis assesses the consistency and coherence between the policy objectives and the policy means of the policy mix. As it was previously discussed, policy instruments enclose governance strategies and techniques to pursue particular goals while managing and dealing with numerous constraints. Hence, policy instruments are the result of a complex process of matching aims and means according to certain contextual and pre-established preferences. Policy tools are rarely chosen or designed in isolation; therefore, the

configuration of tool packages increases the levels of complexity and can potentially introduce misalignments or inconsistencies toward the attainment of main policy goals.

There are different levels of policy action with different degrees of abstraction for the decision-making practices that directly affect and determine the types of policy objectives to pursue and the types of policy instruments to select from and design when trying to accomplish particular goals. The level of harmony between policy aims, objectives or targets, and policy means, tools or instruments is neither linear nor static, but it is rather the result of nested relationships across the different levels of policy action that codetermine and influence each other in an integrated system. Therefore, to assess the consistency of policy mixes, the multi level and nested nature of policy processes must be incorporated. In this way, policy instruments can be analyzed according to the level of abstraction and application where they are selected, designed and employed, while the interrelations across the different levels of policy action can be accordingly integrated into the evaluation.

In Table 2 below, there is a scheme presenting the different levels of abstraction and action for the policy instrumentation process. In the *high* or *meta* level of abstraction, decisions are made on general policy aims and implementation preferences. It corresponds to the level where governance modes are defined and reproduced, as distinctive sets of favored ideas and instruments that cluster over time and are utilized over multiple policy contexts (Howlett 2009a). In this sense, governance modes tend to reflect the nature of preferences toward both goals and means, of the particular set of policy actors, ideas and institutional frames that dominate a particular jurisdiction in a particular time (Howlett 2009a). Subsequently, these governance modes get to define certain policy aims and preferences that will in turn influence and determine policy dynamics at sectorial and bureaucratic levels. Shortly put, governance modes 'set the tone and norms' for policy action at the *meso* and *micro* levels.

Decisions made at this level generally correspond to long-term policy ambitions in highly abstract conceptual levels, such as economic plans for medium to long-term perspectives, human development goals that can be only accomplished in the long run through careful coordination of sectorial policies, and so on. Hence, the policy means or instruments envisioned for policy designs at this level of abstraction, involve high-ranked organizations such as state level institutions, state organizations, international associations and agreements, etc. (Howlett, Kim, and Weaver 2006).

Decision-making processes resulting from this level will definitely restrict and influence the set of policy decisions that are to be taken subsequently in lower levels of policy action. As a result, instrument choices at the *meso* and *micro* levels of policy action, are firstly constrained

and determined by the dominant governance modes developed in particular settings over particular periods of time. In this regard, it is relevant to add that governance modes have been also typified according to the preferences for general kinds of substantive and procedural policy instruments they tend to rely on when trying to attain policy goals. Four main types of governance modes were identified by Considine and colleagues, based on the main governance aims and implementation preferences designed to fulfill them (Considine 2001 in Howlett 2009a); each type combines policy tools according to clear preferences and styles that tend to interact in compatible and coherent ways:

1) Legal governance modes, where overall aims are related to ensuring legitimacy, and implementation preferences are based on instruments of the legal system. Therefore, direct government law and regulations, as well as taxes for regulation and censorship can be the typical policy tools preferred in this type of arrangement (Howlett 2011; Howlett 2009a).

2) Corporatist governance arrangements, where overall policy aims are controlling and balancing rates of socioeconomic development, and implementation preferences are based on the state system; hence, in these types of governance modes there tends to be a clear preference for the use of state-owned enterprises, delegated regulation, the use of subsidies, interest group mobilization and information campaigns as policy tools (Howlett 2011; Howlett 2009a).

3) Market governance modes have objectives based on cost-efficiency and market competition, and implementation preferences are set around instruments of the market system; therefore, implementation propensities are to contracting out, outsourcing activities, tax incentives, etc. (Howlett 2009a; Howlett 2011).

4) Network governance modes tend to exhibit policy aims related to self-organization of social actors, and implementation preferences are about network system, relying on the use of clientele agencies, consultation mechanisms, interest group formation, among others of the like (Howlett 2009a; Howlett 2011).

Studying these categories for governance modes responds to the analytical efforts devoted to find causal and standardized relationships between governance styles and implementation preferences; however, scholars have rather come to recognize an indeterminate relationship between this variables, as governance arrangements greatly vary according to different contextual settings impeding a more established categorization.

Essentially, the set of pre-established aims and implementation preferences “affect the articulation of more concrete policy elements such as policy objectives and tools, as well as

policy targets and tool calibrations” (Howlett 2009a, 76) in a nested system of relationships. After all, governance modes largely refer to coordination mechanisms and styles of governing, developed and articulated between governmental actors and society.

The next column corresponds to the *normal* or *meso* level of decisions, where there is a more concrete level of abstraction, generally associated to the dynamics of separate or sectorial policy domains, such as education, health, defense, economic and fiscal policies, etc. At this level, strategic goals are set to be reached in shorter periods of time and usually follow and replicate certain implementation styles formerly and progressively adopted over time. Implementation styles are influenced by the governance arrangements of the *meta* level, but are made of policy mixes combining both substantive and procedural tools to attain policy objectives. Therefore, a policy regime logic is developed at the *meso* level of policy action as there is still scope for engaging on policy designs and instrument choices. However, it should be stressed that governance modes of the *meta* level are taken as fixed constraints, and policy actors at the *meso* level must adapt their particular preferences in the management of policy processes to the policy ‘trends’ and boundaries set at higher-order levels (Howlett 2009a).

At last, in the last column on the right side of the Table, there is the *micro* level of policy decisions where there are *low* degrees of abstraction concerning the definition of objectives and tools for policy action; instead, at this level, it corresponds to the public administration concretely to carry out the operational objectives assigned to specific agencies, with the restrictions set and accumulated from the higher-order levels of policy. On this level, there is still room for concrete targeted policy tool calibrations and implementation techniques preferences in order to attain objectives that are most-likely defined to be reached in the short-term (Howlett, Kim, and Weaver 2006). Policy tool calibration and fine-tuning of particular techniques take place at this level where policy actors adapt their own preferences and aims to those of the wider frame.

Table 2. Three-level policy instrumentation

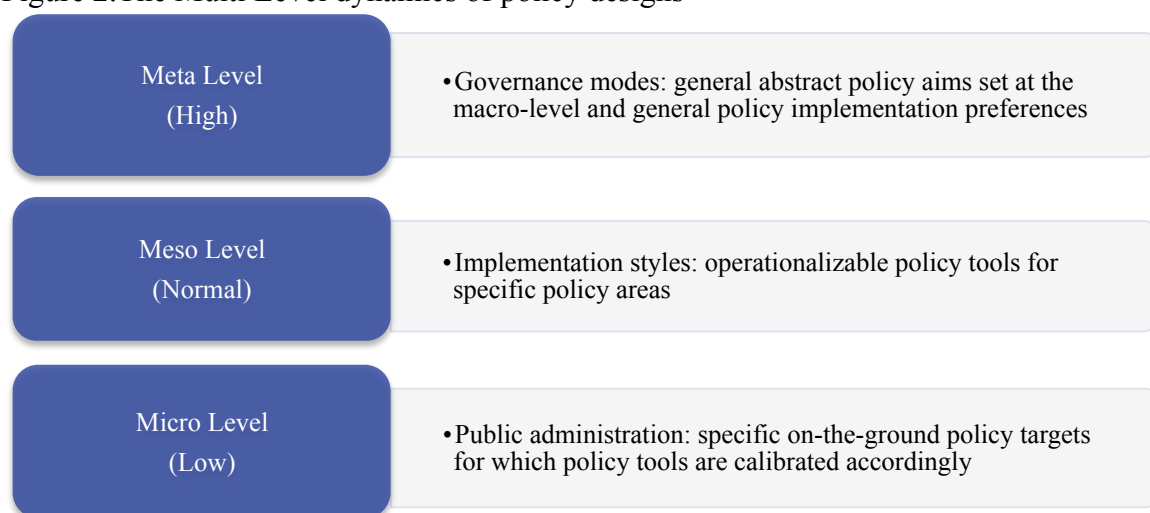
Policy instrumentati on levels	Abstraction degree		
	High	Normal	Low
Action level	Governance modes	Implementation styles	Public administration
Objectives	Final goals; general abstract policy aims	Strategic goals; operationalizable policy objectives	Operational objectives; specific policy targets
Means	Institutional design; general policy implementation preferences	Policy design, Instrument mix	Conjunctural and specific tool calibration

Source: Adapted from Howlett 2009 and Howlett and Cashore 2009.

According to Howlett et al (2006), policy design reflects a nested set of decisions where the inter-linkages across and between each of these three levels of abstraction articulate the definition of policy goals and means. That is, whereas the nature of policy objectives and the availability of policy means is different throughout the three levels of abstraction, decisions to be made at each of these levels are not independent from each other (Howlett 2009a). Thus, these interconnections tend to restrict the number of alternatives available, which significantly reduces the room for discretion and overall simplifies the policy-making tasks; nonetheless, there are still spaces for misalignments and distortions along the multi-level causal chain of nested interrelations.

Policy-making is essentially about matching policy objectives to policy means, and a basic requirement for successful pairings is consistency among them. Similarly, both policy objectives and means reflect the dynamics of their particular levels of policy abstraction (vertical reading of the columns in the Table) but are also determined, to a big extent, to the other levels of abstraction (horizontal reading of the columns) by the inter-linkages that exist among them. In practice, this associative order represents an overarching chain of hierarchical restrictions, policy objectives and available means to develop policies. As Howlett wisely claims, “improved policy design requires understanding the linked nature of goals and means but also the nature of their relationship in each of the different orders of policy: from governance mode to policy regime logic to instrument calibration” (2009a, 75). Figure 2, presents a visual outline of this hierarchical order.

Figure 2. The Multi Level dynamics of policy designs



Source: Adapted from Howlett 2009 and Howlett and Cashore 2009.

Taking into consideration this multi-level model of policy design is highly useful when assessing the consistency and coherence between policy means and policy objectives, because it provides a pragmatic and ordered model to analyze the complex dynamics of the policy-making process.

Moreover, when assessing policy change, especially its determinants and possibilities, the scrutiny of policy levels simplifies the identification of the processes of change and helps uncover numerous mechanisms through which policy change can essentially occur (Howlett and Cashore 2009). Even though, this project is not particularly concerned with the study of policy change as such, there are some aspects of these studies that are fundamental in explaining the main argument of this analytical work and the fiscal policy design in Venezuela during the period 2000-2010.

Even though Peter Hall did not explicitly consider the multi-level nature of policy-making processes, his arguments about the different types of changes in policy developments can be also approached from the taxonomy of policy levels afore mentioned (Howlett and Cashore 2009). For instance, Hall's description of changes of first and second order imply isolated changes to either the settings for basic instruments or to instrument selection respectively, to affect policy goals that would for the most part remain invariant. On the other hand, adjustments of the third order would imply more profound changes to the roots of policies, that is to the ideas that define and prioritize policy problems and the main techniques to address them. Hence, a shift of policy paradigms would involve the redefinition of policy goals and objectives, as well as the chosen techniques to effect them.

In this sense, and considering the multi-level nature of public action, a change of policy

paradigms would essentially relate to changes in the *meta* level of public action where general policy aims and implementation preferences are defined. As afore mentioned, governance modes that are defined and reproduced at the *meta* level, embrace the nature of preferences towards both goals and means and in turn influence and determine policy dynamics at sectorial (*meso*) and bureaucratic (*micro*) levels. Therefore, profound changes of ideas that redefine goals and means relate to the *meta* level of public action which in turn affects, influences and constraints the *meso* and *micro* levels of policymaking.

Since ideas are developed through time and within particular contexts, they have hegemonic power over the policy process as they determine and influence the identification and definition of problems, the priority given to taking care of particular issues, the selection of instruments to approach them and the objectives or goals associated to their successful overcoming. Such preconceptions constitute the paradigms around which policy actors get organized in subsystems through institutions that serve as the structures that are both shaping and being shaped by the entire policy circuit (Howlett, Ramesh, and Perl 2009). In such a scheme, ideas are central as they are, essentially, policy paradigm builders.

Nevertheless, policy dynamics also follow and are greatly shaped by policy legacies or past experiences and practices (Hall 1993). In this respect, Howlett and Rayner (2007) claim that new policy development is almost always constrained by previous policy choices which have become institutionalized; therefore, shifts in paradigms need to transform and permutate both the ideas that define and direct goals, instruments and the very nature of the problems that policies are meant to address, as well as the institutions that have institutionalized those ideas over long periods of time. Thenceforth, paradigmatic changes only occur when institutions, as structuring figures, are also transformed (Howlett and Cashore 2009). Moreover, the changes in ideas and institutions need to be compatible or reinforce each other in order to endorse durable policy changes and not only incremental or cumulative alterations to the status quo. These considerations about policy dynamics are extremely relevant for the study as they stress the importance of the context when analyzing oil-led countries and their policy phenomena.

Substantive consistency of policy mixes

Next in the analysis of policy designs is the assessment of instruments within their bundles or mixes. This analytical task is primarily descriptive and focuses on assessing the inventoried primary or substantive policy tools across categories. Table 3 below presents the Hood's eight-cells NATO scheme for inventorying primary policy tools.

Most generally, policy programs are considered of being designed on the base of only one primary or substantive policy tool; that is, one key instrument that because of its nature is

capable of directly affecting the core of the identified policy problems or specific targets. However, the primary resource a government relies upon to attain certain policy objectives, needs a number of other primary resources to be complete. All in all, the substantive nature of one policy tool does not make it almighty or omnipotent; on the contrary, there are many aspects to consider when designing a particular policy scheme that will inevitably lead to the addition of complementary instruments and synergetic elements. Subsequently, and as it has been previously discussed, policy tools are usually designed in bundles or in combination with other set of substantive instruments. Hood's scheme provides a frame to map at least eight basic types of substantive instruments based on the resources they mainly rely upon. For example, public information campaigns (informative instrument) will necessarily need financial support (treasury-based instrument) to be executed, as well as some governmental agencies (organization-based instrument) to organize and coordinate the policy initiative. Similarly, a tax reform will need to use regulatory dispositions (authority-based instrument), the reorganization of tax authority agencies (organization), financial resources to adjust previous taxing schemes, build administrative capacity and display information, which also leads to information release efforts (nodality), and so on.

Identifying and inventorying the combination of substantive instruments selected for a given policy, is a significant way to measure the 'substantive completeness' and the internal consistency of a given tool portfolio design, because it can ease the detection of interrelations, complementarities or synergies, as well as omitted linking tools and potential conflicts among the instruments selected. After all, policies are made of a multifaceted number of elements that are not necessarily amenable or easy to design and put together (Howlett 2009a). In general, instrument mixes need to be complete and internally consistent so as to fully and efficiently carry out policy strategies, or as Howlett would assert (2011), in order to design optimal policy mixes, instruments chosen must create positive, synergetic or complementary interactions with each other.

Nevertheless, in practice, instrument choices do not always account for all possible needs and some designs may overlook the inclusion of certain policy tools that are also necessary to affect the core of policy problems. For instance, a set of policy tools may be initially designed without a complete account of the financial resources required to sustain it along different stages, thus, the policy plan might be only operational for a shorter than expected period of time and some adjustments will be needed if continuity is desired. Similarly, policy programs based on new regulatory frames may be only poorly applied if informative mechanisms were not accordingly designed and put in place timely and appropriately, etc.

Furthermore and considering the multi level nature of policy dynamics, there tends to be groups of instruments that are specifically selected and applied in certain policy domains at the *meso* level of policy actions, or specific tool calibrations that are most likely designed at the *micro* levels of policy. Hence, building a sector profile with a typical or standard policy mix containing a list of the characteristic policy instruments distinctive of that particular sector, can ease the detection of internal consistency among the instruments selected, as well as the level of completeness of a particular policy mix.

Table 3. Hood's Scheme for a resource-based classification of policy instruments (NATO)

Principal Use	Governing Resources			
	Nodality	Authority	Treasure	Organization
Detectors	Surveys Advise committees	Licensing Advisory committees	Policing	Record-keeping
Effectors	Advertising Commissions Public information campaigns Information release	Regulation Self-regulation Command and control	Subsidies Grants Taxes User charges Loans	Government agencies

Source: Adapted from Howlett 2011 and Howlett et al 2009

Consistency of substantive and procedural instruments within policy mixes

Just as it was generally assumed that policy designs could be made of a single type of primary or substantive instrument, extending the analysis to include other instruments in the policy mix usually omitted the existence or inclusion of procedural types of instruments. The primary resource a government relies upon to attain certain policy objectives, undoubtedly needs a number of other resources to be operationalizable, which logically leads to including other substantive tools in the policy design confection; however, despite the tendency to neglect them, procedural tools need to be added either up front or at second rounds of adjustments if aspiring feasibility at all. Although procedural instruments have been generally and systematically disregarded from policy design analyses, both substantive and procedural tools are actually essential in policy designs (Howlett, Kim, and Weaver 2006).

As it has been previously discussed in this Chapter, substantive instruments are designed to address core aspects of the policy problems; and in turn, procedural types of tools are designed to address core aspects of the policy process itself. Therefore, whereas without primary or substantive tools all other policy resources can be unnecessary, without procedural tools substantive instruments can be rendered inoperable altogether. Moreover, while substantive instruments are conceived to affect policy issues directly, procedural instruments

end up affecting policy outcomes in more indirect (yet highly important) ways; and actually, they can modify the nature of policy processes at work (Howlett and Giest 2013).

Subsequently, to continue with the analysis of consistency, other criteria must be incorporated in the assessment of policy mixes. The logic of completeness acquires a broader sense to incorporate policy tools that actually effect the operation of other instruments approved into the policy program. The substantive nature of the tool portfolio design evaluated in the preceding point, must then additionally consider the combinations and harmonization of substantive and procedural tools overall.

The instruments taxonomy initially developed by Hood in Table 3 provides a clear and relatively simple scheme to classify substantive policy instruments according to leading categories of governmental resources; thereafter, the scheme has been adapted and expanded by several policy scientists to include further dimensions within the four main resource-based categories. One of the most prominent additions corresponds to procedural types of instruments.

Procedural instruments can be included transversally across basic or expanded NATO types of schemes such as the case presented in Table 4 below. Therefore, the analysis should be focused on the consistency between substantive and procedural instruments across the categories of governmental resources developed by Hood. A similar exercise to the previous one could unveil synergies or missing pieces in policy designs when examining across categories and through the lenses of substantive and procedural types of tools.

The consistency of instruments mix is then measured by the examining how substantive and procedural tools fit together within resource-based categories (vertically in Table 4), and how they connect to other policy tools, substantive and procedural, in the other set of categories of the NATO scheme. It is highly important to remark that this type of assessment is not a static one, but it rather considers its dynamic and changing nature; therefore, the analysis should contemplate how the set of instruments across the different categories interact over time to adjust and correct operational difficulties throughout the iterative nature of policy cycles.

Equivalently, and adapting procedural tools to Hood's initial model where substantive instruments were firstly classified according to their main purpose: to detect useful information for policy-making considerations, or to effect policy changes; procedural instruments could be also classified according to their main use, that is to either promote or restrict the behavior of other policy actors. Correspondingly, the distinction between 'positive' and 'negative' types of procedural instruments is set depending on their deterring or

encouraging purposes (Saward 1992 in Howlett 2011). Table 4 below presents the adapted version.

Table 4. Scheme for resource-based classification of policy instruments

Purpose of tool		Governing Resources			
		Nodality	Authority	Treasure	Organization
Substantive	Effectors	Public information campaigns Information release	Licensing Regulatory agencies	Subsidies Grants Taxes User charges	Public enterprises Government agencies
	Detectors	Surveys			
Procedural	Positive	Advertising Training	Administrative advisory committees	Loans Funds	Government reorganizations
	Negative	Propaganda	Preferential access	Targeted funding	

Source: Adapted from Howlett 2011.

III. Fiscal policy designs: the case study of Venezuela (2000-2010)

*“With so much time of oil experience,
it is reasonable to take Venezuela
as a demonstrative example
of the unhappy consequences
that may actually cause this type of export wealth”
(Pérez Alfonzo 2011, 39)⁴*

Venezuela is an oil country. Since the first decades of the 20th century Venezuela started instituting its oil vocation and already by the late 1920s, the country had positioned itself as the first oil exporter of the world⁵ (Rodríguez Sosa and Rodríguez Pardo 2012). Oil had decisively become a structuring factor: it was established as the main Venezuelan export and the largest sector of the domestic economy. Since then, the country has hosted several types of political regimes varying from different styles of dictatorships, to transitory democratic pacts, enduring or more stable democracies and semi-autocracies, as well as different ways to arrange economic policies according to various views and ideologies; across all of these scenarios, oil has been a constant and overriding factor (Corrales and Penfold 2012).

Because Venezuela has essentially based most of its economic and political strategies as well as sociological dynamics around the exploitation of petroleum resources, it is nearly standard across the literature of all genres, both local and foreign, to find oil as a distinctive referential aspect of the country's performance. Therefore, any contemporary revision of Venezuelan history will indubitably scan, at least briefly, the situation of the oil industry. Legal frameworks for extractive activities, as well as oil prices and quantities produced/exported, can indeed provide important inputs about the country's performance, to then construct deductive diagnoses on general economic, political and social indicators. This is part of the reason why certain oil landmarks like the oil booms of the 1970s and 1980s have generated transcendent referential images of the country in the collective memory of Venezuelans, such as the *Great Venezuela* or the *Saudi Venezuela* of the 70s and most recently, the *Bolivarian and Revolutionary Venezuela* of the 2000s. In most analyses, Venezuela's performance is directly or indirectly linked to its oil endowments.

⁴ Translation by the author

⁵ In 2013, Venezuela was ranked as the 9th largest oil exporter of the world, and as the 12th largest producer of petroleum and other liquids, according to the Energy Information Administration of the US (EIA). Information available at: <http://www.eia.gov/countries/analysisbriefs/Venezuela/venezuela.pdf>

There is no controversy about the manifest dependence of the country on its petroleum resources. As several authors would suitably comment, it is not so much about how abundant they are, it is more about how dependent the country is on them. The domestic economy is highly contingent on the multiplier effect of public spending that is primarily fueled by oil exports and the associated revenues they produce (Niculescu and Moreno 2010); this scheme has been the overall prevalent dynamic ever since petroleum resources were first discovered. Over the initial instituting years and then during the period of the 1930s to the late 1970s, Venezuela experienced a progressive and for the most part sustained economic growth mainly based on the generous revenues that the oil industry would provide. The approach towards these riches and the role of the State in managing them or benefiting from them varied through time ranging from granting quite lax concessions to foreign international oil companies around the 1920s to then rising highly contended negotiations over taxes, royalties and shares of participation during the 1940s⁶ and 1950s, to finally reaching an agreement for the Venezuelan State to sanction the full nationalization of oil and iron resources in 1976;⁷ movement that assertively steered the foundation of the national state oil company *Petróleos de Venezuela, S.A* (hereinafter “PDVSA”) on the same year. At the time of the nationalization of petroleum resources, the State was already participating in as much as 94% of total net oil income (Rodríguez Sosa and Rodríguez Pardo 2012).

The rapid consolidation of Venezuela as a petro-state was dazzling and it implied quickly advancing in the development of a new profile for the country. According to Baptista (2006) the general panorama of Venezuela was completely modified in a matter of decades, improving the living standards and material opportunities of the Venezuelan population, as the petroleum exploitation activities were gradually incorporated into economic, political and social dynamics. From being one of the poorest and most underdeveloped nations in Latin America during the 1920s, Venezuela reached impressive levels of modernization and economic growth substantially fast (Baptista 2006; Rodríguez Sosa and Rodríguez Pardo 2012; Hausmann and Rodríguez 2014b). Along the transition, and despite the ups and downs of the adjustment process, the overall effect was a radical change. By the 1960s Venezuela had transformed from being 30% urban to being 30% rural⁸.

⁶ The first Petroleum Law was sanctioned in 1920 under the dictatorship regime of Juan Vicente Gómez, later, in March of 1943 a more structured and formal set of laws for the oil sector was passed: the Hydrocarbons Law and the Income Tax code under the presidency of Isaias Medina Angarita.

⁷ The nationalization of the oil industry was sanctioned under the first presidency of Carlos Andrés Pérez, the 29th of August of 1975 to become effective as of the 1st of January of 1976.

⁸ “Disaster Resistant Caracas, Urban Planning Studio” 2001

The process of industrialization that rapidly altered the rural landscape of the country had immediate consequences on the rest of the economy, since it was driven by a growing specialization on the extraction and commercialization of a very volatile commodity. Along with the progressive expansion of the ‘oil economy’, an abandonment of rural activities⁹ led to the impoverishment of rural areas across the country causing a massive exodus to rapidly be placed in the cities where the economic opportunities were highly attractive, despite the fact that the migration flows didn’t always and necessarily match the labor market demands of the time. The disproportionate effect of such an economic growth transmuted into regional disparities that proved to be economic deterrents over time. Nonetheless, the economic prosperity powered by oil was still promising as would suggest most of the macroeconomic indicators of the time, and undoubtedly, there was no resemblance to the point of departure. Nevertheless, the tremendous demographic and infrastructure transformations taking place were hiding the perverse nature of the underlying process.¹⁰

The same speed that brought up the economic growth soon started to become the evidence of a collapsing rentier model. By the end of the 1970s Venezuela stopped its growing path to begin a process of continuous stagnation and severe crises from which it hasn’t recovered ever since. According to Hausmann and Rodríguez (2014a), there are three main reasons behind the Venezuelan growth collapse: the progressive waning of oil production, a sustained decline in non-oil productivity and a generalized incapacity to develop alternative industries. All rent related affections.

During the period of rising growth rates and prominent advances in social development, the escalation of public income levels that was fueling the economy, was not the result of higher oil prices but it was actually the effect of mounting fiscal pressures (royalties, taxes, etc.) and state participation progressively imposed on the oil industry (Rodríguez Sosa and Rodríguez Pardo 2012). Hence, the extractive model was rapidly approaching some logical limits and the

⁹ Agricultural exports went from being 96% of total exports in 1920 to being only 11% in 1936 (Baby-Collin and Zapata 2006).

¹⁰ The rapid growth in the country overlooked from the beginning the necessity of designing comprehensive economic and social policies. Housing, transportation, health, education, security and basic services provision were the main disregarded areas of the growing cities of the country. Additionally, the incomplete, inefficient, insufficient or inconsistent structural adjustments undertaken by the national government during the late 1980s and 1990s contributed to aggravate the situation of unemployment, the rising of an informal economic sector and the precarious labor market of a highly specialized economy. Consequently, the already dysfunctional growing path got accelerated reaching even higher levels of poverty, inequality and segregation with simultaneous (but proportionally smaller) wealth creation and improvements in life standards (Cariola and Lacabana 2003) The enlarged population under poverty and the general economic instability of the country, largely due to the endemic dependence on petroleum prices, created an environment under which the informal sector would hold to multiple jobs positions and rely on family networks as crucial strategies to mitigate risks in a State that traditionally went absent in the provision of social assistance. The middle class progressively fell under this position as well, exacerbating the class division of the country and its disparities.

uncomfortable yet obvious inconveniences of having relied on oil rents for so long to articulate most economic strategies and public spending. In fact, part of the reason behind the impulse to nationalize the oil industry during the mid-1970s was the progressive decay on oil rents perceived by the state and the limited room there was to obtain more. Nonetheless, before any important reform could be even considered, the Yom Kippur war erupted in 1973 along with a crisis in the Middle East, the oil embargo imposed by OPEC¹¹ and other important international events that significantly unleashed oil prices and generated dramatic oil windfalls never seen before by the still incipient Venezuelan economy. Consequently, the rise of oil prices and the accumulated necessity for larger fiscal resources ended up pushing a bigger urge to fully nationalize the promising extractive industry in order to better satiate the fiscal needs of the time.

From 1974 to 1978 the Venezuelan government received more oil revenues in real terms,¹² than the total oil revenues it had received from 1958 to 1973 (Rodríguez Sosa and Rodríguez Pardo 2012). It then became an established belief, more than ever before, that the prospects for growth were more attached to international developments than to Venezuelan's own domestic forces: it was oil the source of real wealth possibilities, and Venezuelans were more concerned on how to redistribute the tart than on how to make it bigger (Hausmann and Rodríguez 2014b), or better yet, more stable.

Once the oil boom had passed, the country had to confront the excesses committed during the bonanza years. Despite a very brief oil boom taking place during the first years of the 1980s, the last two decades of the 20th century can be both considered lost in terms of growth and development (Malavé Mata 2008). The country went through a continued process of economic and political crisis that critically shattered the living standards of Venezuelans. A big part of this decay was the result of the fiscal overindulgences adopted during the oil fever of the 1970s, and despite numerous attempts to reform economic policies in the aftermath, efforts remained futile as fiscal indiscipline and procyclicality categorically prevailed (Niculescu and Moreno 2010; Bjerkholt and Niculescu 2004). Economic performance overall, with sudden contractions and expansions, would closely follow the fluctuations of the terms of commercialization of oil commodities in international markets, as well as the inadequate

¹¹ The Organization of the Petroleum Exporting Countries (OPEC) is an intergovernmental organization that unifies and coordinates petroleum policies among its country members in order to stabilize international oil markets. Venezuela is a Founder Member of OPEC.

¹² The distinction 'real term' refers to the adjustment done to a nominal value to remove the effects of inflation or price changes that may contaminate or invalidate comparisons across time.

design and implementation of local fiscal, monetary and exchange rate policies (Morales 2010).

In this project, decoding the fiscal scheme of Venezuela lies at the center of the research question and extends all along the understanding road of this analytical enterprise. As it was articulated in Chapter 2, the analysis of policy designs departs from characterizing the chosen policy sector in order to identify its particular levels of complexity, its natural limits and boundaries, as well as its typical policy dynamics, including general objectives and means that mold its policy contents. In this particular case, it is the fiscal policy sector that ponders the main interest of analysis, and will be subsequently characterized hereinafter.

Characterizing the fiscal policy area

Fiscal policies are a powerful tool with which governments can interact in the economic, social and political spheres as they undoubtedly embed the means to exert an important role in the global performance of a country. Generally speaking, public finances are handled according to a combination of fiscal rules and practices framed and structured by a certain fiscal configuration, the Public Finance Management (hereinafter “PFM”) system. PFM systems represent the fiscal rule in place, the fiscal regime where public spending settings get systematically arranged, according to idiosyncratic constructions and the coexistence of a range of interests, preferences and power balances of the policy actors involved in resource allocation decisions.

Aside from embodying the overall fiscal scheme, PFM organizations are made of all major fiscal contracts, or fiscal pacts between taxpayers and governments, and more broadly speaking, between society and the State. There is an underlying and delicate consensus on how governments are expected to generate, mobilize and use public resources to meet collective needs and accomplish certain objectives (Bezes and Siné 2011). Such an agreement takes forms and shapes in the PFM system through a set of institutions, fiscal rules, enacted budget laws, formal and informal practices, etc. Amid this dynamic complexity of the PFM configuration, budgets are the most salient of all fiscal contracts; they are one of the most public of fiscal instruments and as such, they stand out as a prospective mechanism to hold governments accountable for fiscal decisions and subsequent fiscal performance.

Budgets contain major guidelines for overall public spending patterns as they enclose explicit expenditure plans, designed and approved through a collective and highly contentious process. Overall, budgets are the central and most significant instrument for fiscal planning and organization, while all other components of the PFM system can be considered to be

essential but complementary pieces of the fiscal puzzle, and consequently, have to be synchronized to budgets, if intending fiscal consistency and discipline (Sharma and Strauss 2013). Certainly, lack of consistency between sanctioned budgets and complementary fiscal pieces in the PFM scheme, can greatly explain fiscal distortions and systematic deviations from initial formulation designs. The case study addressed in following sections, will assess this central argument more attentively.

It is important to remark the centerpiece but not exclusive nature of budgets within fiscal regimes, since public spending decisions can be framed beyond budget structures through the use of both formal and informal techniques that involve other fiscal instruments. As Paredes (2006) asserts quite fittingly, budgets are instruments for allocating resources to produce goods and services, but they do not necessarily “ (...) exhaust the methods or instruments that can be used to achieve them” (47)¹³. Indeed, the budget process itself, as a subsystem of the fiscal regime (Paredes 2006), is part of a broader policy-making dimension where the multi level dynamics of policy-making processes can greatly determine fiscal policy designs and ultimately, fiscal performance. Additionally, the political economy of public spending and resource allocation, incorporated in the multi level dynamics of public action, also plays significant roles in major fiscal decisions.

Furthermore, budgets along with all fiscal decisions should, in theory, be combined or coordinated in some degree, with monetary and exchange rate policies. Indubitably, if not fully matched, fiscal plans need to take into consideration other economic policies when being designed and vice versa as subtle macroeconomic environments are unquestionably contingent on these orchestrated efforts. Consequently, compliance with budget postulates not only strives to maintain consistency with the broader fiscal scheme, the PFM system, but also alignment with other economic policies, such as monetary and exchange policies.

Depending on their level of transparency, budgets are also a potential communicative tool on how taxes and other type of public revenues are actually being allocated to different uses and purposes; as well as how they will be managed in the medium and longer term to achieve particular goals (Di Leo 2006). Beyond depicting a fiscal approach, budgets represent an understanding on how public spending must be shaped, and what is its overall role in society; after all, budgets are the main fiscal tool with which governments develop a tangible link with societies. A budget represents a concerted effort through which the main fiscal instrument of a

¹³ Translation by the author.

government gets systematically arranged; as a result, they are an essential component of national fiscal policies and a device for fiscal action.

As Vera Colina et al (2009), argue “(...) the State collects public funds in accordance with the needs it has to meet that are associated to the role it has in society; a role that varies from one country to another” (3-4)¹⁴. Indeed, if looking at the functional classification of spending within budgets, the scale, behavior and distribution of public spending at sectorial levels reflect “the priorities of States and their efforts to delink the well-being of individuals and families from their socio-economic condition and their fate in the hands of the market” (ECLAC 2009, 87). Similarly, Ochoa et al (2002) argue that public spending programs expressed through fiscal programs, pursue two main general objectives: macro-fiscal and micro-structural objectives; the former try to avoid big and systematic deficits and debt, while the latter have to do with education, health, social programs, etc. In this sense, public spending programs of fiscal regimes are articulators of other policy sectors but also enclose goals and dynamics of their own. Thenceforth, fiscal regimes need to harmonize macro-fiscal objectives, more related to operational and functional tasks that ensure their sustainability as tools to rely on when pursuing the other micro-structural objectives more aligned with the policy aims of other policy sectors such as education, health, transport, etc. Certainly, budgets embed decisions about total public expenditures across all policy sectors along with all sorts of investment projects and other financing mechanisms. In this respect, not only budgets but fiscal regimes in general are pivotal to governments, as they convey and articulate policy agendas that include all other policy sectors.

Given budgets' crucial role, their formulation process is an intricate and dynamic policy-making endeavor. It entails cautious and attentive calculations on public income, expenditure and debt levels in accordance to expected spending needs and objectives. Fiscal institutions, economic authorities and other policy actors integrate to this process the design and assemblage of all other pieces of the fiscal puzzle in order to better tune fiscal strategies and optimize outcomes. Primarily, the goal is to formulate comprehensive fiscal schedules aiming to attain particular fiscal or economic objectives, directly or implicitly attached to society's needs.

Budgets undoubtedly transcend economic and fiscal dimensions as they contain collectively agreed levels of public spending along with patterns for public funds allocation. Budgeting encloses a particular, distinctive and defined political stance regarding public spending

¹⁴ Translation by the author.

patterns and public funds allocation preferences. The complexity of the budget process goes beyond the intricacy of its formulation according to certain rules and the interaction of many actors with particular incentives and power levels; it is also about the conceptualization of the role of the state in fiscal arenas and about preconceived ideas on public spending mechanisms.

The policy-making of the budget implies a collective process with a universe of ideas, institutions and actors of different policy subsystems, with multiple interests and incentives interacting to define particular policy patterns of rent allocation that can persist even when not efficient. Hence, budgets should not be examined as part of an isolated and technical discussion (Scartascini and Stein 2009), but one that forms part of a larger policymaking sphere, in which governance modes and implementation preferences at higher levels of public action can substantially restrict or limit their capacity and direction at lower levels of the policy process. In parallel, the political economy of public spending and resource allocation, incorporate a shared understanding on macroeconomic performance, financial objectives and constraints, to develop a fiscal approach that will guide, to a great extent and across the multi level dynamics of policy processes, the national public finances throughout a fiscal term.

National budgets are the result of a complex negotiation process, as different sets of policy actors involved, use their varying levels of relative power to bargain their preferences throughout various stages and across numerous policy subsystems in a nested and multi level scheme. A series of institutions establishes formal and informal rules and practices that provide the structure to the entire process. The making of a budget is a compound sequential game in which all parts and subsets are intertwined and connected, affecting the dynamics of the whole process as it evolves. Even when a new budget cycle begins, it is highly and enormously determined and influenced from previous budget experiences. Consequently, budgeting should be better understood as a continuous and iterative policymaking process. As analyzed by Howlett et al (2009) for policy cycles in general, the budget process is not a one-time occurrence but rather a circuit of decision-making interactions to redefine, adjust or retake previous decisions regarding the public management system.

The numerous actors involved in the budget process have their own views and preferences regarding how much and where, allocating public funds would be optimal and/or would support their political ambitions (Scartascini and Stein 2009; Hallerberg, Scartascini, and Stein 2009; Puente et al. 2006; Abuelafia et al. 2009). Most political actors engaged in budget negotiations will have two main objectives to pursue in the process: the channeling of resources to policies and programs they favor, or the blocking of other budget actors from

getting the resources they ambition. In both cases, prevailing ideas, strategic behavior and political-personal incentives can lead the negotiations.

Depending on the formal and informal rules of the budget process, actors across different policy subsystems will have more or less room to exert their influence or to restrain the actions of others. The way they interact in the process is not independent of the institutional framework in which they make decisions; beyond the relative power that different actors may have, the institutional framework is the key structure setting the boundaries to their actions (Hallerberg, Scartascini, and Stein 2009; Scartascini and Stein 2009; Howlett, Ramesh, and Perl 2009; Puente et al. 2006; Abuelafia et al. 2009).

Formal rules of engagement materialize into laws and regulations that certainly guide and impose restrictions to the numerous budget actors; nonetheless, aside these rules, informal practices not written in formal codebooks or laws, also determine a crucial side of how budgets are essentially operated. In fact, actual practices can sometimes disregard formal rules and bend regulations systematically over time. The rules of engagement and interaction among the different budget players along every stage of the process have an important effect on how the negotiations take place and on how the decisions are finally made. Reforms to these rules can reshape budget dynamics to rebalance power and alter the functioning of overarching institutions in key aspects. In following subsections and in Chapter 4, several changes and adjustments done to the PFM system will be assessed to better understand the influence that these changes can have on fiscal dynamics altogether.

Cooperation among actors can derive into the conformation of political coalitions that can potentially push for the adoption or for the vetoing of policies and programs. Also, other organizational structures can modulate power dynamics of the political actors involved in budget discussions. For instance, the existence of specialized budget committees in Congress can legitimate the power of a group of legislators, in the name of ‘expertise’ or ‘technical skills’, for discussions of particular aspects of the budget. Foremost, the interaction dynamics among budget actors are part of a larger policy game in which technical or specific issues can serve to oppose resource assignment to certain policies or programs, as much as they can become the compensation for those who will not obtain their claims and could otherwise potentially block other initiatives (Scartascini and Stein 2009).

Once formulated and approved, the implementation of budgets entails a new complex phase in the budgetary cycle; new dynamics arise as a different set of policy actors gets involved and greater coordination efforts are needed. There is certainly a new political game during the budget execution stage as facing the currents of reality can considerably diverge from

formulation assumptions, which in turn creates new opportunities to redesign public resource apportionment and management. Additionally, as the economic dynamics evolve throughout a fiscal period, different kinds of changes and shocks to original fiscal expectations take place, and fiscal agreements need to be flexible enough to adapt to such changes but robust enough to still preserve their main form.

It appears then unavoidably, that during budget implementation, discussions on how to manage public resources get back on the table. Some policy actors will push for possible amendments while others will urge for compliance by original agreements. This interaction will be mainly confined and influenced by the institutional framework to either bind or bend to pressures aiming to seize fiscal reshuffles. As Puente et al (2006) argue, during budget implementation “two conflicting forces become important: the degree to which the budget law binds government’s action during the fiscal year, and the degree of flexibility to respond to unforeseen events” (2006, 45).

However, aside from unexpected economic events potentially altering the otherwise ‘regular’ course of budget implementation, there are other considerable factors that most likely will have a determining effect on budget execution, or alternatively, on the PFM setup. Changing contexts and perspectives in economic, political or social dynamics, can trigger incentives to redefine the ‘necessary’ control over public resources (Sachs and Warner 1995 in O. Ochoa 2008; Monaldi 2011). Similarly, new scopes for discretionary use of resources can arise throughout implementing phases, prompting demands to adjust public finance management overall. Essentially, the PFM system provides a dynamic and somehow malleable structure to control fiscal resources and define public spending patterns, hence, changes to any piece of the fiscal scheme, including budgets, can potentially restructure public spending arrangements in new ways that were not necessarily accounted for in formulating efforts.

Moreover, budget system failures or the prevalence of budgetary rigid structures can also lead to the creation of separate or extra-budgetary funds as alternative mechanisms to channel public spending. These special entities are particularly important in terms of the dynamics of the fiscal regime because they tend to be centrally managed by either the ministry of finance, the treasury or special agencies attached to the President’s or Vice-President’s office in order to avoid regular restrictions and controls that normally apply to regular budgetary processes (Allen and Radev 2010); subsequently, these alternative mechanisms may create many potential problems regarding fiscal coordination and discipline along with transparency and accountability issues.

In terms of budget system failures or institutional and operational rigidities that can lead to the creation of extra-budgetary funds, Allen and Radev (2010) have identified an extensive list containing important factors that bring fiscal noises or difficulties. For instance the mismatch of time horizons between budget cycles and other public spending objectives, the interference of special interests with regular budgetary processes, the prevalence of inadequate mechanisms for allocating resources, the little responsiveness to local needs, and the lack of mechanisms to protect politically sensitive programs from budget cuts are some of the issues that may not be easily sorted in regular budget cycles, and therefore lead to the search of alternative mechanisms for better channeling and allocation. Additionally, the authors have interestingly pointed out how many of these extra-budgetary funds have actually become excellent methods to give the appearance of running smaller deficits, or to find recognition and mobilize social consensus on activities that are generally underfunded in annual budgets; equally important, is the observation that extra-budgetary funds can be exceptional vehicles to insulate donor's projects and programs from the typical management practices of the government, as well as to protect funds fluxes from public scrutiny (Allen and Radev 2010).

The budget implementation road is filled with junctures to raise additional needs for financial support and/or propose alternative ways to manage fiscal resources, as implementers face new opportunities for adjusting or amending fiscal contracts and public spending agreements. The actual extent to which enacted budget laws and other fiscal guidelines permeate to new discussions on either spending levels or allocation patterns determines much of the institutional flexibility of the PFM configuration overall. Subsequently, implementation gaps in public spending arrangements go beyond enacted budgets to include the complexities of the PFM system as a whole.

When other fiscal rules waive to adjustments not aligned with budget postulates, early fiscal formulations can deviate from initial designs bringing gaps into fiscal performance. The lack of consistency between collectively agreed and sanctioned budgets and other fiscal pieces of the puzzle can decisively bring important and systematic implementation gaps into public spending provisions. Thus, systematic deviations and distortions of fiscal plans are deeply rooted in PFM designs, their formal and informal dynamics and in possible inconsistencies between enacted budget laws and overall fiscal rules.

Fiscal policies in naturally endowed economies

Public spending agreements and public finances management overall are particularly challenging in naturally endowed economies, as natural riches add new dynamics to the

politics of rent allocation and budget negotiations. The governance of rents can shape particular interests and incentives capable of affecting public spending dynamics in ways that systematically disrupt previously convened fiscal designs. The deviation from agreed fiscal policies and approved budgets seems to be a common pattern among naturally endowed countries, where the mismatch between political intent and tangible fiscal action is usually categorized as the fiscal indiscipline typically observed in these economies.

A determining factor has to do with how the State organizes the resource sector as its decisions will shape the structure and governance modes of the industry and the institutional frame of the sector (Balza and Espinasa 2015; Fontaine 2011). Most generally, oil reserves are state-owned¹⁵ and oil extraction is carried out by state-owned or national oil companies (known as SOCs or NOCs), or through concessions to private companies in the form of licenses, leases, technical assistance services, etc. In both cases, the government take on resource rents is constituted by royalties (as a share of total volume of production), taxes (as a share of profits - after operational costs are deducted-) and/or upfront down payments as entry requirements resulting from bidding processes; any combination of these rent-capturing mechanisms responds to and aligns by the way the state organizes the sector, which in turn defines the core institutional structure of the industry and thus, that of the oil sector as such (Balza and Espinasa 2015). The governance mode of the sector determines the type or system of regulation framing interplays between the State, key economic actors and society in particular ways. Fontaine (2010; 2011) distinguishes two main types of governance modes: a hierarchical one in which decision-making is highly centralized and centered on the state, and a more cooperative mode of governance in which a system of co-governance allows for more decentralized decision-making processes.

The complex design of rent-capturing mechanisms through income taxes, royalties or entry payments determines the extent to which the state as a legitimate owner of oil reserves can maximize rent appropriation or wealth creation in a system that is constantly subject to change¹⁶. As a result, contractual terms regarding government share of participation and

¹⁵ Except in the United States

¹⁶ Overall, royalties are considered to be more regressive than income taxes because by being only attached to volumes of production they are incapable of appropriately capturing increases in rent for the government during commodity price upheavals, or conversely, to release the burden of costs on the producer during price negative shocks (Balza and Espinasa 2015; Monaldi 2010). Hence, royalties alone or systems that are heavily based on royalties tend to create important distortions in the sectors' dynamics and potentially influence performance in a negative way. On the other hand, income tax tools that are more responsive to commodity price fluctuations can also bring tensions between producers and the owner, because they incorporate operational costs in the calculation of final rent distribution, and hence, they can be subject to convenient manipulation on the side of producers. Most generally, a combined system of royalties and income taxes can secure a more stable

government take of resource rents tend to vary and adjust to changing market dynamics. As Monaldi (2011) argues when analyzing Latin American countries where oil and other mineral resources are important drivers of the local economy, changes to contractual and fiscal rules, have resulted in good part from the incentives generated by the magnitude of rents and of resource endowments at stake. Certainly, prevailing fiscal frameworks, economic circumstances and political stances are important factors influencing any fiscal rearrangement; however, the incentives to get a tighter control over rents, are highly shaped by commodity prices' fluctuations.

Remarkably, oil-producing countries amass vast amounts of rents generated through extractive activities¹⁷ that enter the public sphere as fiscal revenues for public spending considerations. As it was earlier considered, it is in the downstream of the natural resources' value chain where collected rents are set for consumption and depletion. Their redistribution and allocation are decided mainly through the design of fiscal policies and general public spending arrangements that conform the established PFM system.

Fiscal policies are highly complex in oil exporter countries since, as discussed in Chapter 1, the rents associated to the commercialization of oil resources are enormous, and governments perceiving them (via income taxes, royalties, etc.) need to design management mechanisms, while balancing political, economic and social pressures around their consumption and depletion. Moreover, the design of fiscal policies in these countries needs to account for the high intrinsic volatility of oil related revenues, and the effect of either injecting or saving variant amounts of monetary flows into the economy; as a result, there are important inter-temporal restrictions to consider in their fiscal policy decisions and commitments (Bjerkholt and Niculescu 2004).

In order to optimize the management of resource revenues, resource-rich countries tend to design operational mechanisms in parallel to other fiscal tools as special arrangements and fiscal procedures for the allocation and use of resource rents (Daban and Héris 2010; Humphreys and Sandbu 2007). Special Fiscal Institutions (SFIs)¹⁸ are generally introduced to PFM systems to soften the impact of boom and bust cycles of key commodities, mainly, by instituting a mechanism to decouple budgets and general spending from income variation

equilibrium, nonetheless, price swings can easily reset incentives and prompt more convenient adjustments for rent appropriation for the owner, the State, not to mention more drastic measures such as full expropriations or bilateral agreements terminations.

¹⁷ According to negotiated regulations for taxes on income, royalties, taxes on extraction rates, rules for exports, etc., conducted during the upstream arena of the natural resources value chain.

¹⁸ Also treated as Special Fiscal Instruments in the literature.

(Heuty and Aristi 2010), and as a way to save resource rents while containing incentives for the discretionary use of rents (Sharma and Strauss 2013).

Many of these mechanisms are based on the creation of resource funds, special fiscal rules, fiscal responsible laws, advisory councils and some punctual fiscal parameters for resource revenue management; they are usually constructed with separate legislation, institutional independence, own boards and mandates, etc. (Daban and Héris 2010). Mainly, there are three types of SFIs introduced in PFM schemes to manage resource rents: stabilization funds that try to reduce volatility of resource revenues, saving funds that differ consumption and focus on building a base of savings for the future, and financing or development funds that are utilized to finance budget deficits and special projects (Sharma and Strauss 2013). Generally, a cut-off price or a price-based rule for the commodity, as well as specific thresholds for resource revenues are used as benchmarks for SFIs core guidelines (Heuty and Aristi 2010; Sharma and Strauss 2013). Cut-off prices or thresholds define management principles to isolate budgets and other fiscal tools from income fluctuation, however, the methodology for fixing these benchmarks, the ability to adapt them to changing economic conditions and the insulation from political influence are the main controversial aspects of these types of tools and important difficulties surround their design (Heuty and Aristi 2010).

Certainly, oil-producing economies tend to focus their economic and development efforts on using their competitive advantage in international markets via exports. Countries can be considered 'net oil exporters' when they reach the capacity of extracting oil and producing petroleum products beyond their internal demand levels, based on the size of their populations and their particular economic dynamics (Monaldi 2010). While this economic strategy allows for the generation of large fiscal revenues and resource rents, it is also distinctly dependent on the fluctuation of oil commodity prices, thus, it is vulnerable to external shocks and price swings that have little to do with the performance of other domestic economic factors (BCV 2001b). In particular, wealthy oil endowments generate enormous amounts of money adrift of international markets with, somewhat, exogenously determined prices.

The volatility of fiscal revenues emerges with uncertain dynamics in international markets, hence, estimating income associated to resource rents is highly difficult considering all international factors that can influence market prices for commodities. Nonetheless, such estimations are critical in the budget-making processes, especially if there is a considerable fiscal dependence on this type of income, which is usually the case. The instability of commodity prices typically results in a chronic difficulty to conquer budgetary discipline: expansive and restrictive budgets come and go continuously, introducing important deviations

from initial fiscal arrangements, hence, implementation gaps that negatively impact fiscal policy outcomes and debilitate long-term perspectives for policy-makers and investors.

Regarding the flexibility of public spending, not all types of spending react in the same way to income variations. It seems that generally, current expenditures tend to naturally be more rigid to absorb the volatility of income, since they are not as flexible to bounce up and down with volatile flows. On the other hand however, capital spending appears to be less sensitive to both scrutiny and periodical swings, since investments in capital assets can be always delayed, which would not be the case for current expenditures that need to be paid regularly. As Puente et al would assert “deferring capital-intensive projects, such as new hospitals and motorways, is much easier than laying off public workers or delaying debt payments” (2006, 8).

The ad-hoc adjustment of budgets can easily accentuate the booms and bust price cycles and increase resource dependence and financial vulnerability. In the same vein, the political economy of PFM designs and their subsequent adjustments are also highly linked to the variations of commodity prices and the associated incentives to control increasing rents. In this regard, the behavior of international prices can be assuredly considered a crucial promoter for hasty fiscal adjustments (Monaldi 2011; O. Ochoa 2008); nevertheless it is important to remark that when scrutinized attentively, it would seem that these fiscal adjustments are applied to either on-the-ground instruments at the *micro* level of public action, or to dominant types of instruments at the *meso* level of fiscal dynamics. As such, adjustments through calibrations of on-the ground fiscal tools, within delimited institutional and instrument confines (Howlett and Cashore 2009), correspond to what Hall would consider policy changes of the first order (Hall 1993) and do not pose a challenge to more profoundly-rooted rentier paradigms.

Similarly, more important alterations applied to policy instruments within the PFM scheme, reflect policy changes of second order in Hall’s typology of policy change (Hall 1993; Howlett and Cashore 2009), which would also leave intact the underlying paradigm. This point is important because it helps understand some concrete mechanisms through which the rentier paradigm gets consecutively reproduced, while concurring with the discussion of policy dynamics and changes developed in Chapter 2, in which it is argued that as long as the ideas defining problems, goals and problem-solving techniques remain unaltered, policy developments will essentially reproduce their paradigmatic structuring pillars ceaselessly. Thenceforth, this point brings an important conceptual distinction in terms of rentier dynamics: the mechanics of fiscal adjustments that closely follow oil price variations, occur at

micro and *meso* levels of public action, through policy instruments adjustments. These policy changes relentlessly reproduce the underlying and overarching ‘rentier paradigm’, and as such, can be categorized as ‘rentier effects’.

Additionally, and from another perspective, changes to PFM configurations are critically important as they can potentially channel the incentives to either abide by fiscal pacts or to permeate rent-seeking decisions, potentially introducing inconsistencies between the budget and the fiscal rule. Such inconsistencies represent a significant source of disturbance to fiscal discipline. Overall, fiscal institutions and the overarching PFM system are critical in channeling, framing and sustaining fiscal policy resolutions. However, these institutional structures tend to be subject to considerable pressure to either meet political demands amidst the economic difficulties of low-oil-price periods or fulfill the ambitious requirements unleashed during oil bonanzas. As the study of naturally endowed economies evolves, more efforts have been directed to the institutional mechanisms that permeate distorted economic and political incentives into the configuration of fiscal rules and the overall PFM system.

Altogether, it would seem that implementation gaps and difficulties to fully apply fiscal agreements and public spending arrangements are very common in resource rich economies, and in particular, in those endowed with petroleum resources. Essentially, it appears evident that natural wealth management compels a permanent struggle between abiding by established fiscal rules and giving-in to appealing incentives for defection. Besides, as it was previously discussed in Chapter 1, the poor link between governments and society and the lack of sound accountability mechanisms in many oil-led economies, increases the chances of breaking fiscal pacts and rules in a rather pervasive pattern (Humphreys and Sandbu 2007). In the coming sub-sections and the remaining parts of this Chapter, the concrete case of Venezuela is taken for a descriptive explanatory analysis that overall seems to be consistent with the theoretical discussion to this point presented.

Venezuela, a rich case study of implementation gaps

Unsurprisingly, Venezuela being an oil-led economy, faces the typical fiscal challenges that naturally endowed countries need to confront in terms of the management of their natural resource wealth. Highly volatile fiscal revenues, Dutch disease distortions, rent-seeking behavior, economic dependence on resource rents, fiscal uncertainty and procyclicality, are some of the features, earlier discussed in Chapter 1, that this Caribbean country also bears. Given the amount of its reserves and its installed extractive capacity, Venezuela can be categorized as a net oil exporter (Monaldi 2010); nonetheless, and despite being the most

important oil producer in the Latin American region, its levels of production still situate the country at a price-taker position¹⁹ (Balza and Espinasa 2015).

Another important feature of the Venezuelan State is that it plays different roles along the value chain of the oil industry. Indeed if taking the five main dimensions of the natural resources scheme proposed by Barma et al (2012) and discussed in Chapter 1, the government of Venezuela is the main actor in all five of them. On one side, it is the sovereign owner of its oil resources (on behalf of its citizens) and the main stockholder of the national oil company PDVSA. Indeed the Venezuelan State develops the oil sector through a monopoly ownership of PDVSA that in turn retains monopoly control over total national oil production; hence, it is in charge of most upstream activities (exploration, extraction and refinery of petroleum resources, along with investment and maintenance of the industry), limiting participation of private national or international companies. Even more importantly is the fact that as of 2003, the governance mode of the oil sector moved from a cooperative system or co-governance mode, to a more centralized and hierarchical mode in Fontaine's categorization (2011). The reform of the hydrocarbons law (approved in 2001, effective a few years later), and the governmental intervention in 2003 in both operative and financial management areas of PDVSA, turned the state-owned company into any other central government line department (Balza and Espinasa 2015), and drastically changed the organization and structure of the oil sector.

On the other side, the Venezuelan State is responsible for the formulation and design of fiscal and economic policies that redistribute oil related resources downstream, just as it is responsible for the configuration of the overarching PFM system in which all public spending arrangements are conceived. In this sense, the Venezuelan fiscal scheme is responsible for the regular collection of fiscal revenues from non-oil sectors of the economy (mainly taxes and pecuniary duties), as well as for the collection and management of oil rents from the oil industry (Manzano 2014).

As it was previously described, Venezuela's oil sector is the biggest contributor of its fiscal system as it represents the most important of the country's exports, providing the largest sources of foreign currency to its fiscal circuits (Manzano 2014; O. Ochoa 2008). Certainly,

¹⁹ Venezuela has played important roles in the configuration of the international market of oil, as a cofounder of OPEC in the late 1950s and early 1960s and as the biggest oil exporter of the Latin American region. However, on average the extent of Venezuela's influence has been rather limited in the international markets of oil.

the international commercialization of oil has provided at least, even when very low, around 40%²⁰ of total government's revenues over the past 60 years²¹.

The Venezuelan fiscal landscape is by and large determined by oil dynamics, implying that fluctuations in oil international markets end up producing fluctuations in domestic public finances. As a result, it could be said that on average, Venezuelan fiscal policies are based on a continuous reaction to massive and exogenous shocks to revenues (Moreno and Shelton 2014). In this regard, Talvi and Végh would further add: "oil revenues in Venezuela constitute two thirds of total income and their irregularity is twice that of non-oil revenues. Under these circumstances, it comes as no surprise that the temporal patterns for governmental spending are essentially a replica, with some lags, to the behavior of oil prices. Furthermore, the variability of government spending is essentially the same as that of oil revenues" (2000, 22–23)²².

In general, when it comes to public finances management in Venezuela, any conservative analysis to its fiscal trajectory unveils a long history of fiscal indiscipline marked by pro-cyclical and deficit-prone fiscal policies that can rapidly expand public spending and debt levels during oil-booms to then contract them during periods of lower oil prices. Indeed, the most remarkable aspect of the Venezuelan fiscal profile is its significant tendency to change or adjust public spending agreements and fiscal contracts in disarray, that is, anarchically. Disordered fiscal adjustments materialize through consecutive amendments, revisions and alterations to budget postulates already sanctioned, as well as to the overall PFM system in place. Furthermore, most fiscal adjustments have not been coherently conceived nor fully applied, but they have rather consisted of overdue isolated changes to different pieces of the fiscal scheme and alternating incomplete measures in disconnection with other ongoing policies (O. Ochoa 2008).

In this sense, the rentier paradigm is conceived and reflected in shortsighted and erratic fiscal policies that have progressively become the average standard for fiscal performance. As previously discussed, the continuous adjustments of fiscal tools, mirroring oil price variations, reflect a recurrent practice of hasty changes at the *micro* and *meso* levels of public action that reproduce the rentier paradigm and effect regular deviations from original public spending

²⁰ Most analysts estimate that around a 50% of total public revenues come from oil related revenues. Manzano, Monaldi et al (2012) claim that oil resources represent a share of total government's revenue of about "(...) 40 to 60 percent with the figure having reached as high as 70 percent in the past" (339).

²¹ An important remark here is that public debt has also been a pivotal fiscal tool for the government to cover public spending when facing both high and low oil price scenarios.

²² Translation by the author.

agreements such as the ones sanctioned in federal budgets or across the PFM scheme altogether. This pattern makes deviations from fiscal arrangements, a normal course of action and a regularly exercised fiscal practice.

The result is the generation of systematic implementation gaps in public spending arrangements; a persistent and significant difference between initial fiscal designs formally approved and sanctioned versus final executed fiscal actions. The regularity and frequency of this practice, reveals the paradigmatic side of rentier effects: an institutionalization of impulsive amendments to fiscal agreements responding to an underlying pattern in which public spending and rent allocation arrangements seem to follow or accommodate primarily to oil price performance (Aponte Blank 2010; Armas H. 2012; Di Leo 2006; O. Ochoa 2008; Puente et al. 2006; Rodríguez Sosa and Rodríguez Pardo 2012; Zambrano Seguí 2010).

The fiscal profile above described, surely raises questions about the institutional settings that frame such type of systematic policy behavior. Venezuelan fiscal institutions have been for the most part assigned with the function of ‘putting out fires’ regardless of what the general conditions may be. Either padding up budgets or enlarging public expenditures during oil windfalls, or trying to cover unavoidable spending commitments with shrunk resources during low performing prices. Whichever the case, Venezuelan fiscal structures have bended to accommodate the fulfillment of circumstantial needs or emergencies rather than establishing more long-term structured protocols for fiscal action. In this respect, the institutional regime is also consistent with the descriptions of the institutional profiles of rentier states developed in Chapter 1 and more generally in the vast literature on the subject.

The fiscal institution of Venezuela, understood as the PFM system, considerably changed in the 2000s with a new conception over the management of oil rents and over the role that the State should play in their management. Even though the rentier paradigm was not nearly disbanded, there was a considerable shift in the way it would be executed, as the ‘sowing the oil’ conception²³ (or *Sembrar el petróleo* in Spanish) was displaced by a model of direct distribution of oil rents through a highly centralized spending system (O. Ochoa 2008). This new way of centrally steering the allocation of oil rents and more generally the direction of public finances, was aligned with a hierarchical governance mode for the oil sector (Fontaine 2011) and with a new political regime and institutional order, the *Bolivarian Revolution* and

²³ Well-known expression introduced in 1936 by the Venezuelan writer and journalist Arturo Uslar Prieti, to debate on the vulnerabilities of the domestic economy in terms of the dependence on the exploitation of its oil wealth and how to transform it into a tool for long-term development. This conception was based on investing, rather than saving, the oil related revenues in productive sectors of the economy in order to stimulate the economy and promote socio-economic development.

the *Socialism of the 21st century*, (to be described in following subsections) in substitution of the crumbling *Punto Fijo Pact*²⁴. In this scenario of changes, the arrival of Chávez to the Presidency of the country in December of 1998 stands as the critical conjuncture, in Mahoney's terms (2001), able to prompt highly transcendent consequences for the country, its institutions and its policy-making processes.

As Hall would have predicted it “instances of policy experimentation and policy failure are likely to play a key role in the movement from one paradigm to another” (1993, 280). Indeed, objectionable economic performance, high inflation rates, persistent fiscal deficits and bulky debt levels among many other complications characterized the previous two decades. Numerous and repetitive fiscal maneuvers and stratagems were not capable of finding permanent solutions, but did precipitate the weakening of fiscal institutions, their reputable functions and their actual capacity to deal with a waning economy. Certainly, as Monaldi and Penfold (2014) argue, the decline in oil revenues during the 1980s and 1990s further contributed to the erosion of institutions, which were pressured to reproduce the spending patterns of the bonanza years, hampering the ability of politicians to change and sustain policies conducive to economic growth. The impossibility of governments to design sound fiscal, monetary and exchange policies to meet the growing social demands of a population that saw living standards abruptly fall after the 1970s, led to the questioning of the political regime that had prevailed since the end of the dictatorship in 1958. By the 1990s that dominant political regime was importantly fragmented. Two failed *coups d'état* were organized in February and November of 1992 by whom would later become democratically elected President of the country in 1998, Hugo Chávez Frías.²⁵

During the 1990s, declining oil prices and a very volatile public income hindered the strategies of the government to manage the mounting complications of a dragged economic crisis. The government initiated a strategy to entice foreign investments in the oil industry, known as the ‘re-opening of the oil sector’ with which new concessions and partnerships were generated to invigorate the industry in a co-governance or cooperative mode in the oil sector (Fontaine 2011). At the fiscal arena, many reforms were intermittently tested (at *micro* and *meso* levels), through punctual tax rates adjustments, some deregulations and some new controlling systems. Overall, the 1990s hosted rather cautious fiscal reforms, for the most part

²⁴ Political agreement made between the representatives of the three most important political parties at the time to preserve democracy at the end of the dictatorship of General M. Pérez Jimenez in 1958.

²⁵ For a more detailed analysis on the developments that fracture the prevailing political regime and lead to the establishment of a new one as of 1998, refer to Hausmann and Rodríguez 2014, Corrales and Penfold 2012, Heydra 2009.

insufficient, that tried to control the economic situation while avoiding the social unrest of 1989 when a set of measures known as “*El paquetazo*” (that included the elimination of price and exchange regime controls, the increase of the gasoline price and a series of privatizations and deregulations) triggered a major popular revolt called “*Caracazo*” which was heavily repressed by official authority forces.

The decade of the 1980s was ravaging as most economic distortions and fiscal unbalances came to a head coinciding with the debt crisis of the Latin American region. The narrow window of oil price increases in the early 1980s allowed for the postponement of fiscal adjustments, and the abrupt fall in 1983 combined with unsustainable debt levels accumulated from the 1970s, led to Black Friday on February 18th, 1983: the biggest devaluation of local currency up to that moment in Venezuelan history. From that moment onwards, the exchange regime, which had been for the most part stable in previous decades, underwent a chronic spiral of devaluations that aggressively undermined fiscal policy efforts and the living standards of Venezuelans.

On the other hand, fiscal excesses and nationalization currents mark the 1970s. The impressive oil boom²⁶ and the subsequent explosion of fiscal revenues resulted in an average income 3.5 times higher than what was perceived in the previous decade (Monaldi et al. 2005); this outstanding surplus was put to a novel use in the fiscal configuration of the time: that of nationalizing the oil and iron industries (deeply changing the structure and modes of governance of these sectors), the creation of numerous state-owned enterprises and the enlargement of the size of the State through very ambitious projects. A series of legal reforms and institutional makeovers were necessary to fit nationalizing initiatives and facilitate the rapid and extensive use of resource rents and public debt acquisition.

According to Ochoa (2008), the fiscal institution in Venezuela, started critically deteriorating during the 1970s amidst the first outstanding oil boom period and as a result of important reforms to institutional structures. The impact of such reforms is, according to Ochoa, at the base of the institutional problems that the Venezuelan fiscal scheme has confronted ever since; being the loss of the concept of budgetary constraint a significant consequence that has greatly increased fiscal volatility and doomed macroeconomic stability (O. Ochoa 2008).

A similar argument is advanced by Puente et al (2006) when claiming that during the oil-boom of the 1970s, a pattern to increase public spending levels of already sanctioned budgets

²⁶ The average oil barrel price increased 189%, passing from an average of 3.56 US\$ a barrel in 1973 to an average of 10.31 US\$ a barrel in 1974 (O. Ochoa 2008, 179).

was installed as part of regular budgetary practice.²⁷ Apparently, unexpectedly large oil windfalls were sufficiently large enough to introduce the necessary institutional flexibility needed for budgets' ad-hoc enlargements. From that period on, budgets have been progressively shaped to quickly absorb bigger-than-expected fiscal revenues; and more importantly, their formulation processes have incorporated a persistent tendency to miscalculate significant budgetary variables in anticipation of future extemporaneous adjustments throughout fiscal terms (Puente et al. 2006).

These historical considerations about fiscal policy developments, institutional frames and the typical implementation styles observed in fiscal regimes prior to the period of analysis, are highly important as they provide useful information on the contextual groundwork from which the new financial architecture would be designed and the path dependency trajectories or policy legacies that could have influenced its configuration. Moreover, as Howlett and Rayner argue (2009), design and implementation do not take place on a clean slate, they are "always embedded in pre-existing contexts where the relics of earlier policy initiatives are found in paradigms, institutions, practices and established actor networks" (99). Likewise, considering how policy outcomes are not random or deterministic but they are rather contingent on initial conjunctures and critical events (Howlett 2009c), is helpful to better understand how the new governance modes (to be analyzed subsequently) attempted to integrate new policy mixes into pre-existing ones, as well as required to supplant or dismantle previous institutional structures. After all, 're-aligning' or 'de-aligning' policy elements must be based on some degree of compatibility or congruence with "existing governance modes and context dynamics" in order to be successfully and permanently integrated and avoid 'stickiness' or resilience to policy alterations (Howlett and Rayner 2009; Howlett 2011, 141) as briefly discussed in Chapter 2.

The peculiarities of the period 2000-2010

Even if the fiscal trajectory of Venezuela has invariably shown a tendency to systematically deviate from public spending agreements and bend enacted budget laws with supplementary spending mechanisms, during the period 2000-2010 a new political regime disrupts the dominant institutional thread by altering pre-established conceptions over the management and use of oil rents. This new political regime introduces new empowering roles for the State in the management of public finances and in particular, of oil rents. A 'new financial

²⁷ In 1974, the President at the time, Carlos Andres Perez, allowed the official enacted budget law to expand to about 192% its original size through the use of supplementary spending formulas (Puente et al. 2006).

architecture' is subsequently devised, exacerbating previous fiscal implementation gaps and providing a recent and probably more complex case study to analyze.

As it will be discussed throughout this Chapter and Chapter 4, fiscal reconfigurations created more intricate mechanisms for the freer use of resource rents beyond budgets that outshine the traditional implementation gaps observed in previous decades. Indeed, the fiscal practice of systematically enlarging already sanctioned annual budgets during execution stages, became an institutionalized practice of the fiscal policy regime during the decades that preceded the time period analyzed in this project, however, this fiscal practice, as a policy legacy, was a key policy tool of the newly designed financial architecture, in which other mechanisms were gradually created to further increase fiscal breaches.

Exacerbated fiscal indiscipline over the years 2000-2010, understood as implementation gaps and breaches in fiscal policies, is firstly the result of a profound institutional re-accommodation that diminished regulatory controls over public spending decisions, and on a second, yet considerable account, the result of a substantial rise of oil prices during the quinquennium 2004-2008 that accelerated the quest for alternative and more convenient ways to allocate the expanding oil rents within the new and more permissive financial architecture. Indeed, the most recent reform to the Venezuelan fiscal structure, which allowed a more direct control over oil rents and an unprecedented expansion of discretionary spending mechanisms, occurred *before* the biggest oil boom ever registered in Venezuela's history took place (Corrales and Penfold 2012). The extraordinary *petrolarization* of public finances over the booming years of 2004-2008, was attained on account of a 'new financial architecture', which design started some years prior to the oil boom struck, making the decade 2000-2010 an even more interesting period of study, and the design of fiscal policies within it, a marvelous case for analysis.

As Corrales and Penfold emphasize (2012), the fact that the institutional framework was transformed before the oil boom started, calls for the reconsideration of the role that institutions have on resource management and the influence that oil rents do actually exert on institutions. In this occasion, it would seem that instead of oil explaining the deterioration of institutions, it is institutions molding the way governments use oil rents to their benefits. This case study agrees with Corrales and Penfold (2012) on finding a middle ground in which rearrangements in the institutional scheme were combined with the influence of increasing oil rents to explain policy developments.

The main argument portrayed in this work, however, is that the new political regime initiated in the 2000s with the arrival of Chávez to the Presidency, introduced new conceptions about

the role of the State in economic, political and social spheres, but also about the role of the State in the oil industry and in particular, in the management of oil rents. As a result, new ideas generated a new governance mode with redefined policy problems, goals and instruments, as well as new distinctive implementation preferences. This type of change, of the third order or paradigmatic according to Hall (1993), effected significant institutional reforms across different policy sectors, including the reform of the fiscal regime and the rearrangement of the oil sector. The annual economic report prepared and published by the Central Bank of Venezuela (BCV), stated in its report of 2000 the following: “(...) as of year 2000, Venezuela is going through an intensive transformation process that implies the institutional adjustment to the new ‘country project’²⁸ aligned with the Bolivarian Constitution” (2000, 9)²⁹.

Overall, new institutional forms were to a big extent re-adaptations of previous structures, as well as new policy dynamics were considerably compatible to pre-existing policy practices, as they were notably still aligned with the prevailing policy paradigm, that of a rentier state. Subsequently, the ‘new financial architecture’ led to exacerbated rentier effects along with the disadvantages this pattern tends to generate.

The analytical work hereby presented, is focused on fiscal implementation gaps in Venezuela during the first decade of the 21st century when a radical transformation of the political regime was introduced, and oil prices experienced a substantial and for the most part uninterrupted escalation, passing from 9.21 US\$ a barrel in January of 1999 (annual average of 15.87 US\$/barrel) to 80.31 US\$ a barrel in December of 2010 (annual average of 71.97 US\$/barrel).³⁰ The oil boom experienced specifically from 2004 to 2008 represented an increase in oil related revenues, one time and a half superior than the oil boom experienced during the years 1974 to 1978³¹ (Rodríguez Sosa and Rodríguez Pardo 2012).

As it was briefly suggested and will be subsequently developed, the magnificent oil boom, as an exogenous factor, is not the only and – as hypothesized in this project – is not the primary element prompting changes to the fiscal institutional settings, as it could be argued from the resource curse theory and other traditional institutional approaches. Instead, the profound resetting of fiscal institutional structures that allowed a discretionary and centralized use of oil rents as never before in the country’s history, took place before the oil boom was to occur.

²⁸ Single quotes added by the author.

²⁹ Translation by the author.

³⁰ Venezuelan Basket Prices. Source: Ministry of Finance, Ministry of Petroleum and Energy.

³¹ According to Hausmann and Rodríguez (2014d) between 1998 and 2012, oil prices grew by 581% for a total increase in the value of oil production of 525% (as production fell by around 8.2%).

Venezuelan oil prices had reached their lowest levels in three decades when Chávez was elected in December 1998 (Hausmann and Rodríguez 2014c) and the economy had been for over 20 years in a serious waning process. Nonetheless, a new ‘geometry of power’ along with a ‘new financial architecture’ were devised during the first years in power of *Comandante* Chávez, dramatically changing fiscal dynamics before oil prices would start to soar. Guerra would for instance argue that the government had completed between 1999 and 2001 the institutional and legal design “compatible with the vision it had of the economic model that Venezuela had to follow” (Guerra 2008, 101).

The period 2000-2010 is peculiar in how a new political regime, introduced dramatic institutional changes as part of particular policy designs that permitted the use of oil rents in unprecedented ways among other critical excesses. Henceforth, there is a paradigmatic change at the *meta* level of policy dynamics resulting from the introduction of a new political regime along with a new conception over the adequate management of oil rents, that effects meaningful changes across all policy sectors and especially that of the fiscal regime (*meso* level). This set of policy alterations is later combined and stimulated with exogenous shocks originated in the international markets of oil, particularly affecting the design of fiscal policies.

There are very clear aspects that stand out to characterize the performance of public finances in Venezuela over the period 2000-2010; the following are the most remarkable elements that can describe the fiscal scene:

- The overall fiscal stance was for the most part expansive, especially as of 2003, but it repeatedly showed abrupt changes in direction mainly reflecting increased procyclical trends and ephemeral fiscal commitments. Concretely, fiscal decisions were greatly erratic, undergoing frequent adjustments throughout each fiscal term.
- There is an observable proliferation of extra-budgetary mechanisms to channel public spending and allocate oil-related revenues. A new financial architecture was gradually designed to allow for the creation of new public spending mechanisms and allocating patterns.
- The new financial architecture further weakened the preceding fiscal institution and undermined annual budgets, favoring a higher centralization of public finances decisions and more discretionary use of public resources.
- There is an exacerbated distortion between officially agreed fiscal designs and final results. Implementation gaps have been enlarged both through supplementary spending beyond enacted budgets and through the PFM system altogether.

- The establishment of numerous new controls and regulations amplified the role of the State in the economy. A stringent exchange regime, price controls, regulations over salaries and rules for employment were some of the many economic regulations implemented by the State during this period, no to mention its widened participation in many industries through consecutive expropriations.

There are other aspects of this decade that must also be highlighted for analytical purposes. For one part, the exacerbation of the rentier model led to an early and abrupt deterioration of the domestic economy that was not expected in the middle of a bonanza period. Amidst the oil boom there were important inflation pressures that were only mildly contained with price controls and other regulatory measures that in turned created greater economic distortions. Shortages of food and other goods of massive consumption soon started to be very noticeable and politically inconvenient, pushing for higher levels of imports and stricter controls on the economy. In general, both the exacerbation of the rentier model and the policy decisions adopted to control the economic distortions generated by the oil boom reflected the centralized nature of the new governance order, especially regarding the management of the PFM system and of the vast amounts of oil rents.

As asserted by Hausmann and Rodríguez (2014c), the fiscal performance and related economic complications of the country during the period 2000-2010 are similar to those of previous decades, as the underlying rentier model would conduct to similar constraining results; however, whereas former crises tended to occur in the aftermath of oil booms, that is, during periods of lower or declining oil prices, the generic economic complications faced by Venezuela over the period 2000-2010 take place during historically high oil prices.

Putting aside the poor performance of the economy during and right after the booming years, which is already a relevant point of demarcation, there are some other highly relevant contextual features that make this period significantly different from prior ones. For instance, a remarkable aspect of the period under analysis is the deterioration of the oil industry itself. During the period 2000-2010 for the first time during an oil boom, the government designs policies that dramatically erode the oil industry's productive capacity and financial health, hampering levels of production, due maintenance efforts and investment prospects (Espinasa 2012; Balza and Espinasa 2015; Monaldi 2010; Fontaine 2011). No other administration led the oil industry decline to the point that the Chávez's government did (Corrales and Penfold 2012).

At the political level, the traditional party system that had characterized the previous 40 years of democracy went dramatically fragmented causing most conventional political parties to

nearly disappear. The political system became gradually radicalized, increasing the stakes of power and corroding the already weakened cooperative framework in place (Monaldi and Penfold 2014; Monaldi et al. 2005). Additionally, the decade saw a progressive concentration of power in the Executive branch of government and most public institutions became increasingly subordinated to its control and to that of the governmental party (Hausmann and Rodríguez 2014c)

In this regard, Hausmann and Rodríguez would comment: “In contrast to the situation before 1998, when a Venezuelan president could be impeached by an independent judiciary and there was frequent alternation in power between competing parties, the current array of institutions is so closely controlled by government forces that they provide very few guarantees that the changing political preferences of Venezuelans will be allowed to be expressed” (2014c, 16).

Nowadays, there is not much controversy around the pernicious effects that the rentier model can propel, in terms of fiscal dependence on commodity rents and the associated vulnerability to international market performances. However, it would seem less obvious how the exacerbation of this model can actually, once surpassing the absorptive capacity of domestic economies, produce a generic decay in productivity and economic dynamics in such devastating and counterproductive ways.

The analysis hereby proposed, focuses on the factors that may have influenced implementation gaps in fiscal policies in Venezuela during the period 2000-2010, based on the study of fiscal policy designs, that incorporate political economy analysis of the institutional settings and structures, and the formal and informal practices that shape public spending patterns, with a special focus on the role of oil rents in the Venezuelan public spending scheme. The period chosen, allows for the analysis of a new governance mode that tangibly generated reforms to the fiscal scheme in Venezuela, and in turn affected and restructured overall public spending mechanisms through particular fiscal policy designs.

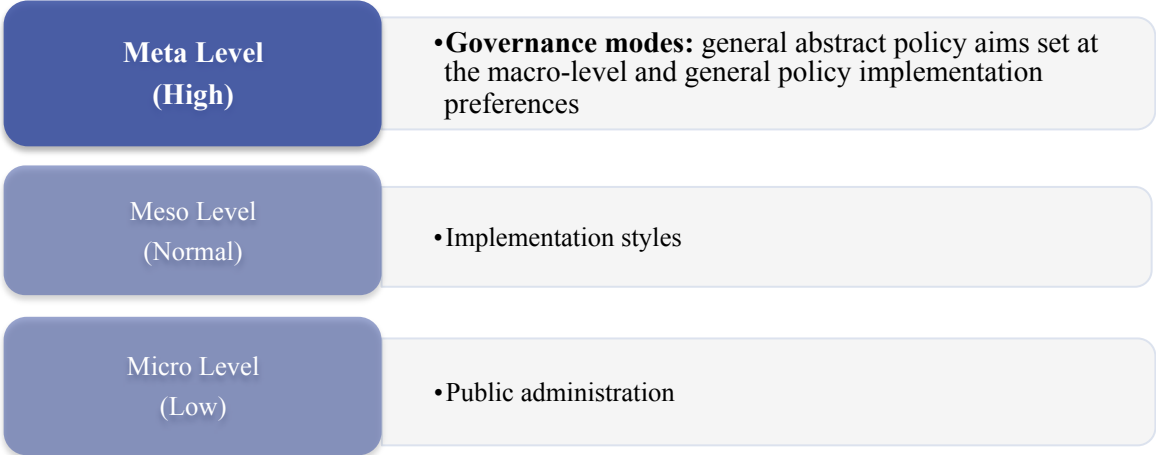
Consequently, a meaningful piece of the study of fiscal policy designs in Venezuela during the period 2000-2010 needs to consider the policy dynamics at the *meta*, *meso* and *micro* levels of policy action. The *meta* level essentially refers to the referential framework and the governance orientation of the country through that time. Aligned with the discussion previously developed in Chapter 2, the analysis of the *meta* level dynamics allows for the construction of a contextual frame that helps identifying influential factors that determine and most likely restrict the policy scope at lower levels of the policy-making process, together

with offering a better understanding of the policy environment of the time frame under examination.

The following subsection aims to describe the governance modes of the so-called *Socialism of the 21st Century* introduced by Chávez, in which a new political and institutional order was established, rearranging policy practices and importantly changing the balances of power among new and old policy actors. In fact, the peculiarities of this specific period of time that set it apart from previous ones, result precisely from changes at the *meta* level of policy dynamics that defined a new orientation in governance styles. The decade of 2000-2010 is not particularly different only on the basis of hosting the biggest oil boom registered in the Venezuelan history; it is the change in its political regime what introduces the great differentiation from previous eras. As Sierra states it, “Chávez’s victory pushed the decline of a 40-year democratic experience, and opened the way for what was to be a costly venture, that of the Chávez’s socialism” (2009, 8).

The mechanisms through which institutional reforms can materially affect the design of fiscal policies, is part of the efforts of this study, and analyzing the *meta* level is the point of departure. In this sense, the analysis of the *meta* level will be directed at constructing a profile of a governance strategy. That is, on one hand, a comprehensive narrative of the policy-making dynamics and the framing nature of the new political regime; and on the other, a documentation of the key policy factors, that from the *meta* level can directly affect the design of fiscal policies at the *meso* and *micro* levels correspondingly. Figure 3 below provides a visual scheme of the multi-level and nested nature of policy designs as discussed in Chapter 2.

Figure 3. A focus on the *meta* level of policy designs



Source: Adapted from Howlett 2009 and Howlett and Cashore 2009.

The main features of the governance arrangements

Identifying the governance modes of a certain period is fundamental for the policy design analysis, as it unveils the distinct overarching tendencies of governments to develop implementation styles in particular policy sectors (Howlett 2009a). It is then important to bear that governance modes are “(...) a mode of coordination exercised by state actors in their interactions with societal actors and organizations, (...) and thus about establishing, promoting and supporting a specific type of relationship between governmental and non-governmental actors in the governing process” (Howlett 2011, 8).

In a broad sense, there seems to be two major policy aims or objectives articulating and guiding governance arrangements at the *meta* level during the period of examination:

1) The political control and capture, along with the demolishing and eradication of key institutions of the State, to centralize power and extend office tenure under the ideology of the *Socialism of the 21st century* and the *Bolivarian Revolution*. The transforming vision of Chávez was much more than a mere reform, as it implied the dismantling of the status quo and that of the prevailing institutional order; hence, the complete rearrangement of the governmental apparatus, along with the dissolution and creation of several institutions were important aims of his project.

2) The building of a political alliance both domestically and internationally to secure power, for which the government resorted to: a) the polarization of politics through the use, disuse and abuse of institutions (Corrales 2008); b) the extensive use of political resources both tangible and intangible; c) the discretionary use of oil resources bypassing formal fiscal institutions and controlling measures; d) the creation of mechanisms to systematically bypass formal institutions in the allocation of oil rents.

These major policy goals implied the preference of certain policy instruments, both substantive and procedural, that would highly restrict the design of fiscal policies at the *meso* and *micro* levels. These implementation preferences led to the design of a particular policy mix in the fiscal policy sector to be analyzed subsequently in Chapter 4.

Table 5 presents the main policy goals and means identified to accomplish them.

Table 5. Main policy objectives and means at the *meta* level of policy action

Main policy objectives	Main policy means
The realization of the <i>Bolivarian Revolution</i>	The dismantling of the previous institutional order and status quo
The establishment of a new political and institutional model: the <i>Socialism of the 21st Century</i>	The extensive and discretionary use of tangible resources (Oil rents) and intangible resources (patronage, clientelism, cronyism, discrimination). Institutional rearrangements and makeovers
Stay in power	Change constitutional and electoral rules, dismantle opposition political parties, massive political campaigns.
Build domestic and external political alliances	The polarization of politics. The extensive use at discretion of tangible and intangible resources, bypassing institutions. The extensive use at discretion of oil resources to create commercial alliances in the Latin American region and beyond (Alba, <i>Petrocaribe</i> , <i>Fondo Chino</i> , etc.)

Source: Own confection

In this sense, there are a number of greatly relevant elements that can characterize the governance modes over the period 2000-2010, framing and shaping policy dynamics at lower levels of implementation.

- There is a centralization of politics and policy-making processes, along with a new institutional order hierarchically disposed around the presidential figure. Politics are more personalist and significantly radicalized with a diminished role for political parties other than the one of the government, and a specially reduced one for those opposing the *Chavismo* movement to participate in any policy process.
- The policy-making process has been done with scarce institutional constraints and under a prominent control of the President and the Executive branch of Government.
- There is also a higher role for the armed and military forces in institutional settings. In fact, Chávez administration has been also defined as a ‘civilian-military alliance’ (Corrales 2014). In general, the military has been increasingly politicized and involved in the direction, management and control of public agencies, institutions, ministries, and even state-owned enterprises; thus, numerous military figures have been systematically appointed as Ministers and directors of special controlling agencies across the public sector.
- Another outstanding feature of this period is the central role given to oil resources, or the *petrolarization* of public finances and policies. In most political strategies and policy-making dynamics oil resources were critical. Both for the development of commercial-political alliances, as well as to finance all sorts of policies and political strategies (investment policies, social policies, defense policies, political campaigns, advertising,

and other political strategies such as patronage, clientelism, cronyism, discrimination, etc.).

- In line with the previous element, the broad use of political resources both tangible and intangible to gain political support, construct political alliances and dismantle opposition movements remains as a remarkable factor of the period as well. Among these strategies, social spending and discriminatory policies were a central piece at the domestic level, while internationally, Chávez developed institutional alternatives and commercial treaties or alliances (with the extensive use of oil rents) that would expand his influence across frontiers, challenge the interests of traditional or influential powers such as the United States of America, and defy any attempt of contravening or questioning his power and control over Venezuela.
- A larger role for the State in economic and business arenas has characterized the period as well. The structure and organization of the state itself have considerably grown and have progressively acquired more spaces in the productive and economic arenas by nationalizing and expropriating industries, enterprises, etc., as well as increasing their regulatory and controlling roles.
- An anti-status quo and revolutionary political strategy undermined and dismantled most of the prevailing institutional framework in the name of the *Bolivarian Revolution* or the *Socialism of the 21st century*. All major obstacles that the building of the new regime could encounter, would be dealt with by either dismantling institutions, modifying them or creating new ones (Corrales and Penfold 2012).
- An endless process of permutations and refinements of the institutional order have relentlessly extended through time introducing consecutive makeovers and new dynamics across political, economic and social spheres. This chronic propensity to constantly change, dismantle and amend institutions and rules, unveils the difficulties that the new policy order has encountered when trying to reach enduring or transitory equilibriums. In this regard, the impossibility of attaining policy stability discloses certain limitations on the ideas mobilizing institutional reforms; after all, new ideas and conceptions do not guarantee consistency across institutional designs, nor can they assure compatibility and harmony among the different elements that conform the policy mix.

The Socialism of the 21st Century, the Bolivarian Revolution and the Chavista Regime. Understanding the meta level of policy dynamics

According to Maza Zavala (2008), there are two differentiated political, economic and institutional orientations in the contemporary history of Venezuela.³² One that goes from 1959 to 2001, in which democracy was reinstated after a 10 year-long dictatorship, and where the overall economic and institutional strategy was one of a constitutionally supported market economy; and another from 2001 to the present that even if formally corresponds to a democracy, in practice enfoldes an autocracy that concentrates political power, responsibilities and resources in the presidential office.³³ In a similar vein, Corrales and Penfold (2012) sustain that the political regime established by Chávez, is one of a hybrid nature or a semi-autocracy as it combines the practice of democratic exercises, such as open elections in which the opposition can participate, with a sturdy and for the most part unrestricted concentration of power in the presidential figure. In fact, the numerous electoral processes held under the presidency of Chávez (a total of 14 in 14 years),³⁴ has also led the authors to consider the regime as an ‘electoral autocracy’, in which the dominant party, that of the government, reigns and prevails over other political actors by manipulating and controlling key institutions (Corrales and Penfold 2012). In Carroll’s words: “He (Chávez) presided over an authoritarian democracy, a hybrid system of personality cult and one-man rule that permitted opposition parties, free speech, and free, not entirely fair elections” (2013, 18). Similarly, Corrales would assert (2014) that if there were doubts regarding where to locate the Chávez’s administration along the spectrum between democracy and authoritarianism, it would categorically be in a zone far from a liberal democracy; to which Heydra coincides (2009) calling the regime a ‘centralist autocracy’ disguised under pretensions of democracy.

³² There are other studies such as the ones conducted by Monaldi, Puente and Ochoa (2005; 2014; 2006; 2008) among other authors, that conduct more detailed analysis of this time frame, and divide this two-branch period into further shorter time-sets to develop a more nuanced approach of the economic, political and institutional evolution of the country. Nonetheless, for the purposes of this particular project the main distinction intended is that of the new type of political regime initiated with the election of Chávez in December of 1998.

³³ Considering year 2001 as the point of departure for the new political regime of Chávez, even if he was elected in December of 1998 and took office in February of 1999, corresponds to a general consensus in which the main autocratic elements of his administration did not appear until a few years after he was first elected as President. Many authors converge on the idea that Chávez started being more politically aggressive and concentrating power around year 2001.

³⁴ The period under the Chávez’s presidency has had numerous important electoral processes: 14 in 14 years, out of which all except for one have been won by Chávez or his political party.

Chávez's rhetoric

The discourse of Chávez repeatedly alleged that Venezuela was a naturally wealthy country that had been for too long governed by a ruling class willing to directly profit from the riches that they should have been appropriately redistributed; essentially, old and corroded powerful elites would have been accumulating oil and other resources for themselves instead of redistributing them among the Venezuelan people. The former democratic system, referred to as the 'Fourth Republic', that Chávez stood against (and even tried to overthrow) was responsible for the negligent and greedy use of resources. Chávez assumed that his genuine and personal duty, was the building of a completely new one, the 'Fifth Republic', as the name of the political party he was the leader of: the *Fifth Republic Movement* (MVR³⁵).

The *Bolivarian Revolution*, which would later turn into the *Socialism of the 21st Century*, was the movement needed for such a task, and it would imply a complete institutional makeover, a new 'geometry of power' and a justified fresh start to dismantle all pre-existent institutional barriers of the old regime. Subsequently, as Corrales suggests (2014), *Chavismo* was erected as a fervent anti status-quo movement, eager to approve and support the necessary changes that would guarantee a real start from scratch. And as Hausman and Rodríguez would assert, "even the turn toward authoritarianism seemed easy to justify, as some degree of firm-handedness was surely necessary to wrest away resources from the previously all-powerful oligarchy" (2014c, 14); ultimately, demolishing the status quo was democratically approved and even praised by the people.

The promise of a new Republic included a novel democratic system based on the active participation of people as opposed to the mere representation of collective will. Hence, Chávez proposed a 'participatory' democracy through which he would be able to pay the historical debt accumulated to Venezuelans and give back to the people the power to govern themselves along with the wealth they legitimately deserved. Chávez would later claim, that only a renewed State along with a unique ruling system, the *Socialism of the 21st century*, could truly ensure fair redistribution of oil wealth and other riches to the Venezuelan people (Rodríguez Sosa and Rodríguez Pardo 2012; Corrales and Penfold 2012); with the non-negligible factor that this new form of State and ruling system called for, with policy pertaining to the redistribution of oil wealth and other riches would be centrally decided and directed, the institutional thread in place would no longer be valid.

³⁵ Initials in Spanish for *Movimiento Quinta República*.

Chávez constructed a way of doing politics around him as the central and leading figure. As Monaldi and Penfold accurately claim, in the *chavista* era, the center of gravity of the system was indubitably the President, who overtly exerted political control over all formal institutions (2014). He was controversial and charismatic and his ways were vastly unusual and bold; these tactics would entice some while raising indignation among others. The strong personality cult he developed, earned him great levels of support as well as enormous disapproval, but ultimately it became the greatest weakness of his government.

Reforming the State

Chávez was elected President in December of 1998 and quickly thereafter he started taking decisive steps towards the profound and radical transformation of the country. His first, and by far the most important of his actions, was the reformation of the 1961 Constitution, for which he found support from the Supreme Court to organize a consultative referendum on April of 1999³⁶. Once the referendum was approved,³⁷ Chávez managed to assemble a highly biased Constitutional Assembly for the preparation of his ambitious Constitution.³⁸ The new *Magna Carta* was ready in less than three months in December of 1999, and a new electoral process was organized again to renovate all powers under the new constitutional order, including the one of the President himself. In June of 2000, Chávez won his first presidential reelection³⁹ that formally granted him a term in office until February 2007, since the new constitution expanded office tenure from five to six consecutive years, introducing as well the possibility of immediate reelection that would hold Chávez as a presidential option for a second, or technically third time in a row, at least until the end of 2012. Altogether, Chávez took office in February of 1999, with prospects for a five-year presidency ending in February of 2004, and less than a year later, by abusing and dismantling institutional structures (Corrales 2008), he was secured with official tenure until February of 2007 with possibilities of staying until 2013. In 2009 he amended the Constitution to introduce the possibility for indefinite reelections, and ran for presidency again for the period 2013-2019.

The new Constitution of 1999 introduced many changes of diverse nature and impact, but among them, there are some changes that despite their merely symbolic appearance can tell much about the nature of the underlying transformation. For instance, the change of the

³⁶ For a more complete detailed recount of how Chávez managed to dissolve the former Congress and organize the consultative referendum despite legal restrictions see García-Serra (2001).

³⁷ The referendum was approved with 87% of votes in favor (Corrales and Penfold 2012).

³⁸ With only 53% of the votes, the governmental coalition obtained 93% of the positions in the special and temporary assembly that would write the new Constitution (Corrales and Penfold 2012).

³⁹ Chávez got later reelected for the Presidency of the Republic in December of 2006 and October of 2012.

country's name⁴⁰ may seem subtle, but it symbolically demarcated the birth of a new Republic imprinted with the revolutionary spirit of Bolívar; it was the new project that Chávez would command: the *Bolivarian Revolution* "(...) a self-styled radical effort to transform state and society into a vision worthy of Bolívar, a beacon of democracy, socialism, and enlightenment" (Carroll 2013, 15).

A new Constitution for the Republic was the actual key to the institutional transformation that would progressively unfold throughout the decade. Decisive rules were modified and significant expansions of presidential powers were amply conceded; yet more importantly, the doors were opened for more substantial changes to come. To begin with, as above mentioned, presidential terms in office were augmented from five to six years with the possibility of immediate reelection (which was only possible after 10 years off power in the former Constitution); the president could activate any kind of referendum without the support of the legislature, as well as he (or she) would have complete control over promotions within the armed forces. Additionally, the Senate was eliminated turning the legislature into a unicameral Congress with a renewed type of federal representation, and a diminished set of counterweight mechanisms within the Parliament. Moreover, the mandates of sub-regional governments could be recalled, along with that of the President contingent on the approval of stringent conditions (Monaldi and Penfold 2014; Corrales and Penfold 2012).

The Supreme Court was refurbished and integrated with magistrates who mostly supported the *Chavista* movement or would later affiliate with the United Socialist Party of Venezuela (PSUV⁴¹), a political party founded in 2007 as a coalition of smaller parties and social movements that supported the *Socialism of the 21st century* and the *Bolivarian Revolution* led by President Chávez.⁴² Similarly, the electoral council, the attorney general and the comptroller were under the control and guidance of the Executive, which was strongly directed by the President's interests (Corrales and Penfold 2012; Heydra 2009; Zamora R. 2012; Martínez Meucci 2012; Corrales 2008).

Additionally, the newly sanctioned Constitution of 1999 granted the President, the possibility of demanding special enabling laws to directly legislate with plenipotentiary powers over all

⁴⁰ The name was modified from *Republic of Venezuela*, to the *Bolivarian Republic of Venezuela*

⁴¹ Initials in Spanish for *Partido Socialista Unido de Venezuela*.

⁴² The PSUV party was founded in March of 2007 as a national left-wing political party, which would unify Chávez's own party, the Fifth Republic Movement (MVR - in Spanish *Movimiento Quinta República*), with other smaller leftists political parties. The foundation of the PSUV followed the reelection of Chávez as President of the Republic in December of 2006.

possible domains.⁴³ During his period in office, and despite counting with a majoritarian support in Parliament for most of his presidential terms, Chávez was granted with four separate enabling laws covering a total period of 30 months or two and half years, over which he directly formulated a total of 215 laws.⁴⁴ With his first enabling law, Chávez sanctioned a total of 53 decrees to create new laws or reform previous ones; among them the reform of the Hydrocarbons Law, which given the nature of the country, remains as a key matter for economic, political and social concerns. This legislating power was exercised with almost no participation of other policy actors in a sort of concealed practice, as most decrees, reforms and new laws would be announced on the day before the expiry date of his granted enabling law to be sanctioned directly by the National Assembly.

In general, as it was previously mentioned, the period of Chávez was characterized by a continuous need to reform, dismantle, contour and/or create institutions, rules and norms. A relentless refinement of institutional structures and legal dispositions is part of the main features of the new style of government introduced by Chávez, as though the *Socialism of the 21st century* and the *Bolivarian Revolution* were projects in permanent construction. Indeed, the political discourse for such unending process of assemblage was based on the menace that dissenters would perpetually pose to the revolution and the need to fortify and shield the Bolivarian projects. However, it would rather seem that the chronic need to redefine and better tune all sorts of institutions and laws, including the constant shift of public figures in charge of ministries, agencies and important public offices, was part of the impossibility of the new political project of finding enduring equilibriums while fully matching major policy aims. Internal inconsistencies and important external shocks (such as oil price variations) have possibly impeded the ability to reach stable equilibriums. Nevertheless, as it will be subsequently developed, new ideas and conceptions shaping new governance styles and reforming institutional structures, do not necessarily guarantee consistent and coherent institutional design, nor can they ensure compatibility and harmony among the different

⁴³ In the Constitution of 1961 enabling laws were only conceded to Presidents under stringent conditions and to take care of economic emergencies; hence special powers were constrained to legislating over economic issues alone and for limited periods of time.

⁴⁴ President Hugo Chávez was granted four enabling laws during his 14 years in office from 1999 to 2013. The Constitution of 1999 approved under his mandate as well, established that enabling laws could give the incumbent President, the power to legislate in all matters during a limited period of time. In April of 1999 President Hugo Chávez was accorded with his first enabling law for a period of 6 months, and in November of 2000, he was accorded his second one covering a period of 12 consecutive months, with which he amended the Hydrocarbons Law, created special funds for social spending, and reformed considerable areas of the PFM system. In 2007, former President Hugo Chávez was granted with a third enabling law covering 18 continuous months and in December 2010 he was granted with his fourth and last enabling law to legislate for another 18 months. In total, 215 legal reforms and new laws were sanctioned under special presidential enabling laws during the period 1999-2010.

elements that conform the policy mix. Moreover, institutions are to a great extent, dependent on their past, and their reforms can carry ingrained policy legacies ending up into adaptations of previous forms.

Another important aspect to remark about the way Chávez would lead his terms in office and overall on how the government under his direction would approach the general making of policies has to do with a significant ambivalence in the communication strategies of the government and the overall management of information. On one side there was a very clear tendency to block access to information on policy decisions, policy performance, new methodologies to estimate economic and social indicators such as inflation, poverty, etc., while on the other there was an unconventional and very informal way to release information and communicate policy decisions that was never practiced in Venezuela before.

The government could prepare and approve policies behind closed doors, as was the case with most of the four enabling laws conceded to Chávez and many of the resolutions adopted by the government. Many announcements would be made on any given day and through very unusual informative mechanisms, such as social networks, random interviews, etc. Similarly, many governmental offices like the Ministry of Finance or the budget office for instance, ceased publishing many of their customary reports and analytical documents regarding budget implementation and performance and other information considered public in the past; there would be no available information on the records of the several federal funds created, such as *FONDEN*, *Fondespa*, or *Fondo Miranda*, etc.; and social programs such as the *Misiones* would have information dispersed in various agencies, without any consistency between them (E. Ochoa 2011). Analogously, the government would refuse or just dismiss requests to investigate corruption scandals, performance within state-owned enterprises, etc.

However, on the other hand, Chávez would appear on a weekly live program called *Hello President* (in Spanish *Aló Presidente*) broadcasted at the national level on a state TV operator, where he would announce many of his policy reflections and determinations. Through this TV program he would talk for hours while smoothly rearranging governmental offices, designating new directors and ministers, authorizing funds, creating new policy programs, announcing expropriations, economic decisions, new regulations and controls, etc. Likewise, many of the ministers of the Chávez's administration, started announcing their corresponding policy decisions through social media channels such as twitter, TV interviews, random public meetings, etc. (Carroll 2013; Zamora R. 2012). The communication strategy bypassed formal institutional channels to develop an image of spontaneity and transparency. Nevertheless, the

informality of this approach made it very erratic and highly selective on the issues to be communicated and those to be kept behind doors or simply ignored.

Radicalization and Centralization of Power

Some years after Chávez took office, political confrontation and tension started mounting to untenable levels. Chávez's ways and the rapid and radical changes he was promoting, soon started to face critical resistance and defiance, even among his own ranks. There was a failed *coup d'état* in April of 2002 followed by a national strike between December of 2002 and January of 2003. The strike paralyzed, among other economic enclaves, the national oil industry, PDVSA, for nearly two months. The harshness of this period severely damaged the economic performance of the country and further plunged socio and macroeconomic indicators that were already performing very poorly over the past two decades; but it decidedly unsealed the doors for additional institutional rearrangements that the new Constitution would amply endorse.

In 2003, after failed attempts of overturning the president, Chávez increased his rhetorical radicalization and found total approval to impose rigorous economic controls and take direct control over PDVSA. The Directory board, along with managers and about 18,000 to 19,000 workers in total were dismissed and replaced with new employees loyal to the *Chavismo* movement and the *Bolivarian Revolution*. About 60% of total labor force of PDVSA was released (Corrales and Penfold 2012). From that moment on, PDVSA turned 'red' as the color of the political party of Chávez, and as many and most of the governmental agencies, state-owned companies, and other public organizations. Institutional logos, uniforms and slogans would all be red as a symbolic demonstration of the alliance and support given to Chávez.

In this sense, 2003 is a breaking point in the evolutionary sequence of Chávez's administration. In 2003, Chávez manages to bluntly disrupt the previous, already undermined, institutional thread to finally build a new institutional order, politically polarized and highly centralized. Polarization in particular 'as an artifact of state design' (Corrales 2014), served as a perfect justification to further dismantle institutional structures. In fact, it is under a polarizing discourse, justified on the impossibility of negotiating with opposition forces, a 'stateless' group of people, that Chávez wins support for taking over PDVSA. This strategy started to show its payoffs soon enough to become a political preference and a clear characteristic of the new governance modes imposed by Chávez.

With the direct control of PDVSA, Chávez was granted with an unprecedented discretionary control over oil resources. Additionally, the oil boom to come would provide him with

astounding financial resources to pursue almost any endeavor. A special strategy over the use of oil rents was thenceforth developed, unquestionably shaping fiscal policy designs. The incentives to use discretionary mechanisms for rent allocation along with weakened and directly controlled institutions unable to constraint excessive spending, led the government of Chávez to overspend more than any other governments in the past did. However, the configuration of public spending under Chávez's administration played a different role than it did in the past.

Given the high levels of conflict that Chávez needed to confront, and the potential fragmentation of his own political movement, Chávez resorted to using all political resources and institutions at hand to build alliances and limit those of the opposition. Indeed, shortly after the takeover of PDVSA, the opposition organized a referendum to recall the president, in a moment where his popularity levels were at the lowest. The situation was critical. It is at this point, amidst an acute political crisis and facing the menace of a recall referendum, when Chávez pushes further institutional rearrangements and pulls out the spending machinery that would secure him in power for the years to come. This is when oil rents were channeled into new spending mechanisms that would circumvent all fiscal rules and fiscal structures. It is at this moment and not before, that Chávez created the social programs that would redeem him domestically and internationally: the *Misiones*. He would admit to this tactic a few months later, in a summit held in *Fuerte Tiuna*, a military base, on November the 12th of 2004:

"You must remember when, as a result of the coup and all that fatigue, there was a time when we were at the same level with the opposition (politically), or maybe even below them. (...) there is an international pollster that a friend recommended me, (...) they spent over two months here and then they went to the Palace and gave me the bombshell: 'President, if the referendum were now, you would lose it'. (...) It was then that we started working on the Misiones and began to ask for support to Fidel (Castro), (...) and the doctors started to arrive by the hundreds, (...) an airlift, airplanes would come and go (...). And we began to invent the Misiones (...), and then we started climbing in the polls (...) There is no magic here, it's politics."^{45,46} (Article by Armando Durán, *El Nacional*, May 9th of 2011 in Zamora R. 2012, 64–65; Harnecker 2004).

Seen from this perspective, and considering that the social spending approach of Chávez before 2003 was limited to only a few new programs and continuing some of the ones established by former governments;⁴⁷ it seems reasonable to consider that the massive levels

⁴⁵ The full version in Spanish is available at:

<http://www.minci.gob.ve/wp-content/uploads/downloads/2013/01/nuevomapaestrategico.pdf> (page 47-48).

⁴⁶ Translation by the author.

⁴⁷ When Chávez first started his term in office, his administration decided to merge many of the previous social programs into one centralized agency called the *Fondo Unico Social*. A new social program was then created called *Plan Bolívar 2000* that was operationalized by the armed force.

of social spending after 2003, were devised as the means to rebuild, sustain and expand political support. Having control over PDVSA was a pivotal key for this strategy, and the discretionary use of oil rents, the associated award. It would then appear less surprising, the progressive creation of extra-budgetary mechanisms to channel oil rents off regular and formal budgets and the overall reform of the PFM system, base to these treats.

The oil industry historically has provided the largest source of income to the public finance system of the country. However, as it will be further explored, during the decade from 2000-2010 oil become the financial source for the political strategies introduced by the State (Malavé Mata 2010). The Chávez's administration was able to design exceptional fiscal mechanisms to systematically detour formal budget institutions and fuel extra-budgetary spending without monitoring pressures or accountability mechanisms.

All in all, it could be argued that social policies designed under the government of Chávez became more than an objective, but a key substantive policy instrument for political consolidation. Moreover, social spending was turned into the shaping force of the discretionary use of oil rents. As Corrales and Penfold argue (2012), social spending fueled with oil rents served the strategic purpose of building domestic and foreign coalitions, silencing critics and gaining the support of the intellectuals and leftists movements globally.

In general, it could be said with certainty that the period under Chávez's rule was highly conflictive with a decidedly polarized and radicalized political environment. The average attitude of both *chavistas* and dissenters was to 'either be with or against' one of the sides in most debates and concerns, in a continuous discrediting, disqualifying and disdainful manner with the adversary. This situation was replicated in policy formulating processes. Such levels of tension and radicalism basically annulled cooperative dynamics while severely raising the stakes of powers; as a result, Monaldi and Penfold point out, "policies are usually crafted as an attempt to maximize political power rather than on efficiency considerations" (2014, 364).

Altogether, the prevalent frictions within Chávez's coalition, untiringly pushed for the deployment of both tangible and intangible political resources to maintain political alliances together and prevent potential defection (Corrales 2014). While tangible resources would mainly refer to the use of the typical fiscal spending mechanisms, intangible political resources were based on the use and abuse of institutions (Corrales 2008), and played a major role in determining the dynamics of the overarching political regime and hence, on the policy-making scenarios (Corrales 2014). For instance, the deliberate use of political polarization, corruption and impunity for supporters, as well as patronage, clientelism and cronyism, were the main types of political resources used by Chávez to control and keep political alliance in

place, and utilized operational platforms such as banded or disbanded institutions, reformed rules, etc. On the other hand, job discrimination and other legal abuses were broadly deployed against dissenters, and as a threat toward potential defection. In fact, the '*rojo, rojito*' feature of government (which translates into the "red, very red"), was an openly claimed practice of the Chávez's administration to offer governmental services and benefits, such as jobs, contracts, and subsidies among others, only to those loyal to the ideals of *Chavismo* and the *Bolivarian Revolution*. For these tactics as well, the *Chavismo* movement relied on the use of institutions, breaking their autonomy and pushing their rules to make them meet the political strategies at hand.

This discriminating strategy would reward supporters and punish dissenters through the access or denial to governmental advantages of all sorts, including the access to security, the provision of goods and services and many social programs. Indeed, the government widely applied a punishing strategy with a list of people who had signed the referendum to recall the president in 2004. This list was famously known as the '*Tascon's List*', as it was Luis Tascón, a member of the National Assembly, loyal to Chávez, who obtained it from the electorate council and made it public. Despite the morally questionable nature of this action, and its basic illegality, this list was well received by the government and it became institutionalized as a discriminatory tool, necessary to avoid 'stateless' dissenters to access the government or profit from the revolution. Since the publication of the *Tascon's List*, public employees would be cornered or threatened with losing their jobs, or simply dismissed because of their betrayal; similarly, job candidates would be denied from accessing positions in the public administration if they had signed the recall request. The same would apply to aspirants for subsidies, financial support, scholarships and other governmental benefits. Moreover, the *Tascon's List* became a powerful tool to intimidate public employees and beneficiaries of social programs in each electoral round making them believe that the government would always access the voters' lists.

Of course these efforts may have further undermined institutional structures, capacity and credibility, when not dismantling them altogether; after all, the mechanisms to discriminate, exclude and radicalize would be channeled and executed through institutional structures. Furthermore, the introduction of policy instruments of this sort tends to be more clandestine, imprecise and furtive, implying that they may collude with other policy efforts or may not be necessarily aligned with other policy goals pursued. As a result, these strategies could have also blatantly disturbed policy implementation dynamics or produced pronounced inconsistencies across different sets of policy designs and across different policy sectors.

Similarly, Chávez used both tangible and intangible resources to create and maintain international political alliances that would legitimate his political regime from peripheral arenas. However, the new foreign policy introduced by Chávez's regime did not seem to only ambition legitimacy and approval. The discourse of Chávez applied a rhetoric parallel to the one developed domestically with a big emphasis on the failures of capitalism and the dominant and negative influence of imperialistic potencies such as the one of the United States of America. Therefore, the *Socialism of the 21st century* was also a feasible alternative to the failures of capitalism experienced in other imperial powers. Initiatives like the ALBA⁴⁸, as the *Bolivarian* alternative to the commercial treaty of free trade portrayed by ALCA⁴⁹, were part of Chávez's ideas of creating a commercial and integrated block of countries in the South that would directly defy the interests of traditional powers such as those of the United States while protecting those of the region. On the same vein, in 2006 Chávez decided that Venezuela would withdraw from the CAN⁵⁰ to explicitly express his position against commercial agreements (of free trade) conducted between the United States and other members of the organization, specifically Colombia and Peru (Fontaine 2011). Similarly, the creation of UNASUR⁵¹ was strongly endorsed by Chávez as an alternative to the OAS (Organization of American States), organization that importantly threatened the political stance of Chávez during his first and most troubled years in power.

In general, Chávez introduced a highly controversial and conflictive approach to foreign policies that granted him great levels of admiration among those who saw in Chávez a unique leader and promoter of social equality and democracy. According to Corrales and Penfold (2012), these efforts were directed at expanding his political influence, especially in the Latin American region, but also at destabilizing and defying any attempt of challenging or contravening his power and control over Venezuela.

Chávez's diplomatic moves were openly directed at influencing the rest of the region with his own governance modes, which he explicitly labeled as 'revolutionary' and 'liberating'. To this account, Chávez recurred to the deployment of massive amounts of oil resources to form strategic alliances both within the Latin American region and beyond it, building economic, political and strategic ties with many governments of the region, along with some controversial ones such as Cuba, Iran, China and Russia, among many others. He enthusiastically supported the creation of *Banco del Sur* and the adoption of a common

⁴⁸ Initials in Spanish for *Alianza Bolivariana para los pueblos de nuestra América*

⁴⁹ Initials in Spanish for *Area de Libre Comercio de las Américas*

⁵⁰ Initials in Spanish for the *Comunidad Andina de Naciones*

⁵¹ Initials in Spanish for the *Unión de Naciones Suramericanas*

currency for the region in order to develop a commercially integrated zone in the Latin American region. These efforts were paralleled by other regional similar partnerships projects based on the preferential commercialization of oil resources or through the direct investment in social projects.

Similarly, Venezuela has critically invested (and promised to invest) in countries of the Latin American region such as Nicaragua, Cuba, Argentina, Ecuador, Honduras and Bolivia (Corrales and Penfold 2012). *Petrocaribe* for instance, was founded as an oil treaty between Venezuela and several countries in the Caribbean, in which Venezuela would provide oil resources at lower than competitive prices and with payment facilities in exchange of several types of goods and services, and more presumably, political support. For these types of commercial agreements, for instance, the complete control over PDVSA was pivotal. Progressively, the development of these commercial and political ties generated a tacit oil diplomacy as an enticing and successful policy mean to erect strategic coalitions internationally. Beyond the altruistic intentions of these efforts, the governance modes of the Chávez's movement, suggest that these strategies were directed at neutralizing external enemies of the revolution: imperialistic powers, by limiting their regional influence and competing with institutional and commercial alternatives financed with plentiful oil resources.

The phases of the Bolivarian Revolution

The *Bolivarian Revolution* initiated by Chávez was not a steady political movement following the same strategies from beginning to end, nor were the tactics continual along the entire period of Chávez's administration. For instance, a prominent element of the policy-making environment of this period was the use of radicalism for political gain (Corrales 2014); however, polarizing and radicalizing of politics was not necessarily used with the same vigor throughout the entire period of Chávez in office. Most scholars working on the subject have converged in identifying at least four differentiated phases within this period:

Building the foundations (1999-2001): During his first years in office, from 1999 to 2001, except for a very clear anti-status quo position, Chávez was not as confrontational as he would grow to be in subsequent years. It is during this period though, when the most transcendental changes were devised and adopted. Chávez enjoyed high levels of political support and used a mixed strategy to convey his ambitions: he was politically aggressive but more conservative in terms of economic strategies. His initial approach to the transformation of the country was envisioned and projected as a 'transition' process, in which the economic plan contained only mild changes comparable to those proposed in previous administrations (Guerra 2013; Corrales 2014). Chávez prepared an economic policy package called *The*

*Transition Project: Five poles towards a new Republic*⁵² in which a general diagnosis of the country's status was presented in order to propose a number of transforming policy actions directed at reaching an improvement of economic, political and social aspects (Guerra 2013). These economic propositions, even though seeking a full transformation of the country, were actually not that different from conventional policies previously attempted.⁵³ The Constitutional reform devised in this period, however, did imply a straight movement toward centralizing power and contained many of the elements that paved the way for future institutional adjustments that would further concentrate power in the Executive. All in all, the constitutional reform reinforced the power position of the President in detriment of the previous federal order, and favored the establishment of a hegemonic political regime. Spaces for the opposition were drastically reduced, raising the stakes of power and radicalizing the political environment for policy-making processes.

Delving for stability (2001-2003): During this period Chávez faced high levels of pressure and rapidly decaying support. The country was submerged in political conflict. Unsettlement and political discontent characterized these years in which tensions were mounting dangerously fast. Multiple strikes and public demonstrations against and pro Chávez would take place highly frequently, paralyzing the economy and gradually enervating the global political atmosphere. Indeed it was between the years 2001 and 2003 when two major national strikes and a *coup d'état* took place. It was also during year 2003 when the recall referendum gets in motion, however, Chávez found mechanisms and institutional support to invalidate the process several times, postponing it until 2004 when its actual realization would take place.

The Consolidation of Power (2003-2007): Over this period Chávez sealed his political and power positions. He took direct control over PDVSA and installs a fierce controlling regulation over the foreign exchange regime, domestic prices, salaries, labor contracts, etc. Rapidly increasing oil prices soon started to mitigate the economic slump accumulated in previous years and the new institutional settings allow the regime of Chávez to further concentrate power and limit the participation of the opposition. Most public institutions were progressively turned symbolically 'red' and the discriminatory strategy was largely adopted. The foundations of a watchdog government were established during this period, which

⁵² As part of a broader project called *The proposal of Hugo Chavez to transform Venezuela: A democratic revolution, 1999*.

⁵³ In part because previous governments and their attempts to reform crucial policies were never fully applied, either because they encountered fierce resistance, or because oil price fluctuations allowed for their postponement, or because major swifts in policy perspectives would change directions, etc. Hence, it has become a common place in Venezuelan politics to elaborate discourses about the need of radical transformations.

coincided with the astonishing oil boom that further pushed for the development of political strategies to concentrate more power. From year 2003 onwards, many populist programs began and as the oil prices started to gradually improve, new social programs were progressively added to take advantage of the unfolding oil boom. Moreover, it was during these years when Chávez gained total control over the Parliament (in 2005) and won the presidential reelection in December of 2006 for the period 2007-2013, consolidating his position as the main leader of a growing political movement.

Radicalizing the model (2007-2012): The last phase of the Chávez's regime begins in 2007. During this period, his political regime turned more radical, putting the *Socialism of the 21st century* at the center of the economic policies. It was during this stage where he actually introduced the term of the *Socialism of the 21st century* for the first time announcing it as a new strategy, poorly defined in concrete ways but rhetorically seductive. Facing the downturn of the oil boom as of year 2008, several state expropriations start taking place over many industries across different sectors. During this period Chávez took total control over the telecommunication and electricity sectors, and partially over the banking sector. He added several newspapers, radio stations and TV channels to the set of media platforms controlled by the government and multiplies its international political alliances. Many more institutional modifications are carried out and two referenda are organized to amend the constitution, one in 2007, which Chávez lost (his only electoral defeat) and the second one in early 2009 where he succeeded in the elimination of limits to stay in power and get indefinitely reelected. Victory with which he runs for his final electoral battle in October of 2012 and gets reelected for the period 2013-2019. Soon after elections, he dies of cancer.

Venezuelan fiscal policies under the magnifying glass: A characterization of the meso level during the period 2000-2010

The governance modes described in the previous sub-section, corresponding to the *meta* level of policy dynamics, set the context and delimitations for the policy objectives and tools at the *meso* level. In this regard, the logic and capacity of the fiscal policy regime in Venezuela during the period 2000-2010 were substantially determined by the policy aims of the new political regime introduced by Chávez, that of the *Socialism of the 21st century* and the *Bolivarian Revolution*. The governance modes of this new political order developed a discernible preference for the centralization of policy-making decisions for which resetting preceding structures and circumventing still standing formal institutions were essential tools.

In this sense, fiscal policies, which are pivotal and strategic to accomplish major policy aims at the *meta* level, were significantly adjusted to meet new demands and abide by new rules; indeed, the entire fiscal system was restructured to create a ‘new financial architecture’ compatible with, and linked to the nature of the newly established governance arrangements. Leading policy objectives and means will be subsequently assessed, in order to identify the policy regime logics and implementation preferences that characterize the fiscal policy regime during the period examined.

Policy objectives and policy means

The assessment of the PFM system and in particular of the budgetary scheme, sheds light on the logic and capacity of the fiscal policy sector in Venezuela during the period 2000-2010. Overall, the fiscal scene has been substantially determined by the governance modes of the new political regime introduced by Chávez, which translates into a preference for the extensive and discretionary use of both tangible and intangible resources and the rearrangement of institutional structures to conduct the *Bolivarian Revolution* and build the *Socialism of the 21st century*, based on a solid political alliance.

As a result, in the fiscal policy regime, there has been a distinct tendency to centralize public spending decisions and to create numerous spending mechanisms that are parallel to the main short-term fiscal tool: the budget, and that circumvent other formal fiscal circuits altogether. The PFM institutional framework has adapted to new formal and informal fiscal practices, officially incorporating the sidestepping of core fiscal subsystems to allocate resources more freely.

Overall, from the fiscal dynamics assessed (at the *meso* level), the leading policy objectives and policy means identified are summarized in Table 6 below.

Table 6. Main policy objectives and means at the *meso* level of policy action

Main policy objectives	Main policy means
Centralize the management of public finances	Reform the core fiscal structure and rules of the PFM system, Undermine budgets
Ensure the Executive with a larger control over public spending decisions	Reform the structure of the Central Bank (BCV), Creation of BANDES and <i>Banco del Tesoro</i> , Creation of CADIVI, Other regulatory reforms within the PFM system, Reform of SFIs rules (FIEM/FEM)
Centralize the use of oil rents	Takeover of PDVSA, New hydrocarbons law, Underestimation of oil barrel prices
Maximize resources for discretionary use	Other reforms to the law of the BCV, Creation of FONDESPA, FONDEN Law over extraordinary prices from hydrocarbon international markets Creation of the Social Fund for the use of resources in surplus of all public administration entities

Source: Own confection

A first order objective has undoubtedly been the centralization of public finances management for which the construction of a ‘new financial architecture,’ involving major legal reforms and institutional reorganizations, has been gradually designed.

This new financial architecture, conceived along differentiated and sequenced stages, concentrated the governing and administrative functions over the management of public finances in a single central body, the Ministry of Finance, a line department directly subordinated to central government. Additionally, the new fiscal order gradually neglected other preceding fiscal institutions and rules, including the formulation and implementation of federal annual budgets.

The gradual overshadowing of the budget has been carried out while off-budget mechanisms have gained a central role in the fiscal arena. Essentially, budgets are no longer the main tool to channel fiscal resources, and in particular those generated in the oil industry, which can add to the reasons behind the budget gradual displacement, or alternatively, such disregard can be a way to avoid standard accountability mechanisms that budgets are normally subject to. Overall, the efforts to centralize the management of public finances undoubtedly needed to regularly undermine the previous fiscal structure in order to effectively concentrate higher levels of fiscal control.

Similarly, the reform to the legal frames of the Central Bank (BCV⁵⁴) and SFIs (the FIEM and FEM), along with the creation of two different financial platforms in support of the

⁵⁴ Initials in Spanish for *Banco Central de Venezuela*.

envisioned fiscal plans, BANDES⁵⁵ and *Banco del Tesoro* granted the Executive with a larger control over key areas and institutions in the fiscal scheme, but most importantly, it conferred a larger control over public spending decisions, which represents the second policy objective identified. Unquestionably, the aim of centralizing the management of public finances was accompanied by the aim of having an active and yielding control over public spending decisions altogether. Additionally, an exchange rate system was introduced to regulate the access to foreign currency as well as to design exchange rate policies⁵⁶ via the Ministry of Finance in coordination with the Central Bank. A new institution, also attached to the Ministry of Finance, was created to operate the system: CADIVI.⁵⁷ This new centralized exchange control regime also provided the executive with a novel type of tool from which it would control public resources, non-recurrent in nature and easily channeled through different types of alternative mechanisms.

Undoubtedly, the centralization of the use of oil rents in particular was a third leading objective during this period. The new hydrocarbons law and the takeover of PDVSA, along with new spending roles that were assigned to the oil company allowed the Executive to directly manage oil revenues without having to negotiate spending patterns or allocation decisions with any of the traditional budgetary actors. An indirect centralism was specially devised with this new spending mechanism (Aponte Blank 2010) as PDVSA would progressively assume the public spending responsibility traditionally assumed by the central government, but under the direct guidelines of the latter. At last and directly linked to this policy aim, was the systematic underestimation of oil barrel prices during budget formulation processes. This fiscal artifice was without a doubt a complementary strategy through which the executive would be granted with larger proportions of oil resources instead of letting them be utilized in stricter budgetary formats.

Finally, the fourth identified policy objective seems to be the need to create alternative discretionary resources with which the government could count on unusual sources of fiscal revenues that, because of their 'non-recurrent' or 'extraordinary' nature, were not accounted *ex ante* in the budgetary exercise, or at least not accurately estimated. Therefore, they were released from pre-established fiscal commitments and more easily channeled toward alternative policy ends. Once the first meaningful and concentrating efforts had been

⁵⁵ Initials for *Banco de Desarrollo Económico y Social de Venezuela*, meaning the Bank for Economic and Social Development of Venezuela.

⁵⁶ The analysis of exchange rate policies is not part of this study, however, it is important to remark that CADIVI also played an important role in the PFM scheme during the years examined.

⁵⁷ Initials in Spanish for *Comisión de Administración de Divisas*

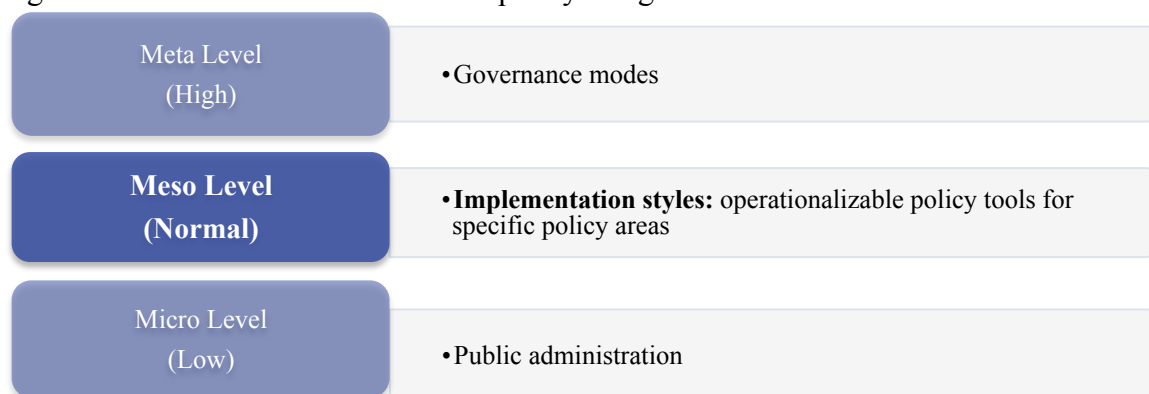
established and the fiscal scenario was fairly generous, some additional rearrangements would have made the most of a practically unlocked fiscal system. Therefore, new strategic reforms to the Central Bank together with the creation of several separate special funds to invest in the economy in parallel circuits to those of the formal fiscal structures were compelling. In particular, this is the case of FONDEN, FONDESPA, among many other separate funds, along with a number of bilateral treaties created as special investment funds with other governments for strategic economic and development cooperation. Similarly, the reforms allowed the direct transfer of funds to both budgetary and extra-budgetary recipients but in a way that detoured around traditional fiscal channels and responded to a centralized decision-making pattern.

All in all, numerous reforms were approved to formally detour traditional fiscal rules and create new public spending mechanisms parallel to annual federal budgets. Not only formal fiscal mechanisms were circumvented but also traditional fiscal institutions were gradually displaced, as new spending mechanisms would be increasingly created. The 'new financial architecture' has further weakened the preceding fiscal institution and undermined annual budgets, as part of general policy aims for centralizing the management of public finances and expanding the control over public spending decisions by the executive. As a result, the executive has concentrated greater levels of power in the fiscal arena beyond legal stipulations; this almost de facto role displaces other formal institutions traditionally involved in the budget policy-making process, and gives more scope for the discretionary use of public funds in public spending arrangements.

Analyzing the design of this new financial architecture through its policy mix is the main subject of analysis of Chapter 4; first however, the following sub-section will focus on decoding the PFM scheme, that is, on describing and assessing the *meso* level of public action in which implementation styles are defined under the influence of the contextual political frame earlier described.

A characterization of the fiscal policy regime will be developed aiming to decode the Venezuelan fiscal scheme during the period 2000-2010; this task involves identifying and describing the role of pivotal agencies and programs that conform the fiscal scheme to detect the boundaries of the sector. Figure 4 provides a visual sketch of the policy level being examined in this subsection.

Figure 4. A focus on the *meso* level of policy designs



Source: Adapted from Howlett 2009 and Howlett and Cashore 2009

An overview of the Public Finance Management (PFM) system

As it was earlier developed, fiscal policies and the management of public finances overall are framed and structured by a certain fiscal configuration, the Public Finance Management (PFM) system. In Venezuela the PFM system is mainly articulated around the collection of fiscal resources from the oil and non-oil sectors of the domestic economy, as well as from other national and international financial sources through public debt mechanisms. Then, it follows the subsequent consumption (through public spending) of the assembled resource base, primarily through an annual federal budget and a number of special spending programs and investment funds that run parallel to most conventional fiscal institutions and outside all regulating fiscal sub-systems in place (outlined in Table 7).

For each term the government designs a particular fiscal approach that contemplates policy strategies to develop a resource base to be subsequently consumed according to economic and development plans for the nation. In the construction of these developing plans, the primary figure in charge is the Executive, for the most part via the President and the Ministry of Planning. On this point, it is important to remark the two folded nature of fiscal policies: both the assembling and the spending sides of fiscal designs have intended (and unintended) impacts on the economy. Either for regulation, control, correction of distortions, stimulation or discouragement of particular sectors, redistribution of resources, among other purposes, both levying taxes and spending programs are supposed to be carefully designed to the ultimate attainment of certain planned objectives.

In the process of collecting fiscal revenues, the Venezuelan government can resort to the oil and non-oil sectors of the domestic economy. For the non-oil fiscal revenues, the Executive,

mainly through the Ministry of Finance and the central tax authority, the SENIAT,⁵⁸ design the most convenient tax burden to employ given the particular economic, political and social objectives pursued along with the spending or budgetary requests to fulfill. As for the oil sector, the Executive, mainly through the Ministry of Energy and Petroleum (the MENPET), and PDVSA design a certain oil policy scheme on the base of volumes of production, investment plans and oil price prospects.

Estimated fiscal revenues from the oil and non-oil sectors give an important signal of what the administration can do in terms of designing a spending strategy. However, considering earmarked revenues or the rigidity triggered with fiscal spending obligations (legal expenditures), along with the commitment to repay debt obligations previously acquired, the Executive, defines new financial requirements to be covered through public debt or the sale of assets among other options, to bridge the gap between expected fiscal revenues and the projected spending approach. Ultimately, the design of a fiscal policy strategy results from confronting the projections for collecting fiscal revenues against the spending intentions of the government and finding the adjustment mechanisms to make them match. The annual indebtedness law, the LEEA,⁵⁹ is then accordingly prepared by a specialized agency for public debt management, the ONCP,⁶⁰ attached to the Ministry of Finance.

Regarding the spending side of fiscal approaches, the main programs of the Venezuelan fiscal scheme are the federal annual budgets and an unclear number of extra-budgetary spending programs and special investment funds. The programmed expenditures contained in the budget are prepared in coordination with the LEEA and contain envisioned spending programs and intended national development plans. As for the parallel spending mechanisms and the special funds, they enclose varying fiscal strategies to carry on important investment, social and development programs, allocating public resources directly. Whereas the budget and the LEEA are assigned with resources from both sectors of the economy (the oil and non-oil sector which also includes the banking and financial sector), the extra-budgetary funds are mainly fed with oil related revenues, financial mechanisms and in some cases, strategic financial arrangements convened with other governments.⁶¹

⁵⁸ Initials in Spanish for the *Servicio Nacional Integrado de Administración Aduanera y Tributaria*. Specialized agency attached to the Ministry of Finance.

⁵⁹ Initials in Spanish for *Ley Especial de Endeudamiento Anual*.

⁶⁰ Initials in Spanish for the *Oficina Nacional de Crédito Público*.

⁶¹ Venezuela has signed bilateral treaties for development, using these types of extra-budgetary funds, with the governments of China, Russia, Iran, Belarus, among others.

The main financial articulator of both the budget and the LEEA is the National Treasury Office (ONT),⁶² in charge of channeling the funds received from numerous sources and in turn assigning them to the different executing agencies, according to the spending schedule protocol approved by the National Assembly. When it comes to the specific dynamics of the extra-budgetary funds though, rules for both the assignment and the spending of public resources are significantly different from those of the budget and LEEA as they are detached from the core traditional institutions and have their own tailored mechanisms, along with varying functions and roles within the PFM scheme. The Bank for the Economic and Social Development of Venezuela (BANDES) created by presidential decree through the reform of a previous fund for investments has played a strategic role in financing and routing resources to these numerous parallel funds, representing a financial and operational platform particularly for the extra-budgetary pieces of the newly developed fiscal scheme. Similarly, a new financial arm was added to the fiscal scheme in 2005, the *Banco del Tesoro*⁶³ to specifically manage public debt accounts and international transactions of the government (Guerra 2008).

On the other hand, the Central Bank (BCV) designs monetary policies that tend to complement the fiscal approach of the Executive, involving the management of monetary liquidity levels in the economy and interest rates via the commercial banking and financial sectors. Furthermore, the BCV coordinates with the Executive essential macroeconomic premises that incorporate key inputs for the preparation of the budget, be it to adjust budget parameters, ease budget implementation or even ensure its general feasibility. Such inputs refer to inflation scenarios, monetary variables, growth considerations, etc. Additionally, in the new configuration of the PFM scheme, the BCV has been without any doubt, a crucial player in directly channeling resources to off the budget recipients as well. These adjustments will be further explored in Chapter 4, as part of the analysis of the fiscal policy design. Also, in 2003 an exchange rate system was introduced and CADIVI was created to operate it. The idea was to regulate the access to foreign currency and design exchange rate policies via the Ministry of Finance in coordination with the BCV.

Other fiscal tools for the medium-term have been created during the period analyzed, such as a Pluri-annual budget and Special Fiscal Institutions (SFIs) to stabilize the economy, calibrate the use of oil rents and control public spending levels under longer-term perspectives; nevertheless, in practice these instruments have not been fully applied, their rules have been

⁶² Initials in Spanish for *Oficina Nacional de Tesorería*.

⁶³ Official Gazette 38.252-August 17th, 2005

repeatedly modified, or they have been consecutively undermined and displaced by more immediate spending mechanisms.

Yet another significant aspect to remark about the PFM system during the period 2000-2010, is the unparalleled spending functions directly assumed by PDVSA. This too, is a newly adopted fiscal strategy detached from the traditional institutional regulations or accountability mechanisms and one that follows varying and accommodating spending dynamics. Overall, the arbitrary institutional circumvention developed within the PFM system during the years assessed, is part of the new implementation styles gradually adopted and institutionalized at the *meso* level of public action.

Picking up the thread on the discussion of policy instruments developed in Chapter 2, and specifically making reference to the NATO model developed by Christopher Hood in the mid 1980s, the overview of the fiscal policy regime of Venezuela during the period assessed reveals how the different elements of the PFM system above described are enclosed in all four dimensions of the NATO model.

As it has been previously discussed, fiscal regimes despite representing the treasure that articulates other sectorial policies, are also policies in their own and as such, need governmental resources and means like information, authority, treasure and organization in order to articulate their own programs for collecting and spending resources. Budgets and indebtedness laws in particular are highly complex policy instruments that rely on important amounts of information to consolidate financial needs and design spending mechanisms timely and accurately. Similarly an important legal base and fiscal rules need to be in place to direct the different stages of budgetary processes, financing, treasury, accounting and tax systems as well as for SFIs and other elements listed in Table 8. Lastly, different organizations are involved in the preparation, approval, execution and monitoring of fiscal tools as summarized in both Table 7 and Table 8 below.

Table 7 summarizes the leading structure and core programs of the PFM system in Venezuela during the period 2000-2010.⁶⁴ This set of institutions and programs is representative of the main fiscal strategies developed during the period assessed and are considered to be good markers of the fiscal regime's general borders and contents.

⁶⁴ There are other institutions and programs that are not included in this table or fully described in this work, however, for the analytical purposes and the scope of this particular project, only the most relevant and structuring pieces of the fiscal scheme have been considered for analysis.

Table 7. PFM main structure and programs 2000-2010

PFM Structure	PFM Programs
Executive: Office of the Presidency Vice-Presidency Ministry of Finance <ul style="list-style-type: none"> • ONAPRE (Budget Office) • ONCP (Public Credit Office) • ONT (Treasury Office) • ONCOP (Accounting Office) • SENIAT (Tax authority) Ministry of Planning (MP) Ministry of Energy and Petroleum (MENPET)	Income generation programs <ul style="list-style-type: none"> • Tax Burden • Oil policies • Special Indebtedness Law (LEEA)
Central Bank of Venezuela (BCV)	Spending programs <ul style="list-style-type: none"> • Annual Budget • Special funds for investment: FONDEN, Fondespa, Bicentenary Fund, Miranda Fund, Chinese Fund, Russian Fund, etc. • Other extra-budgetary spending mechanisms: Misiones
Petróleos de Venezuela, S.A. (PDVSA)	
Special Fiscal Institutions (SFIs) <ul style="list-style-type: none"> • FIEM/FEM 	
Bank for the Economic and Social Development of Venezuela (BANDES)	

Source: Own confection

As it can be seen from Table 7, the main institutions and agencies of the PFM structure are outlined on the left column of the Table whereas the key general programs are arranged on the right column and are classified into two main areas: income generation programs and spending programs. In terms of the analysis of the *meso* level, and under the perspective of delimiting the borders of the fiscal policy regime, it is important to further consider some elements of these two types of programs. In what follows, a brief description covering central aspects of the fiscal programs to generate public revenues and to spend them will be developed.

Table 8 presents an outline of the PFM system with all fiscal subsystems, their operational institutions, along with their governing bodies and regulating laws.

Table 8. Institutional framework of the PFM system 2000-2010

Governing body	Fiscal Sub-Systems	Operational Institutions	Regulating Laws*
Ministry of Finance	Budgetary System	National Budget Office (ONAPRE)	LOAFSP, Organic Budgetary Law and Annual Budget Law
	Financing System	National Office of Public Credit (ONCP)	LOAFSP, Annual Indebtedness Law
	Treasury System	National Treasury Office (ONT)	LOAFSP
	Accounting System	National Accounting Office (ONCOP)	LOAFSP
	Tax System	Tax Authority (SENIAT)	Organic Pecuniary Code
Ministry of Finance & Vice-Presidency of the Republic	National System of Fiscal Control	National Office for Internal Audits and Supervision (SUNAI)	LOAFSP
	National System of Fiscal Control	General Comptroller of the Republic	Organic Law of the General Comptroller of the Republic and National System of Fiscal Control
	Coordination of macroeconomic policies between the Executive Branch and the Monetary Authority	Central Bank of Venezuela (BCV)	LOAFSP, Law of the BCV, Organic Law of Public Administration, Organic Law of the General Comptroller's Office
		Ministry of Finance	LOAFSP
Ministry of Finance	Special Fiscal Institutions (SFIs)	FIEM - FEM	Law of the FIEM/FEM
	Special financial agencies	BANDES Banco del Tesoro	LOAFSP, Law of the BANDES, Organic Law of Public Administration, Organic Law of the General Comptroller's Office
	Exchange rate policies**	CADIVI	Exchange agreements with the BCV and the Ministry of Finance
Autonomous, in some cases the Ministry of Finance, in other cases specialized agencies	Separate special investment funds	Self-operated	Their own regulations
PDVSA	Spending functions of PDVSA	PDVSA	Organic Law of Public Administration, PDVSA's Statutes

Source: LOAFSP, Institutional official information and adapted from Vera Colina et al, 2009

(*) The Constitution of 1999 is the overarching regulating frame over all laws

(**) In coordination with the Central Bank (BCV)

Limits or borders of the fiscal regime: Income generation programs

As it was previously discussed, any fiscal approach is based on the collection of a sufficiently large pool of resources to execute the intended number of public spending programs devised. Public income generation can be effectively raised and collected in the form of taxes, donations, sales, resource rents, etc. In Venezuela the core fund raising programs are the tax system, oil policies and public debt acquisition.

In terms of the tax system, the design and calibration of the tax burden is mainly done on the base of the following levying tools:

1. Income tax (ISLR)⁶⁵
2. Value Added Tax (IVA):⁶⁶ Internal and on imports
3. Customs: on imports and custom services
4. Other internal taxes: Alcohol, Cigarettes, Successions and donations, gambling, etc.

This set of taxing tools is mainly designed to generate what is considered to be ‘ordinary’ fiscal revenues. Based on the regularity of their generation, fiscal revenues can be branded as either ordinary or extraordinary. This classification allows for the development of an agenda or for a fiscal planning exercise, and is pivotal in the design of fiscal strategies as it will be further explored in the following subsection of this Chapter and through Chapter 4. In this sense, constant, thus reliable fluxes of income are differentiated from those that tend to be more volatile or inconstant, hence, unpredictable. Ordinary revenues are regular in nature and their collection does not exhaust the sources that generate them, thus, their assembling does not compromise current or future public patrimony. For this type of revenues, governments have the possibility of raising similar levels of income in each fiscal period.

Compiling ordinary revenues can be repeated every fiscal term because they come from routine taxes and from the management of public patrimony (Vera Colina, Finol Romero, and Urdaneta 2009). Conventionally, ordinary revenues come from general taxes over production, consumption and other economic activities, as well as from particular domains such as territorial exploitation, custom and commercial public services, fines, etc. (Paredes 2006). The regularity of income collection makes ordinary revenues a perfect target to be earmarked for budgetary purposes. Indeed, from this category, typically some first deductions are made to cover fiduciary, saving funds and legal allocations.

On the other hand, extraordinary revenues are those that are generated in a non-regular basis. Their distinctive features are that the sources that generate them do not allow for their

⁶⁵ Initials in Spanish for *Impuesto Sobre la Renta*.

⁶⁶ Initials in Spanish for *Impuesto Sobre el Valor Agregado*.

consecutive and periodic collection and they do compromise either current or future public patrimony. For instance, the sale of assets that are property of the state, the use of non-compromised federal monetary reserves and the acquisition of public debt, are all decisions that generate higher levels of income in one period but reduce public national patrimony⁶⁷ for coming periods.

Public debt acquisition, as a fiscal program to raise extraordinary revenues, is formally done via the LEEA, but many of the separate special funds created during the period 2000-2010 have also served as mechanisms to generate extraordinary resources through increasing liabilities. Although the strategies for financing budgetary needs and fiscal spending programs are not part of this work, the acquisition of public debt, both internal and external, has been a key component of the fiscal approach of the Venezuelan government over the last, at least 40 years.

Another type of extraordinary revenues can be the ones resulting from temporary circumstances on the basis of transitory agreements or provisional legal dispositions (Vera Colina, Finol Romero, and Urdaneta 2009). The core fiscal management law for the public sector, the LOAFSP,⁶⁸ establishes a period of three consecutive fiscal years as the minimum amount of time for a type of revenue to be considered ordinary. Usually, extraordinary revenues, because of their nature, are supposed to finance or cover unexpected situations or extraordinary expenditures. Nonetheless, in practice as it will be discussed ahead, their use to cover routine spending programs has progressively become a norm. In the Venezuelan context, as Paredes (2006) indicates it, extraordinary or non-recurrent revenues usually come from debt burdens (LEEAs), debt related income, accumulated positive fiscal results or savings, particular repayments, temporary taxes and some liabilities and contributions from special saving funds or SFIs such as the FIEM⁶⁹ or the FEM.⁷⁰

Lastly, the other fundamental mechanism to generate public income, in particular in the Venezuelan context, comes with the strategic design of oil policies and the associated rent-capturing mechanisms for government take (royalties, taxes, upfront payments) (Monaldi 2010; Balza and Espinasa 2015). The Executive, primarily through the MENPET, and PDVSA assume such a compound endeavor. Oil policies are based on defining strategies for oil production volumes, exports plans, investment needs and capacity for refinery,

⁶⁷ Through the sale of assets, lower levels of monetary reserves to face future unexpected expenditures and contingencies, or by compromising future income.

⁶⁸ Initials for the *Ley Orgánica de la Administración Financiera del Sector Público* in Spanish.

⁶⁹ Initials in Spanish for *Fondo de Inversión y Estabilización Macroeconómica*.

⁷⁰ Initials in Spanish for *Fondo para la Estabilización Macroeconómica*.

exploration, extraction, maintenance, etc., as well as estimations of international oil prices. It is through oil policies that decisions to adhere to OPEC policies or defend national strategies are taken, invest in expansionary strategies or embrace strategic alliances, improve refinery capacity or stimulate private-public partnerships, etc. The complexities of oil policy designs are not part of this particular project; nevertheless, it is important to consider that the relationship between the Executive and PDVSA in defining oil policies is pivotal in the dynamics of the fiscal scheme. Indeed, the difficulties to align the views of PDVSA with those of the Executive, during the first years of Chávez's administration were a transcendent factor in the reconfiguration of the PFM system and the movements to take complete control of PDVSA in 2003 (Núñez and Pagliacci 2007). Altogether, oil related revenues are a regular and significant component of Venezuelan budgets and a strong piece of its fiscal vitality; consequently, increasing the control over oil rents is critical in the management of public finances.

Overall, the generation of oil related revenues implies adding another dimension to the taxonomy of public income, one that is directly related to the oil and non-oil roots of fiscal revenues. Given the economic profile of the country, this classification is highly relevant in the fiscal system and will be determinant in the budget formulation.

Table 9 summarizes the sources of oil and non-oil type of revenues and the legal dispositions that establish their collection. Fiscal revenues originated in the oil-sector can come from both pecuniary and non-pecuniary sources, whereas fiscal revenues generated by the non-oil sector, for the most part come only from pecuniary sources.⁷¹ Public debt generation is not included in the Table.

⁷¹ Although transferences, sales and other type of non-oil activities can generate non-pecuniary income as well.

Table 9. Sources of oil and non-oil revenues

Oil related tax revenues		
Income tax (on Oil trade)	50% of income after subtracting other costs	Income tax (ISLR – <i>Impuesto sobre la renta</i>). Article 53 literal b; article 11 for national or state companies in the Oil sector.
Extraction tax	1/3 (one third) of the value of all extracted liquid hydrocarbons at market value or convened value	Organic law of Hydrocarbons (<i>Ley Orgánica de Hidrocarburos</i>) (Art. 48, numeral 4)
Superficial tax	100 pecuniary units (the value of the unit changes periodically) for each square kilometer of the superficial extension (physical) non-exploited during each year	Organic law of Hydrocarbons (Art. 48, numeral 1)
Export registration tax	0.1% of the value of all exported hydrocarbons from national territory based on the price of sale	Organic law of Hydrocarbons (Art. 48, numeral 5)
Non-pecuniary oil related revenues		
Royalties	30% for the volume of extracted hydrocarbons and 20% for the volume of extracted gaseous hydrocarbons	Organic law of Hydrocarbons (Art. 44).
PDVSA Dividends	The State is the solely shareholder of the national oil company (PDVSA – <i>Petróleos de Venezuela, S.A.</i>); dividends are the non-distributed profits during a fiscal period. Given the complexity to calculate this amount for budgetary purposes, the Executive along with PDVSA, agree on an estimated amount for each year.	
Pecuniary non-oil revenues		
Income tax	Income taxes (ISLR) centrally assembled by the tax authority SENIAT	
Value added tax VAT	Taxes on value added (IVA- <i>Impuesto sobre el valor agregado</i>) and other internal taxes.	
Custom taxes and Others	Custom taxes: import taxes, custom service. Liquor taxes; Cigarettes taxes; Donations taxes; gambling taxes	

Source: CRBV99 and other laws mentioned in Table

Limits or borders of the fiscal regime: Spending programs

The other side to collecting resources of any fiscal approach is the spending side. During the period 2000-2010, given the modifications of the PFM system and the new implementation styles of the fiscal policy regime, the main fiscal tools to realize spending programs are the annual federal budgets and an imprecise number of extra-budgetary spending mechanisms.

All in all, in the enterprise of decoding the Venezuelan fiscal scheme during the period 2000-2010, the analysis of the policy-making dynamics of the budget remains a fundamental piece of the puzzle. Positioning the budget in the fiscal scheme and within the fiscal configuration design is a vastly relevant task for the analytical purposes of this project, as core fiscal

strategies can be identified and parallel dynamics can be revealed. Actually, the gradual neglect of the budget is consistent with the development of the new financial architecture in which formal institutions are increasingly disregarded to centralize spending decisions and develop new implementation styles more aligned with the governance modes earlier described. Certainly, the overshadowing of a traditionally central fiscal tool such as the annual federal budget can be considered as a very clear policy strategy, characteristic of the policy mix designed during this particular period. Furthermore, in a context of progressive centralization over the management of public finances and murkier decisions for public spending mechanisms, one of the few available tools left for analysis and deductive efforts is the formal yet dented annual federal budget. Regarding the spending mechanisms created outside the budget and in disconnection from controlling and accountability instruments, it is extremely difficult to accurately identify their dynamics, size, impact, operational rules, etc.

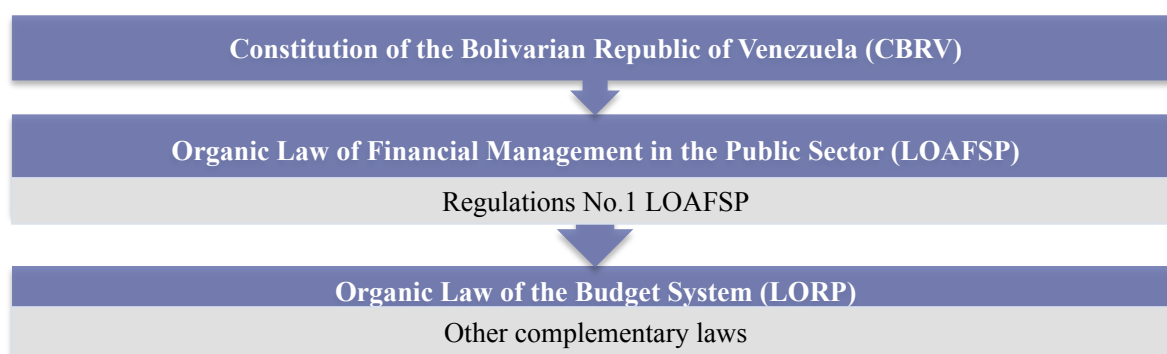
The Budget Process in Venezuela

Overall, the policymaking of the federal budget is organized and framed by several legal ordinances. First there is the Constitution of 1999 (or the ‘CRBV99’) containing major guidelines for the fiscal, monetary and budgetary systems; then it follows the core fiscal management law for the public sector, the LOAFSP⁷² and finally, there is the LORP, the Organic Law of the Budgetary System.⁷³ At the operational level, however, there is a set of rules especially targeted at the budgetary process, such as the ‘Regulations No. 1’ of the LOAFSP, and some other complementary laws regulating specific aspects of the budget that will be described and analyzed if their relevance is unmistakable. Figure 5 below outlines the legal framework of the budget system.

⁷² Initials for the *Ley Orgánica de la Administración Financiera del Sector Público* in Spanish.

⁷³ Initials for the *Ley Orgánica del Régimen Presupuestario* in Spanish.

Figure 5. Legal framework of the budgetary process



Source: CBRV, LOAFSP, LORP

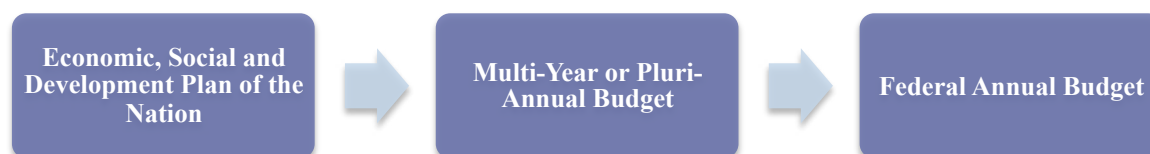
Budgetary scheme

The Venezuelan budgetary scheme in particular, includes the design of a multiyear budget to reflect those plans in a longer-term planning vision based on a period of three fiscal years and several checks and balances to reach fiscal equilibrium. In practice, pluri-annual budgets have not yet become the medium-term fiscal tool they were intended to be, as they have rather been prepared only ‘for informational purposes’, consecutively alleging the need of *vacatio-legis*⁷⁴ phases for future better preparation. Regardless of the degree to which the pluri-annual budget is actually applied, this budgetary system is supposed to enclose the Economic, Social and Development Plan of the Nation (a program covering 6 years) and it is supposed to provide spending guidelines for each separate annual budget, including decisions on maximum spending levels and debt ceilings according to fiscal and economic premises.

Additionally, this multi-year frame would establish expected fiscal results for each of the three years it covers, hence, separate annual budgets would need to be formulated in terms of these major guidelines and around these medium-term fiscal goals. In short, federal annual budgets are expected to incorporate and reflect the spending guidelines set in the multiyear or pluri-annual budget plan, which in turn should reflect major plans for national development. In Figure 6 below, the overall formal structure of the budgetary medium-term scheme is outlined.

⁷⁴ Legal terminology for the period of time between the enactment of a law and its full application.

Figure 6. Medium-Term Budgetary Scheme

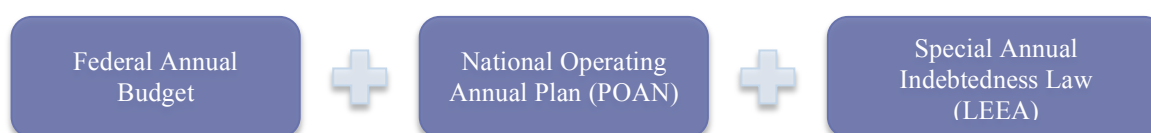


Source: CRBV99, LOAFSP and LORP

In terms of the short-term frame, annual Budgets have to be formally complemented by a National Operating Annual Plan (POAN)⁷⁵ where the goals pursued are clearly defined and aligned with the national plans for economic and social development. Additionally, the special annual indebtedness law (LEEA) will specify the prescribed indebtedness levels for the fiscal term according to the financial needs of the government and to the restrictions established in the multi-year program.

All in all, the longer-term fiscal system based in pluri-annual budgets, would be implemented through annual budget programs supported by operational plans (POAN) and special indebtedness laws (LEEA) to cover the financial needs of each fiscal term. In short, the pluri-annual budget scheme would need three main operational tools every term. In this fiscal design, annual budgets are the short-term devices to intervene in the economy while the POAN and LEEA are the complementary instruments to support budgets. In Figure 7 below an outline of the short-term budgetary design is portrayed.

Figure 7. Short-Term Budgetary Scheme



Source: CRBV99, LOAFSP and LORP

Budgetary agencies, actors and their dynamics

In Venezuela, as it is the case in many other settings, there are three main policy actors taking part in the budget process: the Executive, the Legislative and a set of influential formal and informal actors.⁷⁶ The Executive Branch includes the Office of the Presidency, Vice-

⁷⁵ Initials for *Plan Operativo Anual Nacional*.

⁷⁶ As asserted by a study conducted by Puente et al in 2006, the Judicial branch is considered to play a very limited involvement in the Venezuelan context, mostly related to control activities and the evaluation of budgets.

Presidency and key institutions such as the Ministry of Finance, the Ministry of Planning and the Ministry of Energy and Petroleum among other ministries and public offices.

As outlined in Table 10, the Ministry of Finance is the governing body in charge of coordinating, monitoring and regulating all conventional fiscal sub-systems and their corresponding institutions; therefore, the National Budget Office (ONAPRE),⁷⁷ the National Office of Public Credit (ONCP), the National Treasury Office (ONT), the National Accounting Office (ONCOP),⁷⁸ and the central tax authority SENIAT, are all offices attached to the Ministry of Finance.

The administrative centralization of the fiscal regime must provide guidance, in terms of policy-making, standards and procedures for the proper functioning of each of the fiscal sub-systems (Paredes, 2006). The unicameral National Assembly represents the Legislative Branch⁷⁹ and plays the transcendent role of discussing and approving (with or without objections) each of the fiscal devices prepared and presented by the Executive: the multi-year budget, annual federal budgets, the POAN and the LEEA.

Table 10. Principal agencies and actors of the Venezuelan budget process

Executive Branch	Legislative Branch	Other influential actors
Office of the Presidency Vice-Presidency	National Assembly	Petróleos de Venezuela, S.A. (PDVSA)
Ministry of Finance <ul style="list-style-type: none"> • ONAPRE (Budget Office) • ONCP (Public Credit Office) • ONT (Treasury Office) • ONCOP (Accounting Office) • SENIAT (Tax authority) 		Central Bank of Venezuela (BCV)
Ministry of Planning (MP)		Lobbies
Ministry of Energy and Petroleum (MENPET)		Interest groups
		Non-governmental organizations
	Civil society	

Source: CBRV99, LOAFSP, LORP. Own confection.

As for other key actors, besides interest groups and lobbyists who greatly influence decision-makers along different stages of the budget process, one of the most relevant actors in the Venezuelan budgetary context is the state-owned company PDVSA, which serves as the principal source of national oil rents. Furthermore, as it was earlier mentioned, PDVSA

⁷⁷ Initials in Spanish for *Oficina Nacional de Presupuesto*.

⁷⁸ Initials for *Oficina Nacional de Contabilidad Pública*.

⁷⁹ The structure of the National Assembly was modified with the Constitution of 1999, passing from a bicameral Congress with a Chamber of Deputies and a Senate to a unicameral Parliament.

developed, particularly as of year 2003, an increasingly active and strategic role in the fiscal scene by directly distributing oil rents through extra-budgetary mechanisms.

Another essential player in the budget process is the monetary authority, the Central Bank (BCV) who will assist the Executive in developing the overarching development plan as well as both the Multi-year Budget Program along with the annual budget. Additionally, according to the new fiscal regulations introduced with the Constitution of 1999, there is an Annual Policy Agreement to be designed between the Executive Branch and the BCV, to coordinate macroeconomic policies.

Principal functions and roles

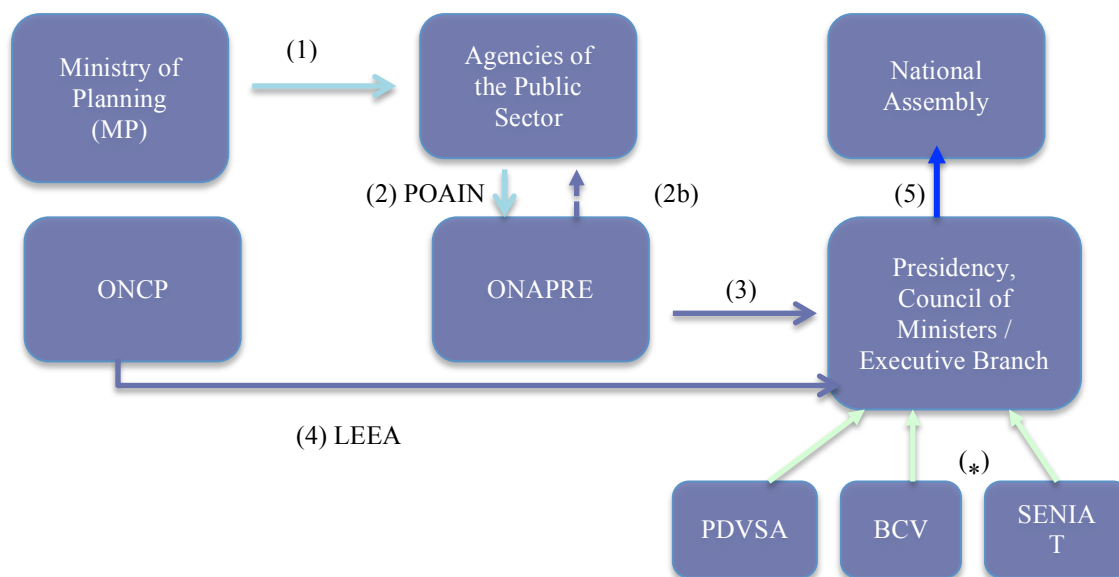
All actors involved have multiple functions and roles to play in the design of the fiscal system and in the budget process particularly. First, the Economic, Social and Development Plan of the Nation will be primarily prepared by the Executive branch of government, being the President the heavier figure in the process. The Ministry of Finance along with the BCV will assist the Executive in the development of this overarching development plan as well as in the preparation of the Multi-year Budget Program, which also corresponds to this branch of government. Regarding the preparation of the POAN and the LEEA, the former will be mainly developed by the Ministry of Planning and the Presidency, both in the Executive power; whereas the latter, the LEEA, will be annually formulated by the ONCP which is also a specialized agency attached to the Ministry of Finance in the Executive Branch of government.

Then, ONAPRE, as a specialized public agency attached to the Ministry of Finance, will be the official authority in charge of regulating budgetary procedures and articulating the annual budget system. All ministries and public organizations will interact with ONAPRE when the formulation of annual budgets occurs, to advance and negotiate their financial requirements for each fiscal term. Overall, ONAPRE has a very strong influence in the operational side of the budget-formulation. It has a key position among all other public institutions and ministries as it regulates and coordinates their budget requirements and establishes guidelines for them. However, ONAPRE has a very marginal and almost negligible role in the management of oil resources. It has almost no say as to how allocation of oil rents should be done or what guidelines should be at least considered. Therefore, in terms of budget dynamics, ONAPRE has more of an operational role than a strategic one.

Because the budget process by and large needs to incorporate the interaction between major economic authorities, such as the BCV and the Ministry of Finance (among others), budget

decisions contain the reflection of a common understanding about the needs and limitations of economic policies; nevertheless, such understandings must accommodate to political views and aspirations of the many other actors involved. Even though the Executive is the formal agent submitting budget proposals to the National Assembly for consideration and approval, it has the actual option of imposing a default budget in case the Parliament rejects a proposal. Overall, as of 2000, the Executive branch has had a rather leading role in the budgetary process (Puente et al, 2006); and the reforms applied to the Venezuelan fiscal scheme, have given the Executive a much greater scope to control the budgetary process and the entire fiscal management system. Figure 8 presents a simplified sketch of the interactions and dynamics of the budgetary process for a more visual approach of the circuit.

Figure 8. Dynamics of the Budgetary Process



Source: Adapted from Paredes (2006)

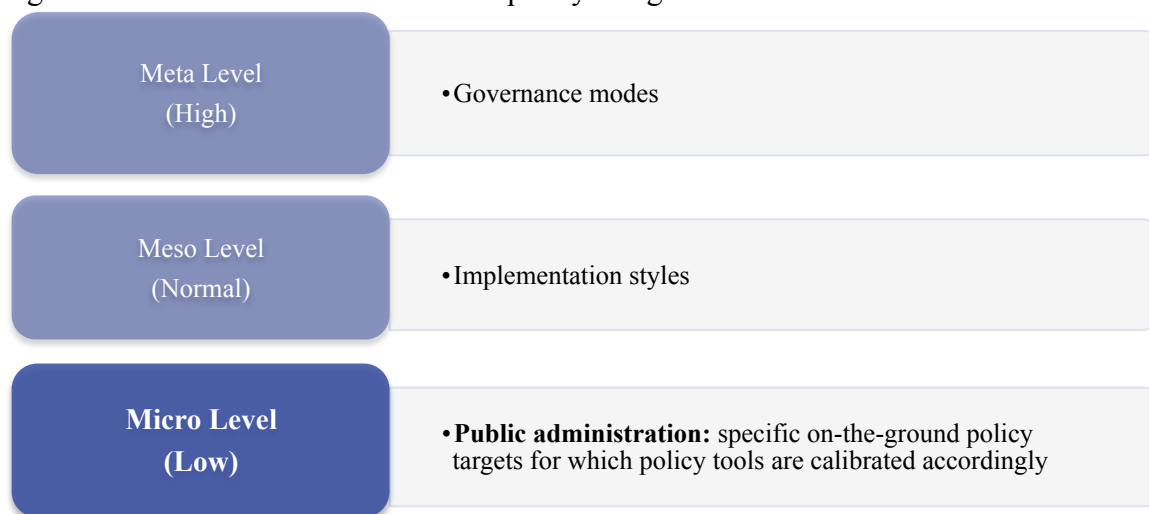
- Legend: (1) The MP generates a set of guidelines for all public agencies in the public sector, according to macroeconomic objectives set by the Executive
- (2) Public Agencies elaborate a preliminary budget with financial requirements aligned with their projected expenditures. The programs and activities they intend to carry will be also reflected in their respective POAIN (Operative annual plans at the agency level) for the revision of ONAPRE
- (2b) Agencies adjust their financial requirements according to ONAPRE's feedback
- (3) ONAPRE assembles all individual pre-approved budgets into one preliminary consolidated budget draft of expenditures
- (4) The ONCP prepares a Special Indebtedness Law (LEEA) with the annual financial needs to cover budgetary programs
- (5) The President along with the Council of Ministers discuss and approve a final budget proposal to be presented along with the LEEA to the National Assembly for consideration and approval
- (*) PDVSA, the Central Bank (BCV) and the Tax Authority provide inputs and information to the Executive about income prospects, macroeconomic premises and monetary policy issues correspondingly.

Administrative dimension: the micro level

When it comes to examining the *micro* level of policy dynamics, the centerpiece of analysis is in the concrete 'on-the-ground' fiscal programs that are articulated by the structuring settings generated at the *meso* level of public action, in this case, the new PFM configuration. The fiscal policy regime strategy, its assembly along with the policy mix it encloses, gets concretely materialized and calibrated at this lower level of public action, the *micro* level. Overall, in the *micro* level, the objectives set at the *meso* level must be concretized in a set of targets, which allow policy resources to be directed toward goal attainment (Howlett 2009a). Therefore, on this level of policy-making dynamics, policy objectives will be pursued through the calibration of the policy tools available (and preferred) according to the fiscal policy regime logics, in a set of operational plans, such as public income generation and spending

tools strategies. Figure 9 below locates the level of public action to be assessed in this subsection.

Figure 9. A focus on the *micro* level of policy designs



Source: Adapted from Howlett 2009 and Howlett and Cashore 2009.

Policy objectives and policy means

In general terms, the implementation and conduction of the fiscal policy regime at the *micro* level was rather erratic in the use of frequent adjustments throughout each fiscal term. The chronological assessment of fiscal strategies reveals that policy decisions were for the most part influenced by both oil and political variables, reflecting traditional procyclical trends and ephemeral fiscal commitments. During the first years of the period examined the fiscal scenario was rather restrictive and the fiscal policy regime was on average handled with an austere criterion. In this period, the major policy aims seem to be the rapid enlargement of a fiscal resource base and a meaningful fiscal adjustment capable of reducing spending levels and fiscal pressures overall. In this sense, the calibration of tax rates, the reorganization of the state (by eliminating and merging agencies), and the elimination and centralization of public spending programs appear to be the key policy instruments utilized to accomplish the urgent needs of a difficult fiscal period. Likewise, some important legal reforms and organizational rearrangements were simultaneously taking place at the *meso* level to direct these efforts.

As oil prices started to increase and the political situation was controlled, the fiscal approach shifted by all means into an expansionary direction, introducing a bigger participation and a more important fiscal role to the State. The braking point can be placed in year 2003 when both the oil market and the political situation changed to favor the possibilities of fiscal

maneuver of the State. During this phase of fiscal abundance and political stabilization⁸⁰, the leading policy aims were more unreservedly aligned with, and directed to fulfilling the ambitious programs of the political model of the Socialism of the 21st century (defined at the *meta* level and arranged or designed at the *meso* level).

Across both the constrained and abundant fiscal phases however, there is a new dominant tendency to use non-recurrent fiscal revenues to cover ordinary spending programs. This can be considered a fiscal tactic vastly utilized (and institutionalized) throughout the entire period examined. In the same vein, the systematic undermining of the annual budget reflects a favored policy tool employed in all respects and from beginning to end of the period assessed.

In Table 11 below there is a summary of the main policy objectives and means identified at the *micro* level of policy action.

Table 11. Main policy objectives and means at the *micro* level of policy action

Main policy objectives	Main policy means
Enlarge the resource base	Tax adjustments, Non-recurrent and extraordinary types of revenues increasingly incorporated to finance budgetary needs
Limit public spending	Eliminate public spending programs,
Expand public spending	Create more spending programs, investment projects
Overshadow annual budgets	Manipulate macroeconomic premises for budget preparation, The consecutive use of <i>additional credits</i> or <i>ad hoc</i> supplementary spending

Source: Own confection

Consistent with the structural changes of the PFM configuration (*meso* level), concrete fiscal programs to manage public finances (at the *micro* level) were adjusted according to the different changes of the overarching fiscal assembly. Logically, as strategic rearrangements were taking place in the fiscal structures, changes on public income generation, public spending arrangements and resource allocation patterns would follow. Altogether, the building of a new financial architecture had a decisive impact on fiscal programs, rent allocation patterns and resource management overall. In what follows a descriptive chronological⁸¹ review of fiscal programs' strategies will be developed.

During the first stage of the Chávez's revolutionary enterprise, the fiscal programs included in the economic policy package were considered mild and conventional (Guerra 2008; Guerra

⁸⁰ Political tensions did not fully disappear, in fact, across the entire period studied they were a vital component of the policymaking scenario; however, as of 2003 political conflict was better controlled reaching some degree of stability or suboptimal equilibrium.

⁸¹ This revision will not cover public debt strategies in depth

2013; Fernandes 2008). Certainly, the planned fiscal agenda was not very different from previous approaches in terms of (regular) income generation programs and spending mechanisms plans. From another perspective however, several fiscal transformations were taking place at structuring levels (*meso* level) and important changes to the fiscal rules and dynamics were being strategically devised in alignment with major policy aims of the new political order.

During these first years, the general design of the fiscal policy regime was rather restrictive and austere on the spending side and focused on finding ways to enlarge the pool of available resources on the income side. In this regard, a tax reform, and new laws for the oil industry (hydrocarbons law) and the BCV were the primary changes directed at enlarging the fiscal base; whereas the reduction of the governmental apparatus, elimination of certain programs and agencies, and the centralization of other preceding programs were the principal actions pointed at reducing fiscal pressures. A comprehensive reordering of the central administration structure was devised in 1999, suppressing several institutions, merging others and so on.⁸²

An economic policy package called *The Transition Project: Five poles towards a new Republic* was proposed in 1999,⁸³ containing general guidelines for the economic policy orientation. Fiscal prudence, tax reforms and spending adjustments were part of the fiscal plan in a scenario facing low oil prices⁸⁴ and fiscal constraints hauled from previous periods (Guerra 2008). Some concrete tax tunings along with a budget reduction were required in early 1999 to adjust the general fiscal plan (Noguera and Vivancos 2000). Later, a natural disaster took place in December 1999 aggravating the burden on fiscal dynamics, while the chaotic political situation harbored destabilizing strikes, public demonstrations and an attempt to overthrow the President, pushing for some more fiscal complications that combined with a fall in oil prices in late 2001 led to further budget adjustments in both 2002⁸⁵ and 2003⁸⁶ (Investigación Económica 2003).

The downward revision of the budget in 2002, of about 7% (Noguera and Vivancos 2002), also comprised some punctual tax adjustments such as the elimination of certain tax exemptions, increases in the value added tax (VAT) and in other transitory indirect taxes such

⁸² The two main initial changes of the central administration apparatus are conducted in June and August of 1999. Also see Annex V for more details.

⁸³ Ministerio de Planificación (1999), Programa económico de transición 1999-2000; Ministerio de Planificación (1999), *La Propuesta de Hugo Chavez para transformar a Venezuela: Una revolución democrática, 1999*.

⁸⁴ Annual average in 1999: 15.87 US\$/barrel for the Venezuelan basket. Source: MENPET, BCV

⁸⁵ Official Gazette 37.367-January 18th, 2002; Official Gazette 37.611-January 16th, 2003

⁸⁶ Official Gazette 37.631-Decree 2.296-February 13th, 2003

as the IDB⁸⁷ (a toll on commercial banking debits)(Guerra 2008; Noguera and Vivancos 2002). Overall, the adapted fiscal strategy managed to increase fiscal revenues by 0.95% of GDP (via a higher VAT and IDB tax rate) and diminish expenditures by 1% of GDP (budget reductions and modifications) according to economic annual report prepared by the Central Bank, the BCV that year (2002). These tax modifications were established to also cover part of fiscal term of 2003. Fiscal year 2002 was particularly important, as it is the first fiscal term where the main initial changes to the PFM become effective. Therefore, the preparation of the budget for 2002 was based on the regulations stipulated in the new fiscal law (the LOAFSP) and for the first time linked to the newly envisioned National Plans for Development. Additionally, the multiyear budget provided references for the estimation of maximum levels of spending and debt; along with several other framing regulations previously modified that became effective that year and also affected the estimation of revenues and expenditures (BCV 2002). Nevertheless, despite the new fiscal rules were making a debut in the fiscal scheme, the “fiscal strategy was modified during the course of the budget implementation in order to adapt it to the changing environment in political and economic terms; all of which forced the revision of the premises that sustained initial projections” (BCV 2002, 44).

In the quest for finding additional fiscal resources, the government resorted to unusual transfers from the BCV’s retained earnings (resulting from exchange profits) to finance social and investment projects as well as to cover public debt obligations (Costa Fernandes 2000; Noguera 2002a). Additionally, the core regulatory framework of the special fiscal institutions (SFIs), such as the FIEM originally created to stabilize the economy by isolating volatile oil revenues, were amended to modify the rules for both the accumulation and the use of extraordinary oil rents, allowing a freer and more discretionary use of its accumulated savings, while relaxing the criteria for making contributions according to its core saving functions (Zambrano Seguí 2010; Zambrano Seguí 2000; Vera and Zambrano Seguí 2000; Zambrano Seguí and Noguera 2000; Rodríguez Sosa and Rodríguez Pardo 2012). Moreover, these amendments to the law of the FIEM, allowed diverting contributions from PDVSA directly to the central government through the release of available resources that would have been otherwise transferred to the special stabilizing fund (Costa Fernandes et al. 2001).

Overall, from 1999 to 2003 which corresponds to the toughest period of the Chávez’s administration regarding the political environment and relevant fiscal constraints, the trenchant financial gap was significantly bridged by decreasing the savings of the government

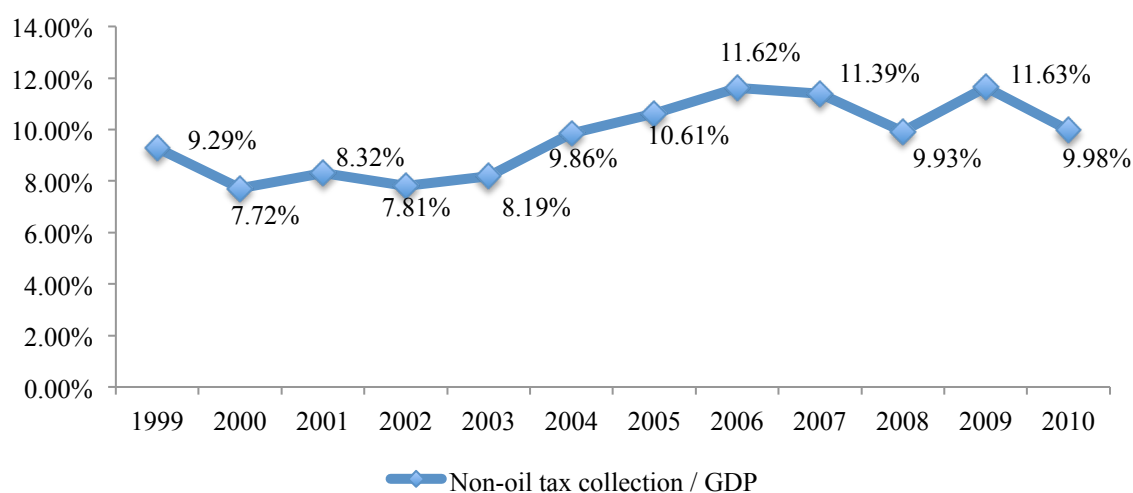
⁸⁷ Initials in Spanish for *Impuesto al Débito Bancario*

in the FIEM, resorting to non-recurrent fiscal revenues from the BCV and from the FIEM, and by increasing the levels of public debt (Vivancos, Zambrano Seguí, and Noguera 2003). A very punctual indicator of the magnitude of this fiscal support is the fact that in the period of April-July of 2002, a year of important fiscal restrictions, these sources of revenues provided for about 32% of ordinary spending (Noguera 2002b). According to the annual report prepared by the BCV for 2002, the resources coming from the FIEM represented as much as 1.7% of total GDP that year (BCV 2002); additionally, the report indicates that the main strategy of the government to finance fiscal needs was centered on the internal market, but in contrast to previous fiscal terms, in 2002, given the size of fiscal needs and the reluctance of voluntary markets (because of the political turbulence and uncertainty) the government mostly relied on the FIEM (49.9% of total net financing) and in internal debt, which led to a drastic reduction of the FIEM's reserves of about 54.1% passing from 6,229 millions US\$ in December 31st 2001 to 2,856 millions US\$ by the end of 2002 (BCV 2002).

On the other hand, the tax reform implied an impressive effort to enlarge the non-oil pecuniary base and improve tax collection capacity in a project called '*Plan Zero Evasion*'. Modernizing procedures, improving methods, and even physical changes to the institutional offices were part of the makeover. Nonetheless, the overall participation of non-oil fiscal revenues in gross domestic production (GDP) did not vary much during the entire period (1999-2010), representing on average an approximate 9.70% of total GDP;⁸⁸ an almost invisible improvement if compared to the point of departure in 1999 (see Figure 10).

⁸⁸ Source: SENIAT (Tax authority)

Figure 10. Non-oil taxes over gross domestic product (GDP)



Source: SENIAT (Tax authority)

In terms adjusting and designing other public spending programs, some interesting policy decisions were made during this period. One of them was the creation of the FUS,⁸⁹ a fund to channel and centrally operate social programs that were created in previous administrations, through one single merged structure. The budget law prepared and sanctioned in 2000, described the FUS in the following terms: “The FUS optimizes social programs, centralizing the corresponding contributions to nutrition, school feeding programs, school uniforms and other social programs that were previously scattered in various ministries” (Ministerio de Finanzas 1999, 57). In this way, the FUS, as a new centralized entity, would take over the management of many social programs, displacing multiple institutions that were previously in charge of their administration and operation.

The other one was the creation of the *Plan Bolívar 2000*, a social program to be executed by the armed forces, and targeted directly at the poorest sectors of society (Fernandes 2008). This project, one of the first of Chávez’s administration, embodied many of the new orientations in governance arrangements: it involved the armed force in short-term policy-making processes while avoiding the use of existent institutions traditionally involved in these types of policies. The door-to-door civic-military interventions included massive vaccinations, food distribution, technical support for construction activities and free transportation in cases of health-related emergencies. Altogether, these two spending programs initiatives,⁹⁰ the FUS and the *Plan Bolívar 2000*, are samples of the initial centralizing efforts trying to channel

⁸⁹ Initials in Spanish for *Fondo Unico Social*.

⁹⁰ There were also some other initiatives created during this period, such as the *Banco del Pueblo* and the *Banco de la mujer* as well as financial and logistic support for small cooperatives, etc.

public resources through unconventional mechanisms while avoiding core traditional institutions.

The austere criterion of the first years led the government to try to reduce the governmental apparatus structure when defining the administrative burden for the budget in year 2000 (Ministerio de Finanzas 1999). In a presidential discourse in 1999 it was announced that the number of ministries would be reduced from 21 to 13, for which the President would claim “we’re making efforts to systematize the State and give it a comprehensive holistic vision based on strategic objectives” (Peñaloza 2014, 6); this view was then reversed, when a few years later, oil revenues would provide for more generous public finances and over 30 ministries were created, not to mention the over a hundred vice-ministries erected within these ministerial organizations.

During this period the President was granted with the first two (out of four) enabling laws with which he directly formulated and enacted laws by presidential decree. In the package of new laws decreed by the President there were many related to the fiscal regime, among them, the creation of BANDES, a transitory authorization for the executive to acquire public debt, and several other reforms for the short, medium and long term conduction of the fiscal policy regime. In Annex V there is a summary of the most significant reforms related to the fiscal policy regime enacted during the period 2000-2010, among which there are key amendments and decisions adopted via special enabling laws.

Already in 2000 oil prices started to rise giving more room to the government for fiscal maneuver, and a reticent fiscal expansion was endorsed. Besides, a new fiscal practice was unfolding to encourage the expansion of the fiscal stance: the consideration of special types of revenues, unstable and unpredictable in nature, such as dividends from the national oil company, PDVSA, saving funds accumulated in the FIEM, and retained earnings collected by the BCV as it was above mentioned. These revenues were systematically included in the budget formulation as the financial means bridging the gap between tight revenues and ambitious spending plans. Already in 2003 (and since 1999) these type of revenues represented about 25% (on average) of total fiscal revenues collected for budgetary purposes (Zambrano Seguín and Noguera 2003). It is important to recall that several reforms of the regulatory frame of the BCV were devised to allow and compel, among other changes, the regular and frequent⁹¹ transfer of accumulated retained earnings to the treasury office (ONT)

⁹¹ In 2002 the law of the BCV was partially reformed again to establish the transfer of accumulated retained earnings each semester of the fiscal term. Official Gazette 35.606, October 18th, 2002.

for budgetary funding, and in some cases, special spending programs such as the *sobremarcha* or the ‘big push’, a transitory fiscal spending program designed by Chávez for a hundred-day program in year 2000, through which these funds were partially channeled (Guerra 2013).

Other type of non-recurrent fiscal revenues increasingly included in annual budgets were transitory taxes such as the toll on commercial banking debits, the IDB, public debt and extraordinary oil related revenues admitted for inclusion in already enacted budget laws through *additional credits* or supplementary budgets, and on the regular financing of parallel spending mechanisms. What stands out from these initial management and spending decisions, is their unusual, transitory and centralized nature. From the side of generating public income, these strategies are clearly unreliable and unstable, not to mention that they contravene standard fiscal schemes for resource base formation; and on the spending side of the equation, these decisions disregard fiscal rules that state the non-admissibility of systematic resorting to non-recurrent revenues to finance regular spending programs. Furthermore, these spending decisions seem to be outside the institutional protocol, highly informal and vastly centralized.

This former point brings an important remark regarding the budget preparation as part of the on-the-ground calibration of fiscal tools: macroeconomic premises and prospects for oil and non-oil fiscal revenues collection for the budget formulation were showing significant incongruences. These incongruences resulted from inconsistent premises in terms of projections on oil revenues, non-oil taxes, growth and inflation rates, which are all parameters that directly affect the estimation of total fiscal revenues (Noguera 2002c). Additionally, there was a systematic underestimation in some of the accounts for which the government has perfect and complete information, such as the servicing or amortizations of public debt obligations (Zambrano Seguí and Noguera 2003). Overall, there was a clear miscalculation of fiscal collection capacity for the budget preparation, even though other budgetary parameters would contradict basic estimations. The annual economic report prepared by the BCV claimed in 2002: “Fiscal management originally expressed in the budget was based on assumptions that since the beginning of the fiscal term were unsustainable, particularly those referring to the oil market” (BCV 2002, 18).

Oil prices would be significantly underestimated while the prospects for non-oil tax collection would be larger than what the tangible strategy of reducing tax rates (or even eliminating some taxes) would indicate (Zambrano Seguí and Noguera 2000; Noguera and Vivancos 2002; Noguera 2002c). Moreover, in some years the projections for collecting non-oil taxes

were increased while having lower tax rates on the ground and low prospects for economic growth rates altogether. In some other cases, forecasts for total income collection were higher than the immediately prior fiscal term, but based on lower estimations for oil barrel prices combined with lower tax rates (Noguera 2002c). For instance in the preparation of the budget for fiscal term 2000, there were projections to increase the non-oil resource base, in about 1.3 percentage points, especially via an increased collection of the value added tax (VAT) which was expected to expand by about 50% (in nominal terms), but the tax rate was diminished by 1 percentage point (to 14.5%) to stimulate the economy for which the forecasts were not so optimistic either (macroeconomic premises of the budget) (Zambrano Seguí and Noguera 2000).

Apart from the fiscal emergencies of the first years, the tax strategy was rather directed at reactivating the economy by diminishing indirect taxes such as the VAT and other simpler types of taxes (tobacco, alcohol, gambling, etc.). As of 2003, this fiscal approach was complemented by impressive expansions of public spending levels supported by the unfolding oil boom of the years to come. Indeed, as of 2003 an impressive amount of new social programs like *Misiones* were incorporated to the fiscal stance. Indeed, despite the expansion of public spending levels, the increase of fiscal revenues fueled by mounting oil prices, allowed the consolidated public sector to conquer a timid surplus (0.2% of GDP), as opposed to the deficit registered in the preceding years (BCV 2003). The positive performance of international oil markets translated into a juicy operational surplus in PDVSA (17.2% of GDP whereas in 2002 reached a 13.9% of GDP) that was directly transferred to fiscal action: 70.9% of the increase of fiscal revenues were provided by PDVSA and its fiscal contribution reached 11.3 percentage points of GDP (10.2 in 2002) according to the annual report of the BCV prepared for that year (BCV 2003).

Also, as of 2003 the role of the State began a new phase in which more controls and regulations in the economy were rapidly introduced. A fierce exchange regime system was established, creating a new institution for its operation and management: CADIVI; and the takeover of the national oil company, PDVSA was fulfilled by the radical irruption to its internal structure, dismissing a considerable part of its personnel and replacing the directory board and the president of the entity altogether. Both of these meaningful actions occurred in February of 2003 and had a direct impact on the fiscal scheme. Additionally, there was the introduction of price controls, regulation on salaries and labor contractual terms among other significant changes, which required a bigger participation and capacity of the State for their monitoring and control.

By 2004 oil prices were soaring. The Venezuelan oil basket experienced an increase of about 27% (BCV 2004). This favorable situation allowed for a true expansion of the fiscal stance in a year with a decisive electoral process, that of the referendum. More ministries⁹², commissions and public institutions were rapidly created, while the regulatory frame would correspondingly adjust. The fiscal strategy was to deliberately stimulate the wounded economy through enlarged public spending. The expansionary plan was successful and the economy registered a growth rate of 17.9%, which also resulted in more tax collection: the tax authority surpassed the goals stated in the annual budget regarding levying taxes by as much as 141% according to the annual report of the BCV that year (2004). Following a strict pro-cyclical pattern, both the VAT and the IDB that were previously utilized to gather more revenues, were now reduced while other smaller taxes were suppressed altogether (BCV 2004). The financial needs of the government were lower as well as the overall registered deficit. A similar fiscal scenario followed in years 2005 and 2006, hence, tax rates were consecutively diminished and public spending enlarged.

After the presidential elections of December 2006, in which Chávez was reelected for another 6-year term, a new turn in the fiscal strategy was taken. The ambition to transform the economy according to the precepts of the Socialism of the 21st century were concreted in various new plans, among them the amendment of the Constitution and more legal and organizational changes. Chávez was granted with a third enabling law⁹³ covering 18 months to enact laws without legislative debate and prepare a proposal to reform the Constitution. The third enabling law, allowed the introduction of new criteria to promote the economic and social development of the country under a regulatory framework that amplified the scope of action of the state (BCV 2008).

A series of nationalizations and expropriations of strategic industries began. The State decided to take over the direction and management of many industry sectors, being some examples the areas of Tourism, Telecommunications, Electricity, Dairy and Coffee, Steel and Cement, Agroindustrial industries along with several private banks, etc. Interesting enough, many of the nationalizations were financed by extra budgetary mechanisms such as direct funds from PDVSA or via supplementary spending not accounted for in sanctioned budget agreements (BCV 2007). Additionally, more *Misiones* and special funds were consecutively created. Similarly, new strategic alliances were developed with other governments for which

⁹² The number of Ministries increased to 18 in 2004, 22 in 2005, 25 in 2006, 27 in 2007 and so on according to reforms to the organization of the public administration structure published in Official Gazettes. See Annex V for details and chronology.

⁹³ Official Gazette 38.617-February 01st, 2007

special funds for investments in the local economy were created: the bilateral funds held with China, Iran, Russia, Belarus, Syria, etc., are some examples, whereas at the domestic level, an unclear number of special funds like *Miranda*, *Bicentenario*, *Eficiencia Socialista*, and many others were progressively attached to the massive enlargement of the fiscal scheme. As the size of the public administration increased, new taxes were progressively re-introduced or their rates adjusted upwards. Similarly, economic distortions created by the oil boom, the impressive monetary injections and overflowed spending levels, along with the strict exchange regime and price controls pushed the government to create more mechanisms and regulations to compensate shortages, labor market problems, investment levels, etc. In 2008 despite the abrupt fall in oil prices, the fiscal strategy continued an expansionary trend with expropriations, nationalizations and the creation of more public institutions and bilateral agreements. For instance, at least 275 commercial and investment agreements were subscribed with China, and two special investment funds were created with Iran and Belarus (BCV 2008).

In 2009 with the brief plunging of oil prices, the domestic fiscal strategy was modified. Internal tax rates were adjusted upwards (VAT increased to 12%) and the budget was reformulated downwards, including a revision to the oil barrel price estimations utilized for budget preparation (BCV 2009). Additionally, the maximum levels of public debt were enlarged and a legal reform was introduced to allow public entities to also incur in public debt operations with the consent of the President of the Republic in Council of Ministers⁹⁴. Moreover, a new presidential ‘instructive’ was sanctioned to limit sumptuary and superfluous spending in the public sector⁹⁵; implying the establishment of limits to contracting certain services and incurring into some types of expenditures.

⁹⁴ Official Gazette 39.164, April 23rd, 2009

⁹⁵ Official Gazette 39.146, March 25th, 2009

IV. Implementation gaps in fiscal policies (2000-2010)

*“A government may be immoral and inhumane,
but effective and efficient in achieving the
objectives of the State”⁹⁶
(Morales 2010, 127)*

As it was discussed throughout Chapter 1, the rentier paradigm or voracity effect typically observed across different types of wealthy endowed economies, and in particular in oil exporting countries, is essentially materialized through a critical and acute fiscal indiscipline. Fiscal indiscipline translates into erratic fiscal decisions, short-lived policy commitments and implementation gaps in public spending arrangements. The propensity to overspend or design fiscal policies beyond their actual capacity reflects an implementation preference in which fiscal breaches are institutionalized as regular fiscal practices, and as part of the fiscal policy regime altogether.

This work is specifically concerned with the study of the rentier paradigm and its effects, understood as systematic breaches of fiscal contracts or as recurrent implementation gaps in public spending arrangements, through fiscal policy designs in Venezuela during the period 2000-2010. The design of the fiscal policy regime will be evaluated through instrument choices, paying special attention to the combination of instrument mixes and the internal and external coherence of the policy mix. The analysis emphatically considers the influence of the wider contextual frame of the country, incorporating policy dynamics of the overarching governance arrangements to better understand policy decisions over objectives and tools at the *meso* and *micro* levels of public action (See Table 12 below).

⁹⁶ Translation by the author

Table 12. Main policy objectives and means at the *meta*, *meso* and *micro* levels

	Meta level	Meso level	Micro level
Main policy objectives	The realization of the <i>Bolivarian Revolution</i>	Centralize the management of public finances	Enlarge the resource base
	The establishment of a new political and institutional model: The <i>Socialism of the 21st Century</i>	Ensure the Executive with a larger control over public spending decisions	Limit public spending
			Expand public spending
	Stay in power	Centralize the use of oil rents	Overshadow annual budgets
	Build domestic and external political alliances	Maximize resources for discretionary use	
Main policy means	The dismantling of the previous institutional order and status quo	Reform the core fiscal structure and rules of the PFM system, Undermine budgets	Tax adjustments, Non-recurrent and extraordinary types of revenues increasingly incorporated to finance budgetary needs
	The extensive and discretionary use of tangible resources (Oil rents) and intangible resources (patronage, clientelism, cronyism, discrimination). Institutional rearrangements and makeovers	Reform the structure of the Central Bank (BCV), Creation of BANDES, Creation of CADIVI, Other regulatory reforms within the PFM system, Reform of SFIs rules (FIEM/FEM)	Eliminate public spending programs
	Change constitutional and electoral rules, dismantle opposition political parties, massive political campaigns	Takeover of PDVSA, New hydrocarbons law, Underestimation of oil barrel prices	Create more spending programs, investment projects
	The polarization of politics. The extensive use at discretion of tangible and intangible resources, bypassing institutions. The extensive use at discretion of oil resources to create commercial alliances in the Latin American region and beyond (Alba, <i>Petrocaribe</i> , <i>Fondo Chino</i> , etc.)	Third reform to the law of the BCV, Creation of FONDESPA, FONDEN Law over extraordinary prices from hydrocarbon international markets, Creation of the social fund for the use of resources in surplus of all public administration entities	Manipulate macroeconomic premises for budget preparation, The consecutive use of <i>additional credits</i> or <i>ad hoc</i> supplementary spending

Source: Scheme adapted from Howlett 2009. Own confection

The fiscal trajectory of Venezuela has invariably shown a tendency to systematically deviate from public spending agreements and bend enacted budget laws with supplementary spending mechanisms; however, during the period 2000-2010 a new makeover of the PFM system exacerbates this established trend. There has been a gradual and progressive adjustment of the PFM scheme during the interval 2000-2010 that has drawn a dividing line from previous time spans. More precisely, as of 1999 with the enactment of a new Constitution, the *Bolivarian*

Constitution of the Republic, a series of substantial changes begun, introducing institutional makeovers and new dynamics across political, economic and social spheres. If observed chronologically, as it will be shown subsequently in this chapter, the multiple reforms that took place in Venezuela during the period 2000-2010, seem to accommodate to policy aims adjustments and refinements at the *meta* level of policy action, altering the policy-making processes of the *meso* level which in turn affected tool calibrations at the *micro* level (Table 12).

One of the most notorious implementation gap problems in Venezuela occurs through changes to agreed levels of public spending and debt in enacted budget laws. Despite budget rigidity in its formal legal structure as defined by constitutional mandates⁹⁷ and other legal settings, in practice, during the implementation stage, there is a broad scope for adjustments. Additionally, there is an increasing gap between initial public spending decisions and final fiscal actions, that goes beyond formal budgets and relies on alternative mechanisms within the PFM system to channel fiscal resources and specially oil rents more discretionally. Implementation gaps during the period 2000-2010 transcended budgets to take over the PFM system, through fiscal reconfigurations that created more intricate mechanisms for the freer use of resource rents. (See Table 13 below)

⁹⁷ Art. 314 of the national Constitution establishes that there will not be any type of expenditure outside budget postulates; nonetheless, it also states that additional expenditures can be authorized if necessary and non-accounted for during budget formulation.

Table 13. Implementation gaps in formal budgets (2000-2010) (Millions of BsF.)

Year	Enacted budgets	Modified budgets	Relative Difference (%)
2000	17,878,137.20	23,553,560.80	31.75%
2001	23,214,303.00	28,079,215.20	20.96%
2002	26,443,129.30	31,687,452.40	19.83%
2003	41,600,426.60	41,613,124.50	0.03%
2004	49,950,883.61	60,505,058.40	21.13%
2005	69,326,522.62	86,288,237.00	24.47%
2006	87,029,741.20	128,261,073.00	47.38%
2007	115,178,097.00	143,243,259.00	24.37%
2008	137,567,700.00	192,543,448.00	39.96%
2009	167,474,200.00	192,939,987.00	15.21%
2010	159,406,100.00	239,804,123.94	50.44%

Source: Budget proposals (2000-2010) ONAPRE, Puente et al (2006), BCV Annual Economic Reports, Banco Mercantil Monthly Economic Reports (2000-2010), Official Gazettes, *Transparencia Venezuela* and own calculations.

Overall, during the period 2000-2010, initial agreed levels of spending in enacted budget laws were consecutively and systematically modified, mainly through enlargements or supplementary spending formulas called *Additional Credits* in the Venezuelan budgetary terminology. The annual average of total actual allocation was of approximately 27% higher than what was initially approved in budget laws. According to the figures utilized by Puente et al (2006) in a study of the budget process in Venezuela for the period 1974-1999, the deviation average was of about 26%. Nevertheless, despite the apparent negligible difference between the two periods, there is an increasing gap between initial and final public spending decisions that goes beyond formal budgets and relies on alternative mechanisms within the PFM system to channel oil rents more discretionally.

As it has been previously discussed, implementation gaps resulting from supplementary spending and *Additional Credits* in budgetary allocations were already part of the fiscal regime in Venezuela and thus, were an institutionalized fiscal practice. As such, recurrent modifications to public spending arrangements during the period examined and before it, can be seen, in terms of fiscal practices, as a legacy that hauled on to the new raising institutional order, and that essentially reproduced the ideas, norms and values of the pre-existing rentier paradigm. On the other hand however, these practices, as it was earlier discussed, correspond to adjustments to fiscal instruments at *micro* levels of public action and as such do not reflect changes at the core of policy paradigms.

On the contrary, the institutional redesign of the PFM system corresponds to a significant transformation enclosing new policy ideas, and thus, new policy goals, institutional orders, implementation preferences and policy practices. A highly relevant remark to sustain this argument is based on the central and articulator role of fiscal regimes in the overall

organization of governments in terms of reaching all other policy sectors. This point is particularly important, as it helps understand that the changes conducted on the fiscal regime were not necessarily directed or intended at modifying its rentier nature as such, but at making the fiscal regime a more malleable tool for the deployment of new governance modes and their new associated implementation preferences. Thenceforth, the fiscal regime could be considered a primary target of major reforms, as to ensure the means through which new policy aims could be subsequently reached. What these changes did introduce however, was a set of new conceptions over the management of public finances and oil rents in particular. Accordingly, the fiscal policy regime underwent a series of significant changes that would reflect a major paradigmatic change at overarching levels of policy dynamics.

Since intentional changes to basic structures of government departments and agencies have increasingly developed as a significant facet of modern policy-making (Howlett, Ramesh, and Perl 2009), it becomes particularly pertinent to analyze the reorganization of the PFM system in Venezuela during the period 1999-2010, as the chosen mechanism to elicit structural changes on public spending arrangements that would progressively contravene authorized budgets and other existing fiscal rules.

As Puente et al (2006, 3) argue, “political institutions affect budget policy outcomes through their impact on the policy-making process by which budget policy is designed, approved and implemented”. In Venezuela, several legal reforms changed the rules of the PFM system and those of the budgetary game, introducing new dynamics in public spending arrangements, rent allocation patterns and resource management altogether. The overall adjustment of the PFM configuration took place through consecutive alterations to fiscal rules, budget regulations, the introduction of new special fiscal institutions (SFIs), legal reforms to existing stabilization funds, as well as to monetary and financial institutions, the enactment of new laws, the eradication of preceding ones, etc.

The new pattern for implementation gaps, the one relying on extra-budgetary channels and parallel public spending mechanisms has no precedents in Venezuelan fiscal history, at least not to the magnitude seen during the period 2000-2010; and it is based on the redesign of the PFM system or on the ‘new financial architecture’ designed and built during this period. The fiscal design that allowed these gaps is the main subject of analysis of this Chapter.

Fiscal indiscipline has been for the most part attributed to the extreme flexibility of budgets to adapt to varying flows of fiscal revenues: when there are more available resources budgets expand from their initial authorized level, whereas when revenues get narrower budgets are shrunk accordingly (mostly in more flexible types of spending such as capital).

Disbursements or other approved monetary obligations can be deferred or cancelled if revenues fall short of expectations, just as additional allocations can be approved if there is more need for funds than originally stipulated (Puente et al. 2006). At the base of this budgetary flexibility there is a lax institutional setting dealing with, among other factors, an intrinsic volatility of fiscal revenues that most resource-rich dependent economies face.

Public spending mechanisms can be undoubtedly materialized through both formal annual budget allocations and extra-budgetary assignments. The main incentives behind bypassing formal budget procedures are the possibilities to directly allocate oil rents into more discretionary recipients. However, bypassing formal institutions and negotiation processes, while making budgets more flexible and adaptable to contingencies, can also trigger fiscal indiscipline and unsustainable public spending patterns. Alternative spending mechanisms are negotiated in smaller and more isolated policy settings, and under different circumstances from those that involve larger and more public engagements, such as the formal budgets. The policy mix designed for the fiscal policy regime can potentially indicate in a clearer way, the sources of fiscal breaches or implementation gaps in public spending arrangements.

Supplementary or extraordinary budgets can certainly avoid bureaucratic obstacles and be more rapidly executed, thus they can give flexibility to fixed budgets and make them more adaptable to non-anticipated contingencies; nonetheless they also embed a perfect vehicle for rent-seeking behavior and corruption, they do not contemplate sustainability or accountability mechanisms and they can easily distort macroeconomic balances. Volatile public spending takes form both through formal budget's construction and execution, and through parallel rent allocations that are more freely executed. All in all, public spending agreed in annual budgets or realized in extra-budgetary forms, conform a substantial channel for resource volatility that inadequately overwhelms the economy in a pervasive pattern.

Consistency and coherence of policy aims and policy

In order to assess and better understand the fiscal policy design in which implementation gaps systematically occur, it is paramount to examine the consistency and inner coherence of the fiscal policy configuration by assessing each of the identified policy objectives with the corresponding means or policy tools envisioned to attain these ambitious goals. In what follows, the four principal policy objectives of the fiscal policy regime (*meso* level) previously identified are assessed through the key policy means that were recognized as the selected tools for policy goal fulfillment.

These four leading policy objectives are: 1) Centralize the management of public finances; 2) Ensure the executive with a larger control over public spending decisions; 3) Centralize the use of oil rents; and 4) Maximize resources for discretionary use.

Policy Objective 1: Centralize the management of public finances

As it was discussed in the previous Chapter, one of the first priorities of the newly established administration in 1999 was to centralize the general management of public finances. For this policy goal, the main policy instruments utilized were the complete reordering of the fiscal scheme, through the introduction of new regulations for most of the fiscal subsystems and their operational programs respectively, as well as the pivotal undermining of annual federal budgets.

1. Reform of the core fiscal structure and rules of the PFM system: The new Constitution of 1999 generated meaningful amendments to the preceding Venezuelan fiscal scheme as the reformulation of the *Magna Carta* demanded the full renovation of the PFM system and a new budgetary order. Consequently, a new fiscal management law was accordingly formulated and enacted in September of 2000 as the new regulatory framework for public finances: the LOAFSP.⁹⁸ The LOAFSP reproduced and channeled the novel set of fiscal regulations and principles established in the Constitution of 1999, incorporating a new institutional structure with a redesigned fiscal scheme. To begin with, all major fiscal rules that were previously regulated through dispersed legal ordinances were integrated and harmonized into this one structured legal text (Badell & Grau 2011; Vera Colina, Finol Romero, and Urdaneta 2009). Similarly, all fiscal subsystems were consigned to the control of the Ministry of Finance, which was designated as the central institution to coordinate and supervise the different fiscal pieces as the rector or governing fiscal body of the PFM system.

In this way, the reform of the PFM system reordered the institutional structure, putting the Ministry of Finance in a centric position to dictate all fiscal action plans, as well as to monitor, control and regulate them. Subsequently, the Executive, via the strategic position of the Ministry of Finance within the PFM system, centralized fiscal dynamics to a considerable extent. Indeed, as Paredes would point out (2006), a fundamental characteristic of this new fiscal scheme would be the principle of administrative centralization in a single governing body, and operational decentralization at the institutional level.

⁹⁸ Official Gazette 37.029-May 9th, 2000.

Nonetheless on the other hand, a former office for central planning and coordination known by the name of CORDIPLAN⁹⁹ was transformed into the Ministry of Planning¹⁰⁰, and assigned with a key role in the design of the national plans for development to be set in motion with the support of the newly reformed fiscal scheme. Therefore, the fiscal scheme would be mainly determined by the policy aims prioritized by the Ministry of Planning, and the methods, operational rules and fiscal rhythms set by the Ministry of Finance.

The new Ministry of Planning was given the formal responsibility of articulating planning and strategic policies for all public agencies and central offices including discussions on financial needs and budgetary requirements for their fulfillment. In 2000, a new organic law for planning¹⁰¹ approved via presidential decree through the second enabling law granted to Chávez, stated that all budgetary assignments would be approved by the Ministry of Planning in conjunction with the Budgetary Office (attached to the Ministry of Finance). Additionally, in the reordering of the public administration done by presidential decree in August 1999¹⁰², the Ministry of Planning had been also assigned with the direction and control of important specialized agencies. Therefore, even if the Ministry of Finance was assigned with new roles in the fiscal scheme, it was officially subordinated to the newly empowered planning entity. Indeed, the new Ministry of Planning was given the responsibility of organizing and designing the entire central administration structure, according to development plans and guidelines set by the ministry. Hence, the main guiding head of policy aims was actually embedded in the Ministry of Planning while the Ministry of Finance was assigned with an important but limited coordinating and executing role.

The struggle over the control of the budget and over planning and coordinating public spending decisions had already existed in the Venezuelan fiscal scenario. In 1974 this rivalry was accentuated by a presidential decree giving the rank of Minister of State to the chief of the planning office CORDIPLAN¹⁰³; however, the reform of 1999 took a step further by giving a full institutional promotion to the traditionally specialized agency. The newly acquired ministerial rank undoubtedly intensified the collusion between the two structures, relighting an entrenched institutional rivalry.

⁹⁹ Created by Presidential Decree No. 492 in December of 1958

¹⁰⁰ Also by Presidential Decree No. 380 in November 15th of 1999, Official Gazette No. 36.829, available at: <http://www.pgr.gob.ve/dmdocuments/1999/36829.pdf>

¹⁰¹ Official Gazette 5.554, November 13th-2000

¹⁰² Official Gazette 36.775, August 30th-1999

¹⁰³ In 1974 a proposal to transform the planning office CORDIPLAN into a Minister was revoked by Congress. President Carlos Andrés Pérez found an alternative way to transfer significant budgetary responsibilities to the chief of this office by giving him the rank of a Minister of State through a Presidential Decree (O. Ochoa 2008).

In early 2010, the Ministries of Planning and Finance would be merged into one, centralizing even further the planning and controlling activities of the fiscal regime. The head of this merged figure would be the Minister of Planning, Mr. Jorge Giordani, considered to be a close advisor to President Chávez from his early years in office. Altogether, this institutional merge stands as an important indicator of the ingrained dispute among the entities, as well as some degree of overlapping functions and ambiguity regarding their roles and scopes of action in the strategic layout of the executive.

Later, in 2004, a new ministry was created to directly and permanently advise the President on financing strategies for development: the Ministry of State for Financing Development¹⁰⁴. This ministry would participate in the formulation and coordination of sectorial policies for development related to the public financial system. Several public institutions and funds were transferred from both the ministries of planning and finances to this new organization, including the BANDES¹⁰⁵, one of the central financial tools of the fiscal scheme. This addition to the institutional apparatus can be considered as further duplicating and overlapping ministerial functions over key strategic areas such as planning and financing, potentially increasing rivalry tensions and institutional ambiguity.

Apparently, these initial centralizing efforts were not entirely fruitful as the need to limit the 'atomized' structure and the 'independence'¹⁰⁶ of the public sector as a whole¹⁰⁷, led to the creation of a new agency to control and coordinate the planning functions of all other public entities from a central position: the Central Planning Commission. This commission was created in June 2007 by Presidential decree¹⁰⁸ to be part of the Executive Vice-presidency, under the direction of the Vice-President, the Minister of Planning and other ministers assigned directly by the President of the Republic. This commission was created as a permanent body of the central government and was hierarchically located at the top of the vertical organization of the public administration, headed by the Vice-President but responding and executing direct orders of the President of the Republic himself. The presidential commission would further create sub-commissions, as sectorial sub-divisions, but they would all be subordinated to the centralized planning action. Along with the enactment of the regulating law of this entity, some macro sectorial commissions were immediately

¹⁰⁴ Official Gazette 38.027, September 21st-2004

¹⁰⁵ A year later BANDES was reassigned to the Ministry of Finance. Official Gazette 38.162, April 8th, 2005

¹⁰⁶ Single quotes added by the author

¹⁰⁷ Rationale and arguments for the creation of the Central Planning Commission in Official Gazette Ext.5.841, June 22nd, 2007

¹⁰⁸ Official Gazette Ext. 5.841, June 22nd, 2007

created under the direction of the Vice-president of the Republic and the corresponding Minister of the area or sector. The Minister of Planning would be only involved as a technical secretary. Among the first macro-sectorial commissions created, there were: services, oil, gas and petrochemicals industry, intermediate industries, agricultural industry, health and medicines, military industries, and finances and budgets (Art. 10).

Returning to the organization of the fiscal regime as such, the 1999 Constitution introduced a novel fiscal planning tool to program the budgetary exercise over longer time periods (a Pluri-Annual Budget), new criteria to reach fiscal equilibrium,¹⁰⁹ new dispositions to stabilize fiscal variables through Special Fiscal Institutions (SFIs) and new mechanisms to coordinate macroeconomic policies between the Executive Branch and the Central Bank (an Annual Policy Agreement). The new fiscal management law, the LOAFSP, developed the regulatory frame for these fiscal innovations, including that for the creation of two stabilizing funds, the Fund for Macroeconomic Stabilization, the FIEM,¹¹⁰ and the Intergenerational Savings Fund,¹¹¹ which are described subsequently.

The National Assembly approved and enacted the LOAFSP in September of 2000 but its implementation was set to start in January 2002 by ruling a *vacatio-legis*¹¹² transition period for all other legal reforms to take place (Badell & Grau, 2011). Overall, the PFM system was supposed to be restructured and meet the requirements established by the new LOAFSP before the end of year 2002 (LOAFSP, Art. 187); consequently, as of year 2000, all fiscal rules of the PFM system began a progressive and programmed process of adjustment. Several transitory dispositions of the LOAFSP established the time frame for the different fiscal laws to be prepared, sanctioned and ready to be applied, as well as the provisory terms for the interim period (Badell & Grau, 2011).

In Table 14 below there is a brief schedule of some punctual stipulations regarding the time frame for the completion of some fiscal reforms.

¹⁰⁹ The fiscal rule was based on making ordinary current expenditures equal to ordinary revenues

¹¹⁰ Initials in Spanish for *Fondo para la Estabilización Macroeconómica*. This federal fund had a preceding version created earlier in 1998, however, the LOAFSP instructed its annulment and replacement with the new stabilizing fund once it became officially created as it indeed occurred in November of 2003.

¹¹¹ The Intergenerational Savings Fund did not fully progress from being contemplated in the LOAFSP as a mechanism to guarantee the intergenerational sustainability of policies for development or for investment in education and health (LOAFSP, Art.155-158).

¹¹² Legal terminology for the period of time between the enactment of a law and its full application.

Table 14. Schedule for the fiscal adjustment period

Article in the LOAFSP	Needed reforms and adjustments of the fiscal system	Stipulated application date
113	Treasury System: Opening and use of the Unique Account of the Treasury and accounts in foreign currency	Jan, 1 st -2001
185	Treasury System: Gradual extension of the Treasury services to all decentralized public entities	Jan, 1 st -2002
172	Budgetary System: Structure, Formulation and Presentation	Jan, 1 st -2001 (for Budget of 2002)
174	Budgetary System: Registry, Control and evaluation of budgets	Jan, 1 st -2003
179	Budgetary System: Pluri-Annual Budget Scheme	Gradually
188	Budgetary System: Consolidated Budget	Before May 2003
180	Public Debt System: Formulation, presentation and sanction of indebtedness laws	2001
192	Mechanisms to stabilize public spending levels and intergenerational sustainability	With the enactment of the new Fund for Macroeconomic Stabilization and the Intergenerational Savings Fund
172	All other dispositions of the LOAFSP	Jan, 1 st -2002

Source: LOAFSP, Title X: Final and transitory dispositions

2. Undermine budgets: One of the key fiscal bastions to conquer in the building of the ‘new financial architecture’ was the annual federal budget. Certainly, in the path to centralizing and controlling mechanisms to generate and spend resources, the budget was one of the key fiscal tools to subjugate. In fact, as it has been previously argued (in Chapter 3), in the fiscal scheme of Venezuela, budgets had for a long time, especially after the first oil boom of the 1970s, been manipulated to rapidly adapt to changing needs and fiscal scenarios, disregarding framing regulations and the impact of such types of practices. Therefore, undermining budgets in this period was not a new strategy in particular, but it was certainly a critical one. Undermining formal budgets was an axial mean to achieve the legitimate centralization of public spending decisions.

The systematic neglect of the budget, from formulation to the implementation stage, is a clear strategy to accomplish centralized spending decisions because it renders the budget as a fiscal tool that is not accurate enough to face all spending needs of the country throughout an entire fiscal term, but it can be ‘fixed’ *ex post* and on-the-going as required. Added levels of expenditures and reallocations within budgets can take place if approved by the National Assembly, and as long as there are available resources to cover them¹¹³. However, they are for the most part initiated by the executive, and the real possibility of authorizing them has become a channel for fiscal indiscipline, principally because they are less carefully

¹¹³ Art. 314 of the Constitution of the Bolivarian Republic of Venezuela (CRBV).

scrutinized in the National Assembly and little debate is organized around them; therefore, excessive public spending can be easily and recurrently fueled through their use (Puente et al. 2006). Subsequently, the increased use of supplementary spending formulas, negotiated in policy settings that are different from those of the budget formulation, under different circumstances and involving other set of policy actors in other policy spaces, is certainly a policy tool for centralizing spending decisions that exclusively rely on poorly made or inadequately estimated budgets.

During the period studied, many economic analysts and experts continuously pointed out the lack of consistency and credibility of the estimations used for budget formulation, making reference to macroeconomic premises, oil price expectations and tax collection prospects. “(...) deviations (in the estimation of macroeconomic premises for the budget) are not necessarily the result of technical incompetence, information deficiencies or incertitude about the performance of some of the key variables, but it is more about the political economy that surrounds the discussion and management of the budget, and the institutional framework of the fiscal decisions of the country” (Zambrano Seguí and Noguera 2000, 6). Analysts would claim that deliberate underestimations were constantly carried out if budget-makers were confident *ex ante* that financial needs running tight of resources could be easily dealt with during budget execution, through the use of *additional credits* (Vera and Zambrano Seguí 2000; Puente et al. 2006; Di Leo 2006; Aponte Blank 2010; Vera and Vivancos 2001; Zambrano Seguí 2010).

Another important reason behind the miscalculation of budget parameters and macroeconomic premises relies on the fact that low budgets enlarge the financial gap to be potentially bridged via public debt (Vera and Vivancos 2001). This strategy gives the executive more room and a clear justification to engage in more debt negotiations instead of resorting to the use of regular fiscal revenues. The systematic neglect of budgets is more concretely applied at the *micro* level of public action as it was earlier discussed, but it is by all means a convenient strategy of the fiscal policy regime (*meso* level). All in all, the overshadowing of budgets is mainly achieved through three main strategies: underestimating oil barrel prices for budgetary needs, miscalculating fiscal revenues and/or manipulating macroeconomic premises.

Underestimation of oil barrel prices: The calculation of oil related resources is especially sensitive as oil revenues play a central role in the budget structure and in the intended fiscal scheme (Vera 2008; Vera 2005; Vera and Zambrano Seguí 2000), representing a persistent

high share of total expected fiscal revenues of about 44% in the past decade.¹¹⁴ Estimating oil-related revenues is an intricate process highly influenced by economic and political dynamics, as it constitutes a critical element in the budget process and a strategic centerpiece in the complex design of the public spending program.

Considering earmarking revenues in budgetary legal assignments, the advancement of an estimated price for the oil barrel will directly lead to a series of calculations on income taxes, royalties and profits, that will put aside important fractions of oil rents into prearranged expenditures. Pre-arranged expenditures or legal assignments bring a great level of rigidity to budget negotiations and can potentially trigger incentives to deviate public resources off formal budgets to freer allocation channels.

As it can be observed in Table 15 below, during the period 2000-2010 legal assignments represented a non-negligible average of almost 42.5% of total public income. Out of this list of legal expenditures, the first three items (constitutional appropriation, LAEE and inter-territorial compensation fund) are explicitly financed with oil-related revenues. Hence, the incentives triggered, are to advantageously decide on how to allocate oil rents, while trying to deviate them off the regular distributing mechanisms. In Annex I there is a summary of the main legal expenditures included in budget stipulations.

Table 15. Legal expenditures 2000-2010

Legal expenditures	Average on Total Public Income (%)
Constitutional appropriation	15.10 %
LAEE	2.65 %
Inter-territorial Compensation Fund	3.05 %
System of Justice	1.38 %
Budgetary rectifications	0.61 %
Debt Service	11.09 %
TOTAL (on average)	42.5%

Source: Budget proposals (2000-2010). Own calculations.

In the same vein, in the budget process, approximating a price for the oil barrel will strategically delimit the share of oil rents that will be measured as ‘ordinary revenues’. This is critical when considering that an important fraction of ordinary revenues will be earmarked and put aside through legal assignments and other prearranged expenditures. In particular, the budget law (LORP) stipulates that up to a 62% of fiscal revenues originated in the oil industry (including exploitation taxes, income taxes, royalties, etc.), and after having deducted other

¹¹⁴ Own calculations based on annual budget proposals, published by the National budget office, ONAPRE, for the period 2000-2010.

legal expenditures (constitutional appropriation to sub-national governments, LAEE, etc.) will be assigned to budget purposes as part of the ‘ordinary’ revenues.¹¹⁵ Furthermore, the LORP explicitly establishes that constitutional appropriation (based on oil revenues) is to be covered with ‘ordinary revenues’.¹¹⁶ The remainder of the oil rents can be used, with approval from the National Assembly, to finance investment projects for technological development, oil industry expansion, etc. Additionally, a maximum of 20% of the remainder can be used to pay debt interests or diminish debt levels. Consequently, a considerable portion of perceived oil related revenues has a pre-arranged destiny in the budget structure, prompting incentives to deviate them off the regular allocating mechanisms.

Since underestimating fiscal revenues can predominantly be about incentives to reallocate resources in order to keep them unrestricted for centralized control, the structural rigidity of the budget along with the intrinsic volatility of oil prices, has served as a great justification to deliberately influence estimations of the average expected oil price for budget use.

In the period under analysis, as oil prices started to gradually increase, an observable tendency to underestimate oil barrel prices became evident. In Table 16 the consecutive underestimation of oil prices for budget preparation gets compared to the effective commercialization prices throughout the period 2000-2010. As it can be observed, as of 2004 when oil prices start rapidly increasing, average price estimation for budget formulations gets further away from effective prices. The enlarging gap between estimations and effective oil prices can also be seen more visually in Figure 11 below.

¹¹⁵ Art. 15, LORP.

¹¹⁶ Art. 39, numeral 2b.

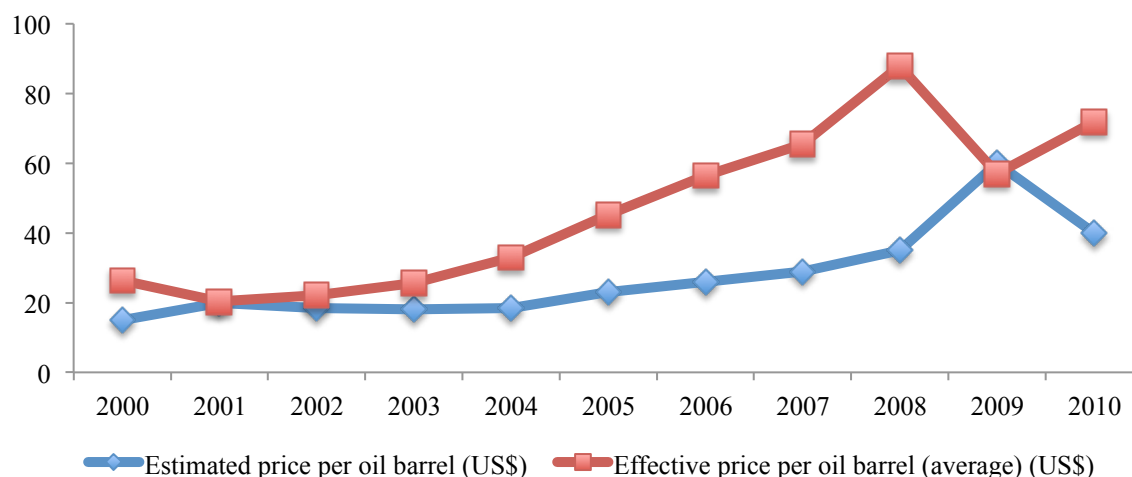
Table 16. Estimated oil barrel prices for the budget vs. effective traded prices (2000-2010)

Year	Estimated price per Oil Barrel (US\$/B)	Effective average price per Oil Barrel (US\$/B)	Absolute Difference	Relative Difference (%)
2000	15	26.43	-11.43	-43.25%
2001	20	20.37	-0.37	-1.82%
2002	18.5	22.20	-3.7	-16.67%
2003	18	25.66	-7.66	-29.85%
2004	18.5	32.88	-14.38	-43.73%
2005	23	45.35	-22.35	-49.28%
2006	26	56.40	-30.4	-53.90%
2007	29	65.47	-36.47	-55.70%
2008	35	87.82	-52.82	-60.15%
2009	60	57.04	2.96	5.19%
2010	40	71.81	-31.81	-44.30%

Source: Budget proposals (2000-2010), Ministry of Finance. Own calculations.

Fiscal prudence and caution have been used as explanatory arguments to sustain this trend (Ministerio del Poder Popular de Planificación 2013; Ministerio del Poder Popular de Planificación y Finanzas 2012). However, these arguments were quickly contradicted by the final use given to oil related resources, as they have been consecutively assigned to finance public spending mechanisms parallel to budgets, and not saved or put aside in the saving mechanisms precisely created for that purposes. In fact, further spending commitments have been progressively acquired to use these funds extensively. Therefore, a fiscal prudence criterion was only applied to calculate oil revenues for formal budgets' accounts.

Figure 11. Estimated and actual prices per oil barrel (2000-2010) (US\$/b)



Source: Budget proposals (2000-2010), National Budget Office (ONAPRE), Ministry of Finance, Ministry of Petroleum and Energy. Own calculations.

Miscalculation of fiscal revenues: An essential input for the budget formulation process will undoubtedly be the rigorous estimation of fiscal revenues as they are essential to conduct any ambitious fiscal program. In general, most budget proposals presented to the National

Assembly for discussion and approval have shown a clear tendency to either underestimate or overestimate expected fiscal revenues. Usually, non-oil fiscal revenues are overestimated, while oil-related revenues are underestimated; as a result, taking the combined effect on income prospects, total levels of income collection tend to be underestimated altogether. In Figure 11 below, total expected fiscal revenues¹¹⁷ are compared to actual perceived income levels during the period 2000-2010. As it can be seen, the gap between estimated and actual fiscal revenues perceived is relatively small for years 2000-2003 but gradually increases as of year 2004¹¹⁸ when oil barrel prices started escalating at a rapid pace, generating more fiscal revenues to finance budget needs. An important remark about this particular figure, is that it relies on fiscal revenues that were officially received by central government for formal budgetary purposes through the treasury office (ONT); however, these quantities do not account for the resources that were channeled through other extra-budgetary mechanisms and that, as a result, did not enter the formal and traditional fiscal institutional circuits (Penfold-Becerra 2007; BCV 2008). Subsequently, the underestimation of fiscal revenues depicted in Figure 12 can be also considered biased downwards, and there is not much information available to correct it.

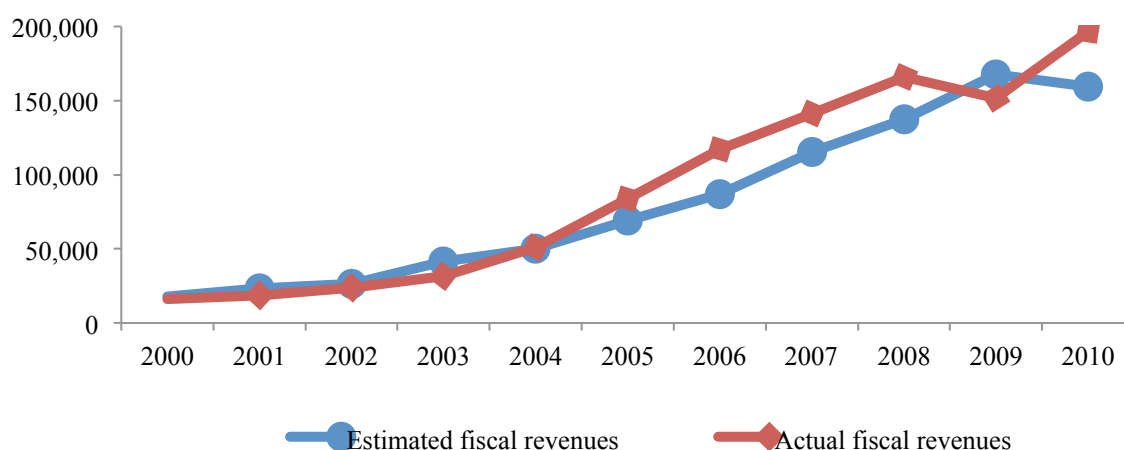
It would then appear that this strategy surpasses the oil barrel estimation to extend to miscalculating fiscal revenues for the budget formulation. Ultimately, underestimating fiscal revenues altogether, results in two main advantages: 1) it releases important fractions of fiscal revenues from earmarking and legal expenditures; and 2) it creates a new dimension for negotiating reallocation patterns from a centralized managerial position. After all, amidst an oil boom, pouring oil resources can discretionally meet *ex post* fiscal needs through other off-the-budget mechanisms.

As it has been discussed, incentives to centralize and control rents and public resources in general, can lead to the strategic manipulation of both fiscal revenues and oil prices forecasts. All in all, underestimating fiscal revenues provides a conveniently limited pool of resources to distribute from. Hence, there is a strong incentive to bound ordinary revenues that are to be allocated among different government layers or predetermined recipients and centralize them for future redistribution in more discretionary ways.

¹¹⁷ Includes oil and non-oil related revenues, tributary and non-tributary as well as all other types of public income.

¹¹⁸ It is important to remark when observing the figures of this period of time, that during the years of 2002 and 2003, Venezuela experienced a profound political crisis that involved several national strikes for long periods (being the longest of about 60 days) and a coup d'Etat in April of 2003. These events severely affected public income generation and economic performance, not to mention budgetary difficulties overall.

Figure 12. Estimated and actual fiscal revenues in millions of BsF. (2000-2010)



Source: Budget proposals (2000-2010); National Budget Office (ONAPRE), Ministry of Finance. Own calculations. Includes all types of public income (oil, non-oil, tributary and non-tributary and other type of income)

Manipulation of macroeconomic premises: Macroeconomic forecasts tend to enclose underlying political and economic intentions behind their estimation, as the strategic use of macroeconomic forecasts can significantly shape the budget-making process altogether. Generally, governments tend to strategically adjust their macroeconomic forecasts in order to formulate more politically or economically convenient and feasible budgets¹¹⁹ (Scartascini y Stein 2009; Hallerberg, Scartascini, y Stein 2009; Puente et al. 2006; Abuelafia et al. 2009). During the period studied, the Executive prepared budgets systematically containing unrealistic macroeconomic targets, such as inflation rates and growth prospects that were not reflecting the actual dynamics and constraints observed.

The manipulation of expected inflation rates can be one of the most prominent manipulations of budgetary premises, since the later use of *additional credits* can be largely excused on higher than expected inflation rates eroding initial budget estimations. Indeed, the repeated use of *additional credits* usually relied on inflation rates to justify their need; but high inflation rates have become a persistent factor of the Venezuelan economy and therefore, a perfect excuse for the systematic granting of additional spending levels that feedback into inflationary pressures (Puente et al. 2006). A vicious cycle is thus created by disregarding inflation rates during budget formulation (inaccuracy of macroeconomic premises), and then

¹¹⁹ Even if Venezuelan federal budgets are not in practice subject to rigorous risk or sensitivity analyses, they project important and sensible information to both the public and the private sector. Such information propels directly and indirectly general expectations on all economic agents. Hence, if the government faces a rather difficult fiscal position, it can have the interest of positively influencing general expectations of economic agents as to implicitly invite them to invest, expand production, raise salaries, vote, etc. Instead, difficult spending cuts that have high political costs can be done during the implementing stage as to avoid substituting spending programs during the approval stage, for instance.

requesting *additional credits* because high inflation rates invalidate initial budget provisions; ultimately, higher spending allocations can most likely generate more inflationary burdens.

Interestingly enough, in 2007 a new law was sanctioned to make reimbursement of unspent or unused funds generated by *additional credits* to the national treasury compulsory¹²⁰. The sanctioning of this legal mechanism revealed on one side the regular or recurrent nature of the use of *additional credits* or supplementary spending formulas as an established *modus operandi* in the fiscal scene; while on the other hand, and to a great extent more importantly, this law revealed that there was little planning behind their actual assignment and utilization, not to mention the implicit acknowledgment of their limited authenticity.

Policy Objective 2: Ensure the Executive with a larger control over public spending decisions

The strategic perspective of the new administration envisioned the control of other key components of the fiscal puzzle beyond the centralized control of fiscal tools in the Executive. The monetary authority and the financial sector were strategic bastions of the fiscal scheme that if better controlled, would confer the executive with an expanded mastery over public spending decisions; subsequently, the main means to develop a fine-tuned direction of these key areas and institutions were the following:

1. Reforming the structure of the Central Bank (BCV): Once the reform of the fiscal scheme had centralized most fiscal subsystems in one key institution, the Ministry of Finance, other crucial institutions of the fiscal puzzle needed to be considered. With the Constitution of 1999, the Central Bank was given a constitutional rank, which meant it was formally defined as a separate legal entity¹²¹ within the public sector, with technical, functional and financial autonomy to exercise its competencies over which it manifestly holds exclusive and binding authority (Badell & Grau 1999; Martínez Dalmau 2002; Vera Colina, Finol Romero, and Urdaneta 2009). A new law for the Central Bank was sanctioned in 2001¹²² to adjust the monetary authority to coincide with the new constitutional provisions. The new law also contemplated rearranging the structure of the institution, in particular its governing structure and its relationship with other institutions of the public sector and governmental powers.

Despite the empowered position of the BCV, the new legal text the President of the Republic would have a bigger room for interfering in its decisions through the Directory Board. The

¹²⁰ Official Gazette 38.680-May 5th, 2007

¹²¹ Art.318, CRBV99

¹²² Official Gazette 37. 296-Oct 03rd, 2001.

new law removed the General Assembly and replaced it with a Directory Board in which the President would directly select 5 out of 7 Directors (71%);¹²³ and the National Assembly would now play a new controlling role by becoming an official overseer of the monetary authority (Rodner 2002).

Overall, the new structure of the BCV allowed for more direct participation by the President and the Executive (via the Minister of Finance) in the decisions taken in the Directory Board of the BCV. This structural configuration, proved to be successful in decisions over the use of public funds, and more importantly, on future amendments of the PFM needed to attain major policy aims.

2. Creation of BANDES and *Banco del Tesoro*: As described in Chapter 3, BANDES was created as a special bank for national development purposes and as the main financial arm within the fiscal scheme.¹²⁴ Its creation resulted from transforming the FIV, the Venezuelan Fund for Investments,¹²⁵ which was in turn the result of reforming, in 1974 an Anti-cyclic Fund created as part of the Central's Bank Law back in 1960 (BCV 2001b).¹²⁶ BANDES was conceived via a special enabling law accorded to President Chávez as part of the restructuring of the PFM archetype. Its creation responded to the need for a new scheme for public investment given the "severe limitations of the State financing model" in place¹²⁷. BANDES initially attached to the Ministry of Finance¹²⁸, was soon transferred to the Ministry of Planning¹²⁹, then appointed to the Ministry of State for Financing Development in 2004¹³⁰,

¹²³ This law introduced several different changes to the general structure of the institution and its operating dynamics. For more details please refer to <http://www.bcv.org.ve/c3/legislacion.asp>

¹²⁴ Official Gazette 37.194, Decree No. 1.274-May 10th of 2001.

¹²⁵ The FIV was appointed to the Presidential Office of the Republic as an autonomous SFI in charge of directly managing extraordinary oil rents and investments on behalf of central government. The FIV would accumulate as much as 50% of total income generated by taxes in the oil and gas industry, and try to find profitable financial instruments to make them grow in a separate savings account (Rodríguez Sosa and Rodríguez Pardo 2012). During the 1990s, the FIV also turned into the main tool of a privatization process, which was outlined in the very unpopular economic reform package of the time locally known as "El Paquetazo". According to Rodríguez' and Rodriguez (2012) calculations, the FIV exhibited, during its first 10 years, an average negative return of 2%.

¹²⁶ In 1974 amidst an oil boom and through a special enabling law accorded to the President at the time, Carlos Andrés Pérez, the law of the BCV was reformed (Official Gazette 30.430, Decree No. 151-June 21st of 1974), substituting the anti-cyclic fund with the FIV. This investment fund was amended a couple of times before year 2001, when it was completely transformed into the development bank, the BANDES

¹²⁷ Statement of purposes presented to the National Assembly when decreeing the BANDES Law. Available at: <http://www.tsj.gov.ve/gaceta/mayo/100501/100501-37194-01.html>

¹²⁸ In one of the first reordering of the public administration apparatus in August 1999, Official Gazette 36.775

¹²⁹ In October of 1999 according to Official Gazette 36.807

¹³⁰ Official Gazette 38.027

and then assigned back to the Ministry of Finance in 2005¹³¹. It was also legally reformed in 2008¹³² and 2010.¹³³

Similarly, the foundation of the *Banco del Tesoro* was envisioned in 2005 as another type of financial arm to the government, parallel to the financial structure in place. The bank was supposed to directly manage public debt servicing and amortization, as well as general international obligations of the nation (Guerra 2008). Later, the bank became a regular piece of the financial infrastructure of the government holding general accounts for public employees and for local needs not related to public debt in any way. According to the BCV the *Banco del Tesoro* would also manage internal public debt titles, collect some internal taxes, make payments instructed by the treasury office and operate the FEM (Art. 1 of the Law that regulates the FEM) (BCV 2005).

3. Creation of CADIVI: In 2003 after the national ‘oil strike’ had been controlled, the government established a fierce exchange control regime to be operated by a new institution separate from the BCV and attached to the Ministry of Finance, CADIVI. This policy decision marks a blunt change in economic policies and gives the government an edge over a new instrument to control public resources, new financing mechanisms and a clear advantage over the management of public debt. Furthermore, the existence of an officially fixed exchange rate, directly administrated by the Executive, via the Ministry of Finance, gives room to a differential spread between official and parallel exchange markets that the government can take great advantage of (Zambrano Seguí 2010), without having to rely on the estimation and transfer of ‘retained earnings’ or ‘exchange profits’ yielded by the BCV from differentials between officially bought and sold foreign currency (to be analyzed subsequently). Moreover, the exchange control considerably facilitated the mobilization of public savings for public financing purposes, with time conditions and more favorable returns to the issuer: the central government (Vivancos, Zambrano Seguí, and Noguera 2003).

Altogether, the search for funds easily channeled by discretionary mechanisms, could have also served the intermediate objective of stabilizing ordinary or current type of revenues, as Zambrano Seguí would suggest, however, as this economic analyst clearly claims (2000), this strategy generates incentives for the executive to compensate variations in non-oil fiscal revenues (more easily adjusted in fiscal policy designs) with variations in oil fiscal revenues

¹³¹ Official Gazette 38.162, Decree No.3570-April 8th, 2005

¹³² Via Presidential Decree No. 6.214, July 31st, 2008

¹³³ Official Gazette 39.429-May 21st, 2010

(not easily manipulated via fiscal policy calibrations).

4. Other regulatory reforms within the PFM system: Even though, this research project is not concerned with public debt strategies, it is important to remark, in terms of assessing the design of the new financial architecture and its consistency towards major policy aims, that the reforms introduced in early 1999-2000, also involved ensuring greater control and authorization on public debt acquisition and negotiation to the executive and limiting the role of the legislative and the BCV in public debt matters. The role of the legislative, controlling *ex ante* public debt strategies, and that of the central bank as a financial adviser to the executive, were both eliminated. Discussions related to maximum levels of debt, repaying schedules, financing objectives, etc., were left for the Executive to decide, while the legislative was legally assigned with formal authorization, and the BCV with merely an ‘opinion’ on the corresponding macroeconomic impact (Zambrano Seguí 2000). Moreover, the executive would be only authorized institution to authorize the debt strategies of state-owned enterprises.

Nevertheless, among these meaningful amendments of the PFM system, some fiscal innovations were clearly interfering or inconsistent with the objective of enlarging the control over public spending decisions. One of these inconsistencies was the design of the budgetary reform. The new budgetary scheme, based on a multi-year spending plan covering three fiscal years, implied more regulatory controls, several checks and balances to reach fiscal equilibrium and a longer-term perspective for the management of public resources. Altogether, this budget longer-term frame would force the Executive to moderate spending levels and reveal spending plans and strategies in advance. Such legal requirements clearly contradicted centralizing efforts, which by definition were aiming for more room for fiscal maneuver, less check and balances and more discretion of public spending decisions.

This clear inconsistency becomes strikingly evident with the total abandonment of the pluri-annual budget scheme. The abandonment of the fiscal tool was achieved by the postponement of its full preparation. From the time the budgetary reforms are formally enacted, they have been consecutively prepared with scarce and superficial content claiming to be only ‘for informational purposes’ and repeatedly alleging the need of *vacatio-legis*¹³⁴ phases for future better preparation. Therefore, to date, multi-year budgets have been prepared on the margin, with little discussion in the National Assembly about their key components such as debt and spending ceilings for the period they cover, or established fiscal goals to pursue in a three-

¹³⁴ Legal terminology for the period of time between the enactment of a law and its full application.

year period. Moreover, they have not been published along with most enacted budgets in the official sites of the Budget Office.

In a similar vein, there is the case of the Intergenerational Savings Fund that in practice did not even progress from being contemplated in the LOAFSP, as a constitutional mandate would require it to be. The fund was never created as announced. It was supposed to serve as a mechanism to guarantee the intergenerational sustainability of policies for development or for investment in education and health, but it required the active parting of fiscal revenues for saving purposes which would restrict the scope for spending decisions aimed at both *meta* and *meso* levels of public action. Hence, this fund was clearly inconsistent with high order policy aims and was fully ignored despite being part of the new constitutional fiscal arrangements promoted by the same administration. As Humphreys and Sandbu bluntly put it (2007) “a fund that does not address the incentives of governments is subject to being abolished or ignored” (226).

5. Reform of SFIs rules (FIEM/FEM): As was the case described above with the inconsistencies introduced by the Intergenerational Savings fund, the Venezuelan fiscal scheme contemplated after many years of political and academic debate (Rivero in BCV 2001a), the creation in November 1998, of the Fund for Investment of Macroeconomic Stabilization (FIEM) as a separate and specialized fund appointed to and managed by the Central Bank of Venezuela, the BCV.¹³⁵ The FIEM was originally designed to be a saving-spending rule aiming to stabilize the effect of extraordinary oil rents during oil booms while serving as a reliable source of income during periods of low oil rents’ performance. In Rivero’s words, it was designed as a “saving tool during certain periods, and as a spending tool during others, depending on the phase of the cycle on which the economy is in” (2001a, 213). Consequently, the fund was clearly inconsistent with the shortsighted needs and policy aims of the fiscal policy regime during this time.

Predominantly, as it was previously discussed, resource-rich countries design Special Fiscal Institutions (SFIs) within their PFM systems as mechanisms to soften the impact of boom and bust cycles of their main commodities, and in order to contain the incentives for the discretionary use of rents. The main objective of these types of SFIs is therefore completely inconsistent with the main policy objective of the ‘new financial architecture’ design.

Originally, the FIEM would receive regular contributions from the Central Government, Sub-regional governments (States and Districts) and PDVSA, when oil rents were above the

¹³⁵ Official Gazette 36.575, Decree No. 2.991-November 4th of 1998.

average income of the previous 5 continuous years and once all other fiscal obligations were covered or discounted. Conversely, when oil rents dropped below the average perceived during the latest 5 consecutive years, the FIEM would make available a fraction of its reserves (up to two thirds of its accumulated balance) to any of its contributors upon demand and following a strict formal protocol.¹³⁶ The FIEM also had an automatic limit for savings beyond which funds would recirculate back to the contributors following a particular distributive methodology.

Less than a year after its creation, and with a different President leading the executive branch of government,¹³⁷ the FIEM had its first of many reforms; in May of 1999 by Presidential Decree, the rules for saving and spending were drastically changed.¹³⁸ The basic rule for savings was modified to follow varying thresholds and conditions for each contributor and for each type of oil-related revenue (income tax, royalties, dividends, exports, etc.). Similarly, rules for spending were critically loosen by giving the President, the power to use funds discretionally at any time and even before accumulated resources reached the automatic limit level required in the original law. Moreover, exceptional concessions were established for the period 1999-2004, to further moderate saving and spending criteria.¹³⁹ Subsequent amendments were later introduced in 2001, 2002 and 2003,¹⁴⁰ modifying the rules for both the accumulation and the use of extraordinary oil rents. Additionally, in the reform of 2001, a distinctive clause was included to temporarily defer saving contributions during the last quarter of 2001 and throughout 2002. Regular provisions would resume as of 2003; nonetheless, the deferral clause was re-introduced in later amendments until the fund was ultimately replaced in 2003 by the FEM, the Fund for Macroeconomic Stabilization.¹⁴¹ In Annex III, there is a more detailed outline of the multiple reforms of the FIEM.

Altogether, the FIEM raised or received contributions for a total amount of 7,180 US\$ millions during the period 1999-2003 out of which about 60% was gathered only in 2000.¹⁴² In 2001 the FIEM collected funds only partially and its new rules made it possible for central government to provide only 154 US\$ millions but to take out 894 US\$ millions that very

¹³⁶ Details available on: <http://www.bcv.org.ve/fiem/fiem.htm>

¹³⁷ The FIEM was created under the second Presidency of Rafael Caldera, in November of 1998, and just a few months before President Hugo Chavez took office in February of 1999.

¹³⁸ Official Gazette 36.722-June 14th, 1999 (Published in a different date than announced).

¹³⁹ Ibid, 26

¹⁴⁰ Official Gazettes: 37.308-October 22nd, 2001; 37.547-October 11th, 2002 and 37.604-January 7th, 2003, respectively.

¹⁴¹ Official Gazette 37.827-November 27th, 2003.

¹⁴² Source: Official data of the FIEM, available at: <http://www.bcv.org.ve/fiem/fiem.htm>

same year. By 2003, when the fund was derogated and replaced by the FEM, it had given out 6,933 US\$ millions, 97% of total funds accumulated since it was launched.¹⁴³ During those years, the Venezuelan basket price of oil went from an average of 15.87 US\$ a barrel in 1999 to an average of 25.66 US\$ a barrel in 2003;¹⁴⁴ a 62% increase in four years,¹⁴⁵ from this observation it becomes clear that the fiscal strategy of the government was not directed at saving funds, or operating the SFI as it was originally designed to be operated. Instead, the fiscal policy regime was increasingly relying on these funds to finance both regular budget commitments and newly created spending programs. Table 17 gathers the flows of this SFI during the period 1999-2003 before it was replaced by the FEM.

Regarding the FEM, it was created in 2003 in replacement of the FIEM. With its creation, the fund for the rescue of Public Debt created in 1997 was derogated. The rules for accumulating and using funds of the FEM were similar but more flexible than those originally set for the FIEM. A clear distinction from its precedent figure was the stipulation that PDVSA should only transfer 50% of oil revenues in surplus from the calculated barrel price for the budget (the FIEM established the total transfer of these surplus amounts) (BCV 2003). The destiny of the other 50% of oil surplus was not established in the legal text of the FIEM.

Table 17. FIEM flows (1999-2003) in Millions US\$

	1999	2000	2001	2002	2003	Total
Contributions	215	4,246	2,300	419	-	7,180
Central Government		1,658	154	-	-	1,812
Sub-National Governments		457	604	-	-	1,061
PDVSA	215	2,131	1,542	419		4,307
Withdrawals			894	3,870	2,169	6,933
Central Government			894	965	51	1,910
Sub-National Governments				732	416	1,148
PDVSA				2,173	1,702	3,875

Source: FIEM Official Website¹⁴⁶

The global experience with the new FEM (previously named FIEM) was more or less repeated with similar results. Its first format emulated the initial version of its predecessor with few variants. One of which was setting new rules for the contributions on amounts above

¹⁴³ Ibid, 23

¹⁴⁴ Source: Ministry of Energy and Petroleum.

¹⁴⁵ Despite the increasing price trend, volatility of oil prices was a critical factor to consider in the fiscal arena, especially during 2001 when the Venezuelan oil basket price dropped on average around 23% relative to the previous year.

¹⁴⁶ Available at: <http://www.bcv.org.ve/fiem/fiem.htm>

the average income of the previous 3 continuous years (instead of 5) which, given the fiscal situation at the time, immediately released the obligation of making contributions until 2004 (*VenEconomía* 2003).

The fund was actually set to start accumulating extraordinary oil rents from year 2005 onwards. Nevertheless, in 2005¹⁴⁷ more than amended, the FEM was created again under different rules and with a different objective: that of ensuring the stability of public spending at the national and subnational levels when facing income fluctuations (Art.1 of FEM); moreover, this new version conditioned all expected contributions on the fulfillment of meeting fiscal *superavits* (surpluses), with which it was practically granted that it would no longer accumulate oil rents, as it did in fact happen (Rodríguez Sosa and Rodríguez Pardo 2012).

In 2012 the FEM had a total amount of 2 US\$ millions available.¹⁴⁸ Since it was launched and until 2012, the Venezuelan Oil basket price increased about 303%, passing from an average of 25.66 US\$ per barrel in 2003, to an average of 103.42 US\$ per barrel in 2012¹⁴⁹. Therefore, it can be safely argued that once the political crisis had passed, the fiscal strategy towards the use of funds accumulated in SFIs did not change. Just as it was previously remarked, making a new fiscal rule to save in local currency the potential and modest *superavits* (surpluses) that the government could reach, was not a practical strategy in terms of its inner consistency with major policy aims both at the *meta* and *meso* levels of policy action. Indeed, it would seem that in practice the fund was no longer utilized to either save or withdraw funds, as it did not register further activity of any type (Heuty and Aristi 2010), which resembles the experience with the pluri-annual budget and the intergenerational savings funds; all mechanisms that were not aligned with policy aims and were therefore overlooked in practice.

Neither the FIEM nor the FEM were able to save and temporarily put away extraordinary oil rents during oil booms for later use as originally intended (in direct contradiction of major policy aims). As Rodríguez Sosa and Rodríguez Pardo put it (2012), these funds saved oil rents while prices were relatively low and rapidly used them when they started skyrocketing. Additionally, there is little information on how the funds were accumulated, managed and used; and the multiple reforms and clauses further obscured their general structure and functioning. The Sovereign Wealth Fund Rankings has given the FEM the lowest rank in the

¹⁴⁷ Official Gazette 38.286-October 4th, 2005.

¹⁴⁸ Source: Official Data of the FEM available at: <http://www.bcv.org.ve/fem/fem.asp>

¹⁴⁹ Source: Ministry of Energy and Petroleum.

Linaburg-Maduell Transparency Index: 1 in a scale of 1 to 10¹⁵⁰, where a rank¹⁵¹ of 1 represents the minimum a fund can receive¹⁵².

Altogether, the consecutive reforms done to the regulatory frameworks of these SFIs corrected the original inconsistency enclosed in the purpose of these fiscal tools and replaced it with rules clearly aligned with the general goal of creating resources for discretionary use. These resources could be utilized in discretionary ways, as their oil roots would make them volatile in nature; hence, complicating their full and accurate consideration for inclusion in budgetary schedules. By 2003 when oil prices started to increase, the stabilizing mechanisms, the FEM (previously the FIEM) were already dismantled and dysfunctional, no longer representing a restriction over the use of oil rents.

Across the literature comparing the performance of SFIs in different resource rich countries and their impact on fiscal policies, the FIEM and FEM of Venezuela are seen as failed attempts to decouple public spending levels from resource revenue variations because of the consecutive changes to their basic rules for both making contributions and spending the resources they were supposed to put aside from the fiscal circuit (Sharma and Strauss 2013; Bjerkholt and Niculescu 2004; Heuty and Aristi 2010). Taking into consideration contextual settings and developments, the reforms of the FIEM allowed the government to compensate decreasing revenues and some income restrictions generated by the oil strike and OPEC's production ceilings. Hence, once again it becomes evident that the SFIs were disbanded to meet circumstantial needs in disregard of their original general functions.

Policy Objective 3: Centralize the use of oil rents

An important piece of the new financial architecture was based on giving the executive greater centralized control over the use of oil rents. These revenues were exceptionally advantageous due to their volatile nature, which enabled policy makers to have the justification to manipulate their use in different ways. Centralizing decisions over the management of these funds is paramount to having real designing power and control over the fiscal policy regime in a context such as the one in Venezuela.

¹⁵⁰ Refer to: www.swfinstitute.org/swfs/fem/

¹⁵¹ Ranking system: www.swfinstitute.org/fund-rankings/

¹⁵² The Linaburg-Maduell Transparency Index, was developed by Carl Linaburg and Michael Maduell in 2008, based on ten different principles that would each add one point to measure the levels of transparency a fund can have. The index has become an international benchmark to rate SFIs transparency. For more information: [\(www.swfinstitute.org/statistics-research/linaburg-maduell-transparency-index/\)](http://www.swfinstitute.org/statistics-research/linaburg-maduell-transparency-index/)

1. Takeover of PDVSA: The takeover of PDVSA was the result of a long struggle and public rivalry between PDVSA and the Executive over the control and direction of the industry. Evidently, Chávez had a new vision on how the oil rent and oil industry should be managed and the role that the State should have in their management. Moreover, the arrival of Chávez on the political scene in Venezuela introduced a new reformation on the role oil that rents should play in the economy, specifically, the role that oil rents should have under his political strategy. These views were not completely subscribed to by the directors and managers of PDVSA, as the company had developed important levels of political and economic leverage over the past decades before Chávez's arrival. Apparently, the tension between the Executive and PDVSA was not a new situation emerging from Chávez's administration (Corrales and Penfold 2012); in fact, according to Núñez and Pagliacci (2007), the formulation of oil policies was an arduous task grounded on efforts to align the interests of the oil company with those of the State. Hence, designing oil policies was never a smooth process.

In this case, the situation seemed worse; despite 4 different presidents directly assigned by Chávez in less than 3 years¹⁵³ in an attempt to directly interfere in the company's management (Núñez and Pagliacci 2007), there would seem to be no easy transition to the new ideals of the *Bolivarian Revolution* and the *Socialism of the 21st century*. In February 2003, after PDVSA had been on a national strike for over 60 continuous days, known as the 'oil strike,' Chávez appointed a new directory board and dismissed a significant portion of the oil's company personnel, overtly breaking the tacit independence agreement that had until that moment prevailed (Núñez and Pagliacci 2007). Furthermore, the 'last straw' was made more than a year later, in November 2004, when the Minister of Energy and Petroleum, Mr. Rafael Ramirez, was appointed as President of PDVSA to hold both positions simultaneously. From that moment on, both formulation and execution of oil policies would be in charge of the same directory unit, and PDVSA formally became a full part of the Executive. Or as Núñez and Pagliacci assert, with this move, "the delegation of authority of the Executive towards the industry is definitely broken and the control exercised by the Executive deepens" (2007, 37). This highly strategic arrangement endured over the next almost 10 years, being Mr. Rafael Ramirez both the president of PDVSA and the Minister of Energy and Petroleum.

The takeover of PDVSA ensured a larger control over public spending mechanisms because for one part it limited the actions that PDVSA could decide on its own, regarding investment and maintenance projects not aligned with the interests of the State; and for the other, it gave

¹⁵³ These managerial changes notably contrast to the total 6 presidents PDVSA had over the previous 22 consecutive years.

the Executive a strategic position over the most important source of revenues of the economy. Overall, by controlling PDVSA Chávez managed to align and actually merge, the policy aims of the Executive with those of the oil company, easing all strategies to come, regarding the generation and use of a particularly important type of the national public income: oil rents.

In this sense, oil rents that had already been incorporated to a new fiscal role exerted by PDVSA in as early as 2001, were then fully carried on as of 2003 and once PDVSA would completely agree with these new fiscal practices. A spending item called 'Community Support' was part of the balance sheet of PDVSA with 34 US\$ millions in 2001 (Petróleos de Venezuela S.A. (PDVSA) 2011, 158); in 2003 numerous social programs called Misiones, started to be included to PDVSA's financial responsibilities, obtaining a total sum of over 71,000 US\$ millions until 2011 (according to the same financial records referenced). Moreover, having complete control over PDVSA allowed the government to create an important number of smaller para-statal companies to carry on several different activities, all financed directly by oil rents and none related to the oil business. In this way, PDVSA was in charge of public supermarket chains at the national level, sports sponsoring, cultural activities, etc. A new role was given to PDVSA in the configuration of fiscal, economic and social policies; the new strategic guidelines and social co-responsibility consigned to the domestic oil industry implied that new public spending functions were actually considered as 'operative costs' of the company (Noguera 2004), which directly affected financial results from which income taxes and dividends were calculated for budgetary ends (Gerencia de Investigación Económica 2005a; Gerencia de Investigación Económica 2005b).

2. New hydrocarbons law: Given the economic profile of the country, having a solid foot on the oil sector was paramount to the design of the new fiscal architecture and the fiscal policy regime overall. Therefore, in November of 2001, a new hydrocarbons law¹⁵⁴ was approved to replace the former version enacted back in 1943. The 2001 version, ensured greater participation of the State in all primary extractive activities and introduced, among other modifications, an important change to the weights of fiscal contributions generated by the oil industry.¹⁵⁵ This scheme was designed under the rationale of securing and stabilizing

¹⁵⁴ Official Gazette 37.323-November 13th, 2001.

¹⁵⁵ Royalties were increased from 16,6% to 30% over total production, whereas income taxes were reduced from 67,7% to 50% over net profits. Since royalties are calculated over total production, they were assigned with a bigger contributing role, whereas income taxes, being based on overall performance and thus dependent on operational costs, were put on a secondary rank.

contributions from the oil industry, as well as ensuring the government with a bigger participation in the profits correspondingly generated.¹⁵⁶

Despite being enacted in 2001, the new fiscal scheme for the oil industry would serve as an expropriation tool once all other ‘sub-legal’ dispositions could be correspondingly reformed or all other legal stipulations contained in previous agreements could come to an end. The new public-private structure of the industry was not effectively activated until year 2005 when previous investment agreements were coming to an end and the booming prices would compensate for any important legal disputes and the potential losses associated to contractual disruptions (Monaldi 2010). Therefore, in 2005 some transition agreements were approved (BCV 2007), and it was not until 2007 when the ‘Oil Sovereignty Plan’ would be fully in place by enacting a more detailed law on how the private-public partnerships would be articulated and how previous agreements would migrate to the so-called ‘mixed’ enterprises in the oil industry (BCV 2007).

Beyond the fiscal impact of the reform in terms of the structure of oil revenues, it is critical to highlight that the reform expanded the strategic stance taken by the State within the extractive industry and displaced, or at least, restricted the bargaining power that PDVSA used to enjoy (Núñez and Pagliacci 2007). This new legal scheme increased the formal presence of the State by imposing its participation with at least 51% ownership in all oil-related activities (especially primary extractive activities), through the so called ‘Mixed’ Oil companies. An enforced “Oil Sovereignty”, aligned with a hierarchical mode of governance (Fontaine 2011), would certainly have an impact, not only on the composition or magnitude of generated rents, but also on the structure and investment levels within the oil industry, if not immediately, in the medium and longer terms.¹⁵⁷ The way this legal instrument limited the role of PDVSA in investment projects’ negotiations, was a key interest of the State in wanting to centralize and have more control over public spending decisions and oil rents generation.

3. Underestimation of oil barrel prices: Once PDVSA was under the absolute control of the government, it would be released of compulsorily exchanging the resources obtained through the commercialization of oil with a reform of the BCV that will be explored next; these reforms combined officially provided the liberty for discretionary spending. There was only one final restriction left: regular budgets. The foremost instrument to divert oil related

¹⁵⁶ According to some analysts ((Núñez and Pagliacci 2007; Corrales and Penfold 2012) the national oil industry had reduced the participation of the state in oil profits on the base of an international expansion strategy and increased investment projects, which were not always aligned with the oil policies of the Executive.

¹⁵⁷ For a more detailed analysis on the technical aspects of the reform, refer to (Rodríguez Araque 2002; Monaldi 2011).

revenues off budgets and once all institutional restrictions were down, was the underestimation of oil barrel prices. Oil revenues perceived in excess of those estimated for the budget, created an interesting differential to be utilized as public spending, but via PDVSA through its new funds for social investment and the financial support of BANDES (Gerencia de Investigación Económica 2004).

The bigger the gap between estimated prices for oil barrels (for budgetary purposes) and effective prices, the bigger the margin or room to have resources for discretionary use. Given the fiscal structure built for the extra-budgetary allocation of oil revenues, underestimating oil barrel prices would seem a fairly logic tactic, coherent and consistent with major policy aims.

Policy Objective 4: Maximize resources for discretionary use

Maximizing discretionary resources provided the government with unusual sources of fiscal revenues that, because of their ‘non-recurrent’ or ‘extraordinary’ nature, were not accounted *ex ante* in the budgetary exercise, or at least not accurately estimated. Therefore, they were released from pre-established fiscal commitments and more easily channeled toward alternative policy ends. The main policy instruments identified to create resources for discretionary use were the following:

1. Other reforms to the law of the BCV: During the first years of the period being analyzed, one of the clear policy objectives at the *meso* level of policy dynamics, or in fiscal policy domains, was the expansion of fiscal revenues, but more specifically the access to fiscal resources that were not subject to be earmarked or committed to any fiscal obligations, hence, fiscal resources easy to channel in discretionary mechanisms. In this sense, with the first reform of the regulatory frame of the BCV, it was introduced, as a regular practice, the transfer of part of retained earnings to the Executive for budgetary needs. These ‘retained earnings’ were for the most part the result of accumulated exchange profits¹⁵⁸ and the BCV was the official and traditional institution in charge of managing exchange rate policy formulation and execution.

The new law for the BCV established that from the total net annual profits normally accumulated in the General Reserves Fund of the Bank, a maximum of 10% could be put apart for this fund, with the possibility of adding up to a 5% voluntarily, but the remnant would be annually transferred to the Central Government for budgetary purposes. In any case, these ‘retained earnings’ or ‘exchange profits’ would be difficult to estimate in advance for

¹⁵⁸ Exchange profits result from differentials between officially bought and sold foreign currency in the domestic economy.

budgetary purposes, hence they were not accurately accounted for in the budget preparation, which made them a clear target for direct management.

In 2002,¹⁵⁹ an amendment was enacted to increase the frequency of the exchange profits' transfer to the National Treasury for budgetary funding purposes. This practice went from being occasional and under certain circumstances, to a regular and then biannual transfer of funds (Mavárez 2002). In fact, at the time of this second reform, a special arrangement was agreed over the definition of the fiscal term length of the Bank to be applied only that year. Because the amendment was done in October of 2002 to set the transfer of exchange profits in June and in December of each year, a provisory stipulation of the law contemplated that the estimation and transfer of retained earnings accumulated up until October will account for the first semester of the year, whereas the rest to be accumulated from October to December of 2002 would account for the second semester of the year and would be transferred accordingly. As of 2003, retained earnings would be accumulated from January to June and then from July to December.

Third reform to the law of the BCV: Amidst a period of economic recovery after the oil strike and the need to finance a decisive electoral campaign for the upcoming recall referendum in 2004, Chávez turned to the BCV to request in late 2003 a *millardito*, a 'little billion' of the foreign monetary reserves to finance agricultural programs.

Chávez's demands were first met with logical denial; the request was illegal in nature, as the BCV was not supposed to directly finance the central government under any circumstances. However, the alternatives proposed by the BCV to actually meet the requirement of financing agricultural programs were not aligned with the main policy aim of the moment, which was maximizing resources for discretionary use. Therefore, enlarging financial credits to farmers via the banking sector, easing interest rates and adjusting other macroeconomic variables targeted at stimulating the agricultural sector were not really answers to the 'little billion' request posed by the President in a live show broadcasted on TV.

Despite being unconstitutional and against the regulations of the BCV, the requisite coincided with the time to prepare for the recall referendum (*VenEconomía* 2003), prompting important levels of tension with the denied petition. Chávez suggested the involvement of the Supreme Court to find the ways of transferring the 'little billion' and even the need for a legal reform or for a new President for the BCV altogether. Ultimately, pressures were relieved with a dangerous solution, and the 'little billion' was realized through a different way: in an

¹⁵⁹ Official Gazette 35.606-October 18th, 2002.

exceptional move, PDVSA was allowed to create a special fund to directly transfer the requested amount without having to give all perceived revenues to the BCV in exchange for local currency as it was stipulated in the regulatory frame (Rojas Jiménez 2004). In January 2004, the directory board of the BCV approved the reform of a previous ‘rotatory’ fund of PDVSA created in the 1980s to meet commitments of the industry abroad. The reform would transform this figure into a development fund to divert foreign currency obtained through oil exports and finance infrastructure projects (C. Ochoa and Villegas 2004; Noguera 2004). According to Toro Hardy (2010), allowing this first irregular transfer was the ‘original sin’ with which the new public financial order would then proceed.

“From that historic "little billion", the ‘original sin’, the fate was doomed. Next, through several amendments to its law, the institution (the BCV) was taken by assault and its functions no longer corresponded to those of a Central Bank. Today it is a branch of the revolution, armed with lethal power to print inorganic money to finance the fiscal deficit. The damage to the Venezuelan economy is abysmal” (Toro Hardy 2010)¹⁶⁰

On parallel, the rising prices of oil barrels within a scheme of a tight and centralized exchange control regime administered by CADIVI, resulted in almost the duplication of foreign monetary reserves in less than a year; “this fact immediately demanded the special attention of the executive, who expressly stated the possibility of giving alternative uses to the ‘surplus’ of monetary reserves” (Zambrano Seguí and Vera 2004, 1).

Unusual as the first reforms to the Central Bank could have been, a new amendment enacted in 2005¹⁶¹ would completely change preceding fiscal dynamics: foreign monetary reserves typically accumulated and managed by the institution would be partially transferred to a special extra-budgetary investment fund created that same year, the FONDEN.¹⁶² Foreign monetary reserves would be accumulated up to a certain level beyond which they would be directly transferred to this separate fund. To determine the sum of monetary reserves to be regularly transferred, a novel unprecedented concept was introduced, that of ‘reasonable or adequate’ levels for foreign monetary reserves. The task of defining this ‘adequate’ level was assigned to the Directory board of the BCV or to the National Assembly, and it was left in very broad terms. The legal text referred to a special ‘methodology’ for the estimation of this reasonable level of reserves, but it has never been explicitly defined or established.

¹⁶⁰ Translation by the author

¹⁶¹ Official Gazette 38.232-July 20th, 2005.

¹⁶² Initials in Spanish for *Fondo de Desarrollo Nacional*

But even more importantly, this reform also introduced a new dynamic between PDVSA and the BCV. For the first time since PDVSA was created in 1976, it would bypass the BCV for the traditional exchange of foreign currency obtained through oil exports. The new fiscal arrangement named Exchange Agreement No.9¹⁶³, stipulated that PDVSA could officially keep part of the oil related revenues obtained through the commercialization of oil, to directly feed the operational capacity of parallel fiscal entities. As a result, from 2005 onwards, PDVSA would only exchange a fraction of total oil related revenues in dollars to the Central Bank: the fraction corresponding to budgetary obligations according to the estimations done over oil barrel prices for the budget formulation, while the rest would directly go to parallel funds (BCV 2005).

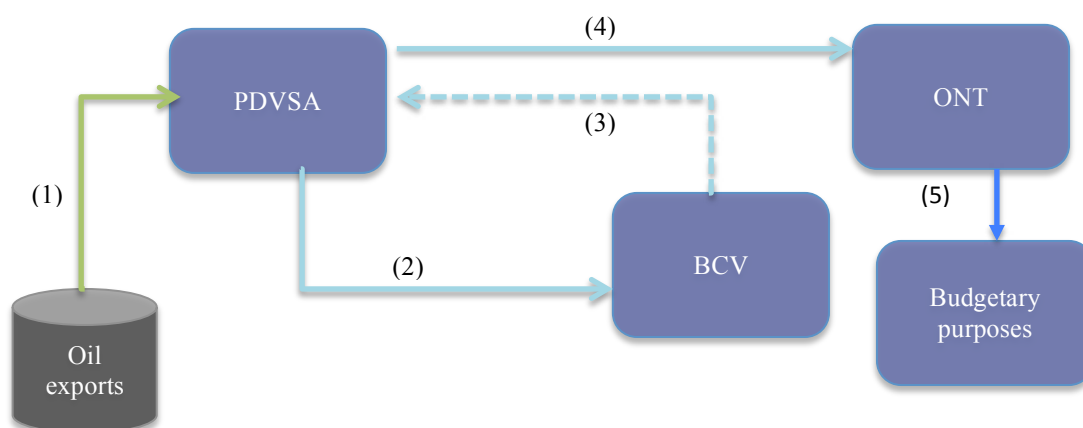
“The economic authorities adopted another important institutional and structural change with a new distribution of oil revenues, consistent with Article 311 of the Constitution, in order to accomplish a genuine economic and social development of the country through the creation of the Fund for National Development (FONDEN)” (BCV 2005, 14). In 2007 the Exchange Agreement No. 9 was reformed¹⁶⁴ to also allow PDVSA to exchange with the BCV the necessary funds to meet financial obligations in external funds. This reform also includes a national petrochemical company in the special fiscal arrangement designed in 2005, Pequiven (Petroquímica de Venezuela, S.A) would follow the same scheme with the exception of providing funds to FONDEN (BCV 2007).

Figure 13 below outlines the fiscal scheme before the reform of the law in 2005 in which PDVSA would exchange all net revenues perceived through the commercialization of oil, to then comply in local currency with fiscal obligations such as income taxes, dividends, royalties and other taxes.

¹⁶³ Official Gazette 38.318, November 21st, 2005

¹⁶⁴ Official Gazette 38.650, March 22nd, 2007

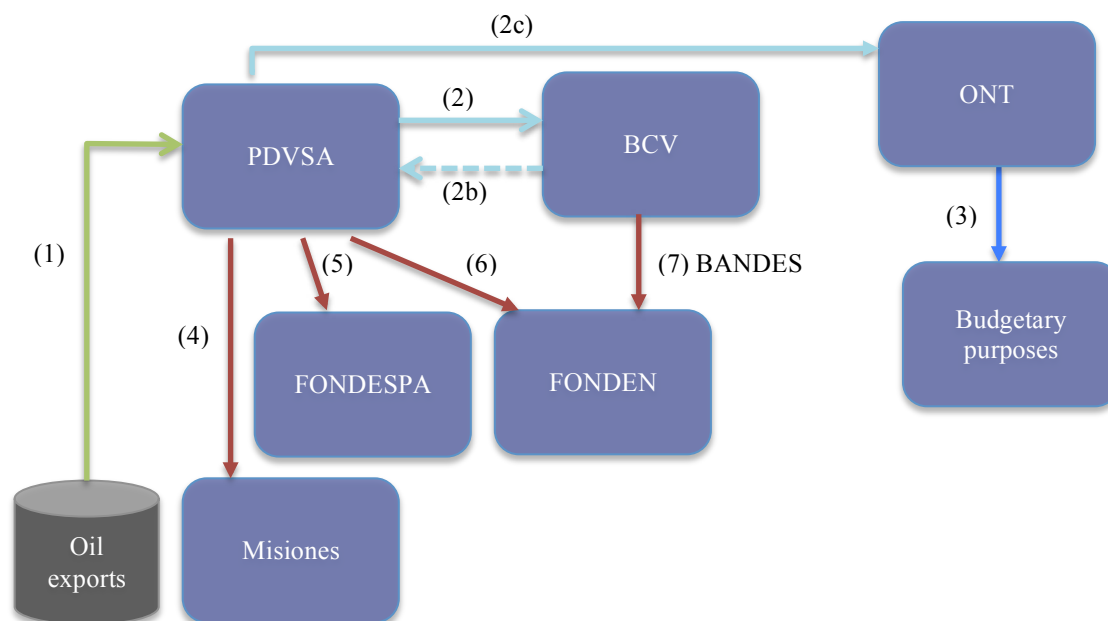
Figure 13. Scheme of PDVSA-BCV dynamics prior to amendment of 2005



- Legend: (1) From the international commercialization of petroleum (oil exports) PDVSA receives foreign currency, mainly US\$.
- (2) PDVSA exchanges revenues in foreign currency with the BCV at the official exchange rate to cover local expenditures (costs) and fiscal obligations
- (3) The BCV gives to PDVSA, in local currency (Bs.F) the equivalent to the foreign currency
- (4) PDVSA transfers in local currency to the ONT total net revenues (after covering internal costs and other expenses)
- (5) The ONT distributes the oil related revenues to all executing agencies in a scheduled basis (budgetary dynamics)

On the contrary, Figure 14 outlines the fiscal scheme after the amendment of 2005, when PDVSA started to exchange pre-established sums for budgetary needs, leaving the rest to be directly executed in the local economy at discretion. The different recipients of these revenues constitute spending programs designed by the government parallel to formal annual federal budgets.

Figure 14. Scheme PDVSA – BCV after the amendment of 2005



- Legend: (1) From the international commercialization of petroleum (oil exports) PDVSA receives foreign currency, mainly US\$.
- (2) PDVSA exchanges only some part of the revenues in foreign currency with the BCV at the official exchange rate to cover local expenditures (costs) and fiscal obligations.
- (2b) The BCV gives to PDVSA, in local currency (Bs.F) the equivalent to the foreign currency.
- (2c) PDVSA transfers in local currency to the ONT the sums necessary to cover budgetary requirements according to the oil price estimation used in the budget law preparation.
- (3) The ONT distributes the oil related revenues to all executing agencies in a scheduled basis (budgetary dynamics).
- (4) (5) and (6) PDVSA directly covers spending programs both in local and foreign currency
- (7) BANDES has served as financial platform to many parallel funds among them the FONDEN

2. Creation of FONDESPA, FONDEN: Aligned with the major reforms done to the regulatory frame of the BCV, and that governing the relationship between the monetary institution and PDVSA, there was the creation of fiscal recipients for the newly diverted funds. First, there was the fund created to receive the ‘little billion’ in 2004. The fund was a version of a former operational and technical fund of PDVSA created to face punctual payments abroad with a controlled amount of resources approved and monitored by the BCV. On the contrary, the new fund named FONDESPA,¹⁶⁵ which would initially be created to channel resources for agricultural programs, was then officially founded as a fund for big infrastructure and investment projects; and the ‘little billion’ was soon assumed to be only a ‘first phase’ of bigger plans for the fund (Rojas Jiménez 2004).

As a result, the mechanism founded to allow the ‘punctual’ transfer of the *millardito*, was then adopted as a regular fiscal practice. As it was previously described, in 2005, the law of

¹⁶⁵ Initials in Spanish for Fondo de Desarrollo Social y Productivo

the BCV was reformed to allow PDVSA to officially and regularly transfer oil revenues directly to both FONDESPA and another parallel fund called FONDEN.¹⁶⁶ Chávez himself would claim, when the reform of the BCV was passed in 2005 and the FONDEN was founded that same year, “*I started asking for a little billion, now we are talking about six*” (Ministerio de Comunicación e Información 2005, 27) since the first deposit to be done by the BCV to the FONDEN was of US\$ 6,000 millions plus the US\$ 1,525 millions provided directly by PDVSA (BCV 2005).

FONDEN has been one of the most notorious off-budget recipients of direct transfers created during the studied period. It was created as a special fund to directly invest in the economy using oil rents and monetary reserves. This parallel fund was designed as an instrument for the “New Economic and Financial Strategy of the Executive Power”¹⁶⁷, conceived to leverage a real and productive economic recovery, increase the levels of social investment and alleviate public debt management. All in parallel to the main short-term fiscal tool: the federal budget. The rationale behind its creation is to allow ‘redirecting oil fluxes’ (BCV 2005, 69) and ‘limit the monetization of oil revenues while ensuring a larger and continuous quantity of external resources’ (BCV 2005, 67).

In terms of resources, the fund directly receives oil rents from PDVSA and monetary reserves from the Central Bank to feed its operational capacity. During its first operational years, PDVSA would freely provide to FONDEN an undefined fraction of resources resulting from oil trade, once the agreed revenues for the budget (according to oil barrel estimations) were covered. As for the Central Bank, the main monetary authority of the country, it would concede an undefined fraction of the monetary international reserves generated throughout the year.

Besides, in pragmatic terms, recurring to extra-budgetary funds to finance certain public agencies, activities or programs would not represent a political cost to the executive and/or to the National Assembly since new spending would allow more flexibility to respond to priorities and non-anticipated financial problems. The practicality of this rigorous tool for new and endless access to financing would nonetheless meet ground level problems in terms of fiscal unbalances, vulnerable and unsustainable public finances, dependency on resource rents, macroeconomic unbalances and debt.

¹⁶⁶ Initials in Spanish for *Fondo de Desarrollo Nacional*

¹⁶⁷ <http://www.fonden.gob.ve/index.php/institucion/quienes-somos>

In total, FONDEN received from 2005 to 2010 a total sum of 28,904¹⁶⁸ US\$ millions directly from PDVSA, and 37,882¹⁶⁹ US\$ millions directly from the BCV. The use of the almost 67,000US\$ millions parallel to formal budgets from 2005-2010 is not clear as there are only few, sporadic and partial informative brochures on mainly politically salient projects.

Table 18. Contributions to FONDEN 2005-2010 in Millions US\$

Year	PDVSA	BCV	Total
2005	1,525.00	6,000.00	7,525.00
2006	6,855.00	4,275.00	11,130.00
2007	6,761.00	6,770.00	13,531.00
2008	11,694.00	1,538.00	13,232.00
2009	377.00	12,299.00	12,676.00
2010	1,692.00	7,000.00	8,692.00
Total	28,904.00	37,882.00	66,786.00

Source: BCV Annual Reports (2005; 2006; 2007; 2008; 2009; 2010) PDVSA Financial Statements

What is particularly prominent of this fund is that it is not part of the spending program of federal annual budget; it enjoys discretionary use of funds because decision-making on resource allocation is not subject to discussion in the parliament or in any other political assembly beyond the fund directory itself (which is directed by representatives of the Ministry of Finance and the executive Vice-president). Additionally, and as it was previously mentioned, this fiscal circumvention of little clarity shatters legal dispositions of including all fiscal revenues and expenditures in the one federal fiscal tool: the budget. Not to mention that total agreed public spending levels are evidently disregarded.

After the creation of FONDESPA and FONDEN many other separate funds were created to channel oil and non-oil fiscal resources at discretion. It is unclear how many of them are operative, the amount of resources they channel, the regularity of their fiscal functions or more importantly, the fiscal functions or the purposes they try to accomplish. There is not much information about these parallel funds, despite managing enormous sums of fiscal resources.

3. Law over extraordinary prices from hydrocarbon international markets: As the discretionary use of oil rents and more generally, of public resources would increase, especially amid an outstanding oil boom, new public spending commitments were being systematically acquired through the new fiscal mechanisms created on parallel to federal

¹⁶⁸ According to PDVSA's financial statements of 2011.

¹⁶⁹ Source: Annual Economic Report of the BCV (2005-2010).

annual budgets. The new fiscal scheme in which PDVSA could directly assume public spending functions normally assumed by the Central Government, led to introducing spending rigidities similar to those of the formal budgets.

Certainly, in fiscal dynamics, current type of expenditures tend to naturally become more rigid to up and down bounces that may result from volatile flows or with changing spending decisions. Consequently, the systematic creation of parallel funds and social programs directly fed by PDVSA, increased the rigidity of parallel public spending and hence, reduced the availability of oil rents and fiscal revenues free of other fiscal commitments. It could be argued, that while the new fiscal scheme was accomplishing many policy goals related to the freer use of fiscal revenues, its rapid expansion was starting to introduce limitations and thus inconsistencies with major policy goals. In short, the unintended enlargement of the instrument was leading to inconsistencies with the policy goal that promoted its design in the first place.

As a result, in 2008 a new law was introduced to regulate the flux of oil rents towards FONDEN in particular: the ‘Special taxing law over extraordinary prices from hydrocarbon international markets’.¹⁷⁰ With this law, contributions made to FONDEN were regulated by the introduction of a special tax fee, a tax over ‘extraordinary oil prices’. The Ministry of Energy and Petroleum, the MENPET (who was also the President of PDVSA) designed the methodology to estimate the new system of contributions as follows: The tax would apply over 2 price thresholds indicated by the Brent oil barrel price (as the main international price reference), a first one over 70 US\$ a barrel and a second one over 100 US\$ per barrel, as follows (Banco Central de Venezuela (BCV) 2008):

First threshold set at 70 US\$ per barrel: a tax of 50% of the difference between estimated oil revenues (according to the monthly average observed) and the threshold of 70 US\$/barrel.

$$(p - 70 \text{ US\$/barrel}) * 50\%$$

$$p = \text{monthly average price per barrel observed}$$

Second threshold set at 100 US\$ per barrel: 50% of the difference between 70 US\$ and 100 US\$ + 60% of the difference between estimated oil revenues (according to the monthly average observed) and the threshold of 100 US\$/barrel.

¹⁷⁰In Spanish: *Ley de Contribución Especial Sobre Precios Extraordinarios del Mercado Internacional de Hidrocarburos* Official Gazette 38.939-May 27th, 2008 and reformed in Official Gazette 38.970-July 10th, 2008

$$(100 \text{ US\$/barrel} - 70 \text{ US\$/barrel}) * 50\% + (p - 100 \text{ US\$/barrel}) * 60\%$$

p = monthly average price per barrel observed

According to the scheme, if Venezuelan oil baskets exceed this price, liquid hydrocarbon exporters must pay the special tax as set out in the law. The special tax contribution goes directly (by law) to FONDEN on a monthly basis.

This scheme provided FONDEN with US\$ 5,730 millions in addition to the regular contributions made by oil industry for an amount of US\$ 6,677 millions in 2008 according to the annual report prepared by the BCV that year (BCV 2008). Later on, in 2011, the law was amended to incorporate an additional definition, 'Exorbitant Oil Prices', and thus a new contribution scheme. The law is currently called the 'Special taxing law over extraordinary and exorbitant prices from hydrocarbon international markets'.¹⁷¹ According to this new law, extraordinary prices will be all those above the price agreed for the budget law but equal or minor to 70 US dollars per barrel (again taking Brent oil as the market indicator); therefore, the special tax contribution will be of 20% of the difference between the agreed oil price (in the budget) and the extraordinary price of 70 US dollars. On the other hand, exorbitant oil prices will be everything above 70 US dollars, and the special tax contribution will be in bands: 80% for prices between 70 and 90 US dollars per barrel, 90% for prices between 90 and 100 US dollars per barrel and 95% when oil prices go above 100 US dollars per barrel.

4. Creation of the Social Fund for the use of resources in surplus of all public administration entities: In 2008 a new fund was created by Presidential decree via the 3rd Enabling Law granted to Chávez, to re-centralize funds and use them at discretion and outside the budget¹⁷². Indeed, the fund was assigned to the central planning commission created a year earlier and directly attached to the Executive Vice-Presidency of the Republic. The legal text of this new social fund is concise enough to establish along 8 articles, that all entities of the public administration, not related to the hydrocarbons industry, are to submit to the fund any surplus or dividends registered during each fiscal term for its consumption (utilization) on social investment projects approved directly by the President of the Republic. Therefore, a new mechanism is created within the PFM structure to enable the direct use of funds with little programming or regulations but under the direct criteria of the President and outside budget considerations.

¹⁷¹ In Spanish: *Ley que crea Contribución Especial por Precios Extraordinarios y Precios Exorbitantes del Mercado Internacional de Hidrocarburos*

¹⁷² Official Gazette Ext-5.890, July 31st, 2008

Tailoring the new financial architecture

As it has been described, the tailoring of the new financial architecture and the overall design of the fiscal policy regime has extended into a series of gradual and consecutive adjustments that, if analyzed chronologically would seem to reflect an ongoing need to conveniently fit the policy objectives set at the *meta* level into the policy-making processes of the *meso* level.

Certainly, the sequential evolution of the multiple reforms and modifications done to the PFM system, parallels the phases in Chávez's administration identified at the *meta* level in Chapter 3. Such correspondence between political developments and policy changes at the *meta* level and the time in which reforms were being unfolded at the *meso* level, demonstrate the nested nature of policy-dynamics, and suggests the considerable influence that governance modes can inflict on implementation styles or on the development of policy mixes at the sectorial level; in this case, the fiscal policy regime.

In Table 19 below the sequenced reforms hitherto described are correspondingly allocated or placed in each of the four distinctive phases of Chávez's administration previously identified. Similarly in Figure 15, below there is a chart that consolidates the main aspects of the 'new financial architecture' construction across the different stages of the development of a new political regime, with new governance modes, new implementation preferences and new policy logics overall.

For each of the phases of Chávez's administration in Figure 15 there are some key factors to remark regarding contextual conjunctures and policy developments. The first category refers to the average annual oil barrel prices for each of the identified periods¹⁷³. This input allows to analyze the influential extent of this variable on the PFM adjustments, or to better grasp the type of exogenous shocks that could have generally affected policy developments.

There are several events that may have triggered turbulence in policy and therefore further adaptations, such as elections, political tensions, strikes, referenda, etc.; however, the main articulating element observed in this chart is the progressive and escalated changes to policy elements, including institutional makeovers that would gradually unlock policy doors and liberate fiscal restrictions.

The policy aims of the new political regime were gradually accomplished by dismantling controls and institutions and by conveniently reordering or creating new fiscal structures. Along the reform path, public finance management would be further centralized and disposition over oil rents would be freer. In this sense, the third block of the chart,

¹⁷³ Source: Ministry of Energy and Petroleum, Ministry of Finance

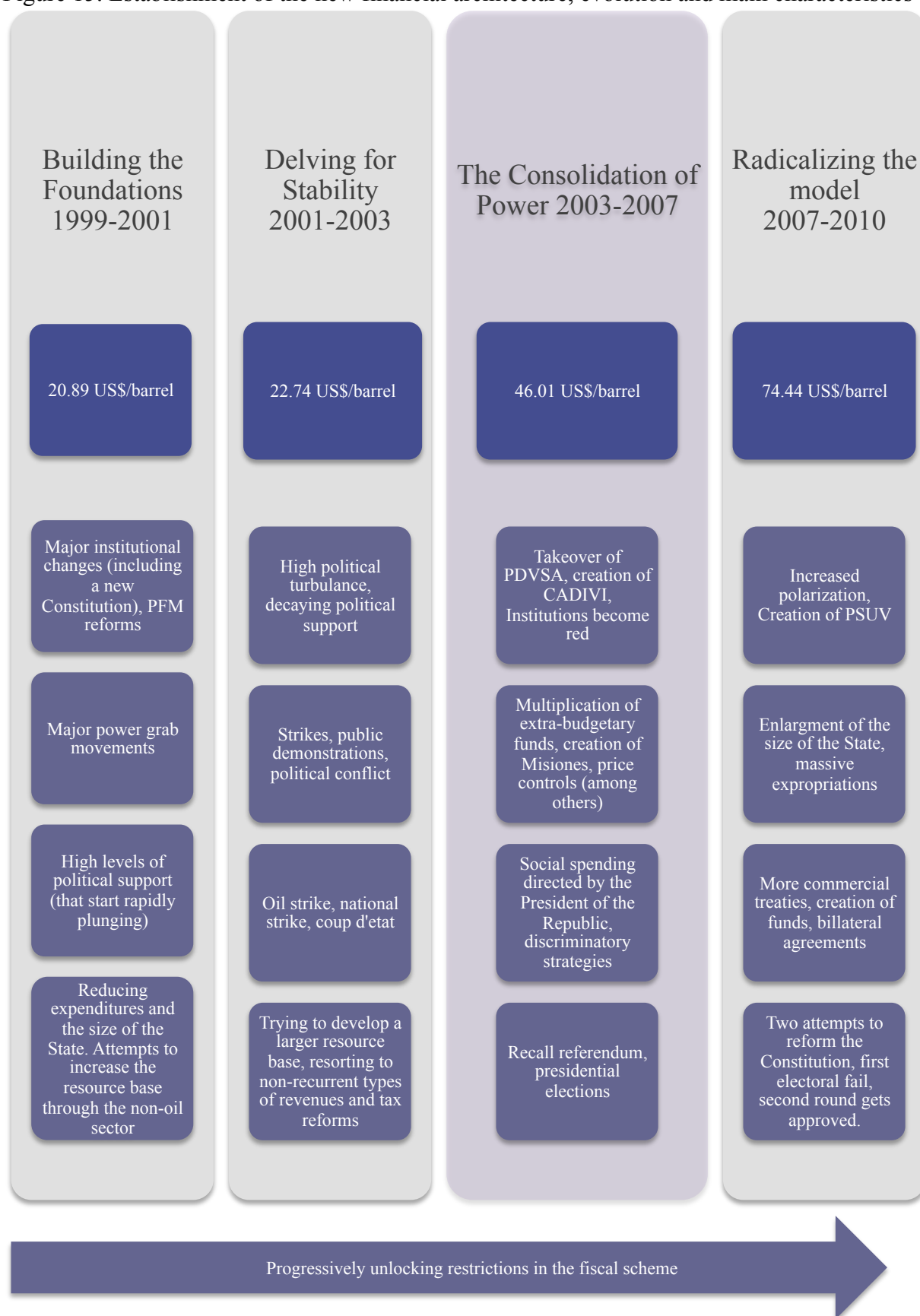
representing the third phase of Chávez's administration is set in another color to highlight the fact that in 2003 there is a breaking point in the PFM reform. The takeover of PDVSA along with the establishment of many economic and fiscal controls were significant unlocking measures that ensured the new political regime with the resources and the institutional platform to proceed in the pursuit of established policy aims.

Table 19. Main PFM reforms at the *meso* level

Chávez's Regime Phases	Reform	Main changes
Building the Foundations (1999-2001)	Reform of the Constitution	Reordering of the PFM system altogether
	Creation of the LOAFSP	Regulation and centralization of all formal fiscal sub-systems
	Reform of the LORP	New structure and general rules and dynamics
	First Reform of the BCV	Structural changes, regular transfer of retained earnings to central government for budgetary purposes
	Reform of the Hydrocarbons Law	Increase the participation of the State in the oil industry, increase the fiscal weight of royalties, decrease fiscal weight of income taxes, limit bargaining position of PDVSA
	Reform of the tax system	Enlarge the tax base, improve administrative capacity for tax collection
	Creation of BANDES	New financial platform for the PFM system
	Reform of FIEM	New rules for accumulating and spending oil resources
Delving for Stability (2001-2003)	Second reform of the BCV	Increase the regularity of transfers of retained earnings to the central government for budgetary purposes
	New reforms to the FIEM Creation of the FEM	New rules for accumulating and spending oil resources
The Consolidation of Power (2003-2007)	Control of PDVSA	Direct control over the industry
	FIEM into FEM	New rules for accumulating and spending oil resources. More discretion in the use of accumulated funds, more flexible rules for accumulating resources in the fund
	Creation of CADIVI	New source of control over public spending and exchange regime controls
	Third reform of the BCV	Allowing the regular transfer of monetary reserves directly to the extra-budgetary fund FONDEN. Allowing PDVSA to keep considerable sums of oil related revenues to be transferred directly to extra-budgetary funds
	Fondespa, FONDEN	New spending mechanisms parallel to annual budgets
Radicalizing the Model (2007-2012)	Law of Extraordinary oil prices	Establishes a methodology for the regular transfer of oil related revenues from PDVSA to FONDEN

Source: Own confection.

Figure 15. Establishment of the new financial architecture, evolution and main characteristics



Substantive consistency of policy mixes

Once the core pillars of the fiscal policy regime and the ‘new financial architecture’ have been described and assessed by comparing the key policy aims pursued with the means devised to achieve them, the analysis of policy designs moves to the assessment of policy instruments within their bundles or mixes. That is, the inner consistency of the policy mix based on its primary tools only. Essentially, it is analytically compelling to search for the connectivity among the instrument tools selected, the compatibility of the different policy elements considered and how they articulate and adjust to the policy package envisioned by the government throughout the period selected for examination.

This analytical task is primarily concerned with the substantive nature of the main instruments selected by the government in its fiscal policy design, as the main structuring tools conceived to affect the core of policy problems or specific targets, and without which all other policy resources would be unnecessary. Hence, the assessment will be focused on the inventoried primary or substantive policy tools selected to design the fiscal policy regime and the structuring ‘new financial architecture’ (see Table 20), across the leading four resource-based categories of instruments set out by Hood in the NATO scheme (Howlett 2009a; Howlett, Ramesh, and Perl 2009; Howlett 2011) (see Table 21).

Table 20. Main policy objectives and substantive policy means of the fiscal regime design

Main policy objectives	Main substantive policy means
Centralize the management of public finances	Reform the structure and rules of the PFM system, Moral suasion
Ensure the Executive with a larger control over public spending decisions	Reform the structure of the Central Bank (BCV), Creation of CADIVI, Reform of SFIs rules (FIEM/FEM), Moral suasion
Centralize the use of oil rents	Takeover of PDVSA, New hydrocarbons law
Maximize resources for discretionary use	Other reforms to the law of the BCV, Moral suasion

Source: Own confection.

When analyzing the configuration of the ‘new financial architecture’ with which the main policy objectives were pursued, it seems fairly discernible that the design of the new fiscal scheme mostly relied on disbanding previous institutions, reorganizing some other already existent institutions, legal reforms, and the creation of new fiscal means. Additionally, the policy mix of the fiscal policy regime in a more general way, naturally and logically relies on treasury-based tools, that for the most part are distinctively originated in the oil sector of the economy.

To a big extent, the ability of the government to steer targets in the direction of a new political hegemony based on the foundation of the *Socialism of the 21st century*, relied on legal and organizational techniques simultaneously combined. Unquestionably, the extensive use of financial tangible resources, especially oil revenues, along with communication efforts designed by the government, were axial instruments in the articulation of the policy mix altogether.

Overall, the four principal policy objectives that were identified as the leading aims structuring the policy mix design, already explored in the previous sub-section, are set on the left column of Table 20 above. Correspondingly, the set of primary instruments recognized as being selected and combined in the substantive policy mix of the fiscal regime design are set on the right column of the Table.

Revisiting the NATO scheme proposed by Hood in 1986 to categorize policy instruments according to the four main governmental resources they rely upon, there is first the nodality category (related to information-based tools), then policy tools based on the use of governmental authority (coercive actions of governments), next there is the treasury type of instruments (based on the use of financial resources) and finally, there is the category of organizational tools (State organization, Weberian bureaucracies). The identified and inventoried substantive tools of Table 21 will be assessed using this four resource-based scheme proposed by Hood (NATO).

Table 21. Substantive policy tools categorized according to the NATO scheme

Principal Use	Governing Resources			
	Nodality	Authority	Treasure	Organization
Detectors	Central Planning Commission	Central Planning Commission		
Effectors	Moral suasion	New Constitution, Reforming the structure and rules of the PFM system, Reform the structure of the Central Bank (BCV), New hydrocarbons law, Reforms of the SFIs (FIEM/FEM)	Non-recurrent funds, Oil rents, Parallel budgets, Extra-budgetary funds, Tax reform, PDVSA: <ul style="list-style-type: none"> • Subsidies • Procurement • International supply and treaties • Dividends • Public spending roles (Misiones) 	Rearrange the structure of the PFM system and of the Central Bank (BCV), Central Planning Commission, SENIAT Takeover of PDVSA, Creation of BANDES

Source: Based on Howlett 2011 and Howlett et al 2009.

1. Nodality or Information-based instruments

One key component of the policy mix arranged by the government in the design of the fiscal policy regime, was the information for ‘moral suasion’ at the front-end (agenda-setting, policy formulation), or directly targeted at the producer of critical aspects of the fiscal domain (Stanbury and Fulton 1984 in Howlett 2009b). Indeed, the ‘moral suasion’ tool was vastly employed along the process of legally reforming the entire fiscal structure, as a substantive policy instrument directed at policy formulators in a general sense, through which the government explicitly demanded fiscal institutions such as the Central Bank, the Ministry of Finance among others, the adoption of certain policy measures with the implicit (or explicit) threat of direct government regulation if demands were not fulfilled (Howlett 2009b).

A good example of the use of the ‘moral suasion’ policy tool was the public discontent shown by the executive, and more specifically by former President Chávez, when his demands for a ‘little billion’ from the central bank were declined on a legal basis restriction. President Chávez started a public campaign to discredit the President of the Central Bank, through which he systematically accused the head of the monetary authority of having doubtful interests rooted in his ‘family backgrounds’, and amongst other accusations. Moreover, former President Chávez insisted in finding ways to make the central bank transfer the requested funds by threatening to change the regulatory framework, the directory board or even the president of the bank altogether if necessary, as he could involve the Supreme Court and consider other possible means of retaliation (Rojas Jiménez 2004). In this way, the rising tension and public threats made by the executive against the directory board of the BCV, were a form of moral suasion targeted at direct policy-makers or decision-makers, in which the government utilized its privileged nodal position within the public policy system (Howlett 2009b), to convey ‘informative messages’ that persuaded other policy actors into adopting desired policy measures.

Additionally, the public confrontation between the executive and the central bank could have fulfilled the purpose of setting a strong precedent to be observed by other institutions as a clear example of what the government was capable of doing in terms of reaching established policy goals. Certainly, a similar situation was later applied on the methodology employed for estimating important economic and developmental indicators (poverty, unemployment rates, informal labor, inflation rates, etc.), which were correspondingly adjusted, according to new guidelines and more fitting parameters.

It is not bold to consider this strategy as a widely deployed one during the period examined. Many of the fiscal practices adopted by numerous fiscal institutions and specialized agencies,

such as the tax authority, the budget office, the public debt management office, the treasury office, and so on, whom would overtly disregard fiscal regulations and legal dispositions to align with major policy aims, can be a result of the use of moral suasion information tactics. In this way, a series of fiscal practices directly contravening major and specific regulations were systematically adopted, accepted or not refuted by the fiscal regime community overall. For example, according to the budget law (the LORP), all public spending has to be part of the federal budget, and the validation of any disbursement by the National Treasury (ONT) must lay on the existence of a budget item indicating its agreed existence. However, the proliferation of parallel spending mechanisms directly disregarded these legal dispositions, but was generally accepted and even endorsed by many policy officials in representation of traditional fiscal institutions.

Furthermore, the direct spending consummated by PDVSA into social programs and other fiscal recipients became a regular practice even though it was not authorized by the National Assembly as all formal budget items do. Likewise, incomplete preparation of multi-year budgets, regular diversion of funds to parallel spending mechanisms, continuous *ex post* enlargements to already sanctioned budgets, miscalculation of macroeconomic premises and underestimation of oil barrel prices for the budget preparation, dishonored debt and spending agreed limits, spending items not contemplated in regular budgets, etc., are all fiscal practices regularly adopted and institutionalized in the new fiscal scheme despite their obvious legal infringements. Nonetheless, these practices were silently approved by the fiscal community or overtly endorsed by some of its representatives.

Transparencia Venezuela,¹⁷⁴ a local NGO for the Venezuelan chapter of Transparency International¹⁷⁵ dedicated to the monitoring of governmental actions, specially those concerning budgetary practices and public finances management, has pointed out that the legislative body in Venezuela (the National Assembly) has not presented one single objection to the budget proposals presented by the executive for revision and approval over the period 2005-2010¹⁷⁶ despite the fact that budgets have been prepared with unrealistic macroeconomic parameters: exceedingly low estimated oil barrel prices, or with insufficient funds for the envisioned spending plans (Transparencia Venezuela 2010). However, these distinctive budgetary characteristics have been profusely signaled and criticized by academics, economists and scholars outside of governmental departments and certainly

¹⁷⁴ <http://transparencia.org.ve>

¹⁷⁵ <http://www.transparency.org/>

¹⁷⁶ Period that coincides with the National Assembly being completely aligned with the governmental political party, first the set of *chavista* political parties and as of 2007, the PSUV.

outside of the political parties that support the *chavista* movement (Di Leo 2006; Vera and Zambrano Seguí 2000; Zambrano Seguí 2010; Aponte Blank 2010; Puente et al. 2006). None of these claims has been addressed by representatives of the government, nor have they been investigated or even considered for public discussion in Congress.

The creation of the Central Planning Commission can be also considered as a fiscal instrument, strategically located, to obtain important information for the policy process. The central location of this commission, attached to the Vice-presidency, represents an organization-based tool to provide information and exert control over certain decision-making processes. In this sense, the commission fulfills several of the resource-based categories of the NATO model, revealing its important role in the fiscal design.

2. Authority-based instruments

The policy mix of the fiscal regime is importantly grounded on authority-based instruments, especially regarding the building of the new financial architecture in which direct government regulation was based on new laws, administrative edicts and legal rearrangements. Clearly, in order to reconfigure the PFM scheme in a more centralized direction, dismantle institutional constructions and build new structures, a number of legal reforms were needed. The substantive strategy was essentially the combination of legal reforms with organizational rearrangements simultaneously.

On the legal side of the reform, the introduction of the new Constitution was the first piece of the global design, initiating all sorts of reform needs across many policy sectors. This is partly the reason of why so many of the fiscal changes took place at the same time or during the same period. In this sense, the fiscal regime reconfiguration had a very strong legal component that was based on rewriting general rules, the enactment of new laws to govern fiscal dynamics, the eradication of preceding ones, the introduction of new special fiscal institutions (SFIs), legal reforms to existing stabilization funds, as well as to monetary and financial institutions, some statutes and new delegations across levels of government, etc. Many of these legal formulations introduced the need for organization-based resources in order to effectively fulfill the aspired reordering of the fiscal scheme.

The multiple legal reforms and amendments done to the regulatory frame of the central bank and the SFIs, along with the new hydrocarbons law, were necessary measures to unlock the barriers that impeded a more direct, centralized and unrestricted use of fiscal resources, especially those coming from the oil industry. As portrayed in the scheme of Figure 15, the construction of a new fiscal regime aligned with the interests and objectives of the new

governance mode, needed to be more openly and freely structured and thus a legal and organizational makeover was pivotal.

It is important to remark though, that the legal and organizational reconfigurations of the fiscal scheme were not only initial elements of the policy mix, but they were rather utilized throughout the entire period examined. The utilization of direct government regulation, mainly through legal amendments and administrative edicts, along with the consecutive reordering of state organizations were policy strategies consecutively deployed to better tune and progressively adjust the PFM system through time. In this sense, as it has been previously described, the fiscal system reform extended into a series of gradual legal adjustments that, if analyzed chronologically would seem to reflect an ongoing need to conveniently fit major policy objectives into the policy-making of the fiscal dynamics, or an incapacity to design consistent policy mixes that would lead to stable equilibrium. From this perspective, the utilization of legal reforms and institutional reorganizations is not a one-time design but rather a preferred strategy of policy making altogether.

Overall, it is interesting to observe that new fiscal dynamics included a combination of new solidly established fiscal rules on one side, with institutionalized irregular fiscal practices on the other. This combination clearly portrayed a two-faced fiscal nature: on the one front, an ordered, controlled and regulated fiscal system subject to required reforms, monitoring and refinement (Ministerio del Poder Popular de Planificación 2013); and on the other front, the extra-budgetary facet where opaqueness, secrecy and lack of information prevail.

It could be conceivable to argue that the tactic of the government was to rely on legal rearrangements to counterbalance and possibly cover for other fiscal practices that directly infringed core regulatory dispositions. As Corrales and Penfold (2012) argue when referring to the hybrid nature of Chávez's regime, a key feature of the period under his rule was the combination of legal and illegal mechanisms to undermine the system of checks and balances over the execution of power. Therefore, the government based important fiscal strategies on a solid legal base, possibly to develop the required legitimacy to partially conceal other irregular practices of the fiscal scheme and prevent all possible scrutiny mechanisms.

Another perspective on the subject is the idea of breaking or undermining inter-temporal linkages among policy-makers by constantly changing the rules of the game and the institutional orders. The 'permanent flux' of the rules brings incertitude and institutional instability (Monaldi et al. 2005), which facilitates further changes and hinders the possibilities to form obstructive alliances or to easily trace fiscal dynamics overall. In this sense, Morales would opportunely add (2010), the rentier model is not only based on the massive extraction

of oil rents, it is also about producing uncertainty and legal insecurity by constantly changing the rules of the game and the legal frame of reference, so that the government can fulfill its aims and disregard pre-arranged contracts and pre-established rules.

In Annex II, III and IV, there is a summary of the basic legal changes done to the fiscal systems and subsystems of the PFM configuration. Similarly, in Annex V there is a summary of the most relevant legal changes introduced for the fiscal reconfiguration during the period under examination.

3. Treasury-based instruments

In terms of the substantive treasury-based instruments, the design of the fiscal regime has been primarily built around the unrestricted, discrete and centralized use of fiscal resources with a distinctive preference over the use of those generated in the oil industry in particular, and to a lesser yet important extent, on those of a non-recurrent nature. Essentially, the new political regime and institutional order was built on the conception of a centralized management of public finances and particularly on a centralized management of oil rents. In this sense, a defining feature of the fiscal regime of Venezuela for the period analyzed is the unfathomable use given to oil rents and other extraordinary types of revenues.

In general, it could be argued that the administration of Chávez, during the period analyzed (2000-2010) primarily leaned on fiscal resources that were not ordinary and recurrent on two rationales: they could be easily miscalculated and hence diverted from formal fiscal tools toward other spending mechanisms; and second, they were not subject to public or official scrutiny and more generally, to accountability mechanisms. In this sense, the implementation styles and preferences developed during the period under examination are those of murky fiscal tools and murky fiscal mechanisms. Most fiscal instruments and techniques were conceived with an embedded distance from formal, transparent and clear dynamics. In this sense, the unifying overall logic of the fiscal regime was to develop flexible allocating patterns while avoiding accountability mechanisms.

In a sense, the systematic use of non-recurrent revenues in general fiscal designs reflects the important efforts on the side of the government to both collect and exhaust fiscal resources across different channels within the overarching PFM structure. The important nature of these types of financial resources relies on how their collection is conceived and what these assemblage efforts or mechanisms reveal about the management of public finances overall. As it was earlier stated, the preference over oil and non-recurrent revenues, as key financial

tools of the fiscal regime, is an outstanding feature of the nature and essence of the fiscal policy regime developed during the period examined.

Although most spending programs arising on parallel to formal budgets are designed to fulfill policy aims of other policy sectors, the structural way in which they are channeled is directly attached to the design of the fiscal policy regime and sharply unveils how public resources are generally managed in the fiscal system altogether. According to Zamora (2012) between 1999 and 2012 the executive created more than 18 separate special funds operated discretionally by the President, and those funds were predominantly fed by oil rents (also debt). Similarly, Manzano et al (2012) estimate that from 2003 to 2008, the off budget oil revenues were the equivalent of 19% of the budget's ordinary revenues, growing from 1% of ordinary revenues in 2003 to 42% in 2006. Yet on another front, Revenue Watch estimates that about 60% of resource revenues in Venezuela are diverted from regular budgets and managed directly at discretion by these off-the-budget funds (Revenue Watch 2013). In this perspective, the new off the budget mechanisms created to channel significant amounts of fiscal resources represent a prominent policy tool largely based on treasury means.

Just as budgets are considered one of the most salient and important fiscal tools of the PFM system despite comprising a number of spending items that enclose the means for other sectorial policies, the new profile of the Venezuelan fiscal regime is characterized by extra-budgetary and off the book public spending programs that albeit confining other meaningful policy aims, are representative of how the management of public finances was broadly designed and configured. Therefore, and at the risk of repeating the argument exposed, budgets are primarily analyzed as crucial fiscal tools that result from complex interrelations among different policy actors who try to decide how to manage and allocate public resources; similarly, extra budgetary mechanisms are less formal but possibly equally compound processes that are set to decide, under different circumstances and involving fewer policy actors, off the record allocations and wide deployment of particular types of public resources.

In the same line of argument, the increasing role of PDVSA as a new regular and official spending player in the fiscal scene, can be considered on one front as a substantive organizational tool, but from another perspective, it can also be thought of as a fundamental financial instrument providing new mechanisms for the substantial transfer of money, goods and services of multiple kinds.

During the period examined the government leaned on the new status of PDVSA (mainly as a line department of the executive) to appropriate oil related revenues in different ways. For instance, the dividends produced by the national oil company would regularly be considered

public income for budgetary purposes. Similarly, the use of subsidies over sales of fuel in the domestic market (at prices significantly below production costs), would provide the government with significant political leverage for the exploitation of national wealth. Now, whereas both of these mechanisms have been part of the oil industry dynamics in Venezuela in the past, Balza and Espinasa (2015) analyze other rent-capturing mechanisms added to the fiscal scheme during the period under examination. One of them refers to how the government has controlled the management of commercial debt of the national oil company to increase the pool of public funds available. Additionally, PDVSA has been forced to sell petroleum resources to international customers at below market prices (through oil commercial treaties in the Caribbean such as Petrocaribe, and other bilateral agreements with governments like Cuba, Nicaragua, etc.) for non-commercial reasons but for strategic political objectives. Domestically, PDVSA has progressively become an operational arm of the government to fulfill non-oil-related tasks (Balza and Espinasa 2015; Manzano et al. 2012). For instance, the preferential procurement channeled through small enterprises (newly created by PDVSA to strategically distribute and subsidize food and other basic goods, as well as entertainment events, sports and tourism.) constitutes a highly relevant policy instrument based on the use of both financial (mostly oil revenues) and organizational resources (PDVSA). Favorable prices and services are part of the governmental efforts routed via PDVSA for specific sectors of the population, and are primarily financed with oil related revenues. As Manzano et al would claim (2012), PDVSA is now “a mix between a development corporation and partisan patronage tool (364).

Moreover, a very prominent financial tool vastly utilized during the period examined is the cash-based plan called *Misiones*. This spending system created in 2003 with fairly evident political purposes, corresponds to an unclear number of social programs created under Chávez’s administration to directly target poor sectors of society as well as politically aligned groups, with health, educational and other types of primary assistance services. *Misiones* were politically iconic of the new governance mode introduced with the *Bolivarian Revolution*. They have been for the most part financed directly by PDVSA, parallel to major ministries and specialized official agencies traditionally involved in the management and implementation of these policy programs. Indeed in 2008 with the new reform of the public administration law¹⁷⁷, the *Misiones* acquired an official (yet ambiguous) category within the public administration structure and would be from that moment on be assumed by the Central Planning Commission attached to the Vice-President’s office (BCV 2008; BCV 2009). In this

¹⁷⁷ Official Gazette Ext-5.890, July 31st, 2008

sense, *misiones* are a typical example of the use of extra-budgetary mechanisms channeled through extra-institutional systems. In Table 22 there are some of the most prominent new spending roles acquired by PDVSA.

Table 22. Public spending roles of PDVSA¹⁷⁸ (US\$ Millions) (2000-2010)

Funds and Social Programs	US\$ Millions
34 <i>Misiones</i> and Social Programs	75,280.00
FONDESPA	4,229.00
FONDEN	44,187.00
Total	123,696.00

Source: Financial Statements PDVSA, 2011

3. Organization-based instruments

The reform of the PFM configuration envisioned the need for changing the rules and the organization of key institutions altogether. Therefore, as it was developed in the analysis of authority-based instruments, legal reforms were conceived ‘hand in hand’ with organizational strategies in order to be effective. The reform of the core fiscal structure and rules of the PFM system can be thus considered as a substantive legal instrument deeply combined with a reorganizational strategy tool. The nucleus of the fiscal reform was for the most part based on transforming the organizational structure and the basic rules of its dynamics; therefore, the main types of instruments utilized were combinations of legal and organizational tools in a symbiotic nature.

The administrative centralization over the management of public finances around the Ministry of Finance is prominently a policy strategy based on a direct governmental tool. However, the creation and support of parallel funds with legal and functional autonomy was by and large a centralization strategy that placed the course and guiding of public spending directly under the control of highly ranked executive departments. A significant advantage of this strategy relies on the way it simplifies decision-making processes by greatly shrinking the spaces for discussion and by critically limiting the number of policy actors involved. In this way, the government can immediately direct, through major line departments and dispersed extra-budgetary devices, the organization and monitoring of fiscal dynamics overall.

Similarly, the privileged position of the Ministry of Planning in establishing the main developmental policy contents that would frame and guide fiscal policies is also a policy

¹⁷⁸ It is not clear from the source if this information consolidates other types of spending done by PDVSA through its newly created enterprises.

instrument that places the direct organizational control of the government in a line department directly linked to the executive. Later, the creation of the Central Commission of Planning¹⁷⁹ directly attached to the Vice-presidency, with the subsequent merge of the ministries of planning and finance into a unified structure, depicts a step further in the strategy for centralization, placing the management of public finances in a further centralized structure with narrower access for other policy actors and a tighter control over public spending decisions, both formal (through the budget) and informal (out of it).

The consecutive reorganization of the public administration structure (in almost a yearly basis) is also a way to centralize decisions over the organization of the state altogether, as it responds to a condensed exercise of power and control as opposed as to regular institutional dynamics. These organizational movements are indicative of the underlying policy preferences of the government, materialized through its organizational units.

On another front, the fiscal policy regime bases its on-the-ground strategies to an extent on the tax system as any other fiscal regime does. As it was described in Chapter 3, regarding the limits and programs of the fiscal policy area, the tax system administered by the specialized agency SENIAT, represents the main source of non-oil revenues for the central government, but also one of the most direct policy platforms available to intervene in the economy through the careful calibration of tax rates.

During the period examined, it is interesting to note that adjusting tax strategies¹⁸⁰ was highly relevant during the first years of the Chávez's administration, given the limited and austere features of the fiscal scenario. The government needed to design precise tactics that would combine both the collection of required resources with stimulating measures for a stagnant economy. In fact, a tax reform was envisioned at the beginning of the period in 2001, to improve the tax collection capacity and expand the resource base. The tax reform contemplated the reorganization of the main tax authority (SENIAT), and amendments to the Income Tax Law,¹⁸¹ the Organic Tributary Code¹⁸² along with several other smaller tax laws. The strongest component of the reform though, was directed at the institutional level of the

¹⁷⁹ Official Gazette Ext.5.890, July 31st, 2008

¹⁸⁰ In terms of the concrete use of substantive taxing instruments (at the *micro* level of the fiscal regime), the fiscal policy design has distinctively relied on indirect taxes such as the value added tax (VAT), which has been the preferred tax instrument to manipulate in the short-term for advancing fiscal targets; and on transitory taxes such as the toll on banking debits (IDB), and taxes on financial transactions (ITF), that have been used rather intermittently when trying to adjust the fiscal approach to punctually enlarge the resource base. These measures are predominantly temporal and have been used on and off according to the evolution of important economic and fiscal variables.

¹⁸¹ Official Gazette 37.323-November 13th, 2001.

¹⁸² Official Gazette 37.305-October 17th, 2001.

tax system, as the reforms were mostly designed to improve collection capacity, improve methods for monitoring, controlling and enforcing tax duties, as well as improving the overall image of the tax authority institution as such. The entire tax system was modernized with new technologies and wider services provision.

Taking control of PDVSA is also an unmistakably substantive organizational tool, which was firstly initiated by authoritative legal action, through the new hydrocarbons law that aimed, among other objectives, to limit the roles that PDVSA could exert in the oil industry dynamics. In fact, the reform of the hydrocarbons law, as a substantive tool to enlarge the participation of the State in the oil industry was originally only combined with the appointment of new presidents to PDVSA, which at that point was only a state-owned enterprise. Different presidents were appointed in a very short period of time in an attempt to ensure a more solid position within the industry and exert a rather direct control over managerial decisions, however, as it has been previously described, the struggle continued until a more robust change was finally introduced: the replacement of the entire directory board and the dismissal of more than half of its labor force. A year into this exceptional intromission, Mr. Rafael Ramirez, Minister of Energy and Petroleum, was appointed President of PDVSA while holding on to his ministerial position. This strategic movement was only possible with the new controlling power over PDVSA, and a more permissive institutional framework altogether; PDVSA became an indirect or para-statal type of organization, enabling the direct attainment of several of the leading policy objectives of the fiscal policy regime aimed by the political project of the government. Hence, as Aponte Blank remarks (2010), through the control of PDVSA, an indirect centralism was developed in the management of public finances.

In sum, the authoritative takeover of PDVSA was another organizational substantive tool that definitely ensured the direct control of the government in the extractive industry. Finally, the creation of BANDES and of the *Banco del Tesoro* were also government efforts to rely on direct organizational structures to affect policy issues. Both financial figures were created under the rationale of having a financial platform to support and channel many of the operations of the executive at the domestic and international scenes. BANDES has played a central role in articulating the fiscal policy design in the extra-budgetary areas. The annual report prepared by the BCV in 2005 comments on the significant role purposely played by BANDES in the fiscal strategy of the government that year, by executing part of its internal operations through transfers directly received from the treasury office to the financial institution (BCV 2005). Moreover, BANDES has particularly become an axial figure in the

use of FONDEN and *Fondo Chino*, which are by far the most important or salient of the extra budgetary and off-the-books mechanisms to allocate fiscal resources.

Consistency between substantive and procedural policy

As it has been discussed, substantive instruments are designed to address core aspects of the policy problems; and in turn, procedural types of tools are designed to address core aspects of the policy process itself. Moreover, while substantive instruments are conceived to affect policy issues directly, procedural instruments affect policy outcomes in more indirect ways, sometimes modifying the nature of policy processes at work (Howlett and Giest 2013).

Subsequently, the consistency of analysis must unequivocally incorporate the combinations and harmonization of substantive and procedural tools within policy mixes. The logic of completeness previously assessed through the substantive consistency of policy tools, acquires a broader sense when incorporating instruments that actually effect the operation of other mechanisms approved into the policy program.

This section contemplates the analysis of some pivotal procedural tools that have supported policy processes in a fundamental way, and complemented substantive policy tools in almost boundless ranges. After all, policy design is much more than just selecting the most effective and appropriate tools at disposal in the goal pursuing path; it is about a more complex process of integrating and adjusting policy tools that must be combined and harmonized in rather delicate recipes. “(...) the question of policy tool choice is circumscribed not only by the embeddedness of the decision within a governance mode but also, as was the case with implementation preferences and policy aims, by tool preferences government develop over the course of their policy making and implementation experience” (Howlett 2009, 80).

Once observing, decoding and analyzing the fiscal policy profile of Venezuela during the period 2000-2010, there are some key aspects identified in the changing policy mix designs. In what follows, an assessment of some outstanding procedural policy tools is presented, paying particular attention to how they are utilized in combination (or support) to main substantive instruments, and how they fit together or connect to other policy tools within and across resource-based categories. Additionally, the analysis also considers the changing nature of the policy mix, and how substantive and procedural tools interact over time to adjust and correct operational difficulties.

In Table 23 there is a summary of the identified and inventoried procedural tools using the four resource-based scheme proposed by Hood (NATO).

Table 23. Procedural policy tools categorized according to the NATO scheme

Principal Use	Governing Resources			
	Nodality	Authority	Treasure	Organization
Detectors				
Effectors	Communication Strategies: <ul style="list-style-type: none"> • Opacity • Ambiguity • Blocking • Partial disclosure • Incompleteness Advertisement to social programs and investment initiatives Informal communication strategies		Undermining of annual and pluri-annual budgets	Reorganization of government agencies

Source: Based on Howlett 2011 and Howlett et al 2009.

1. Nodality or Information-based instruments

It could be reasonably argued that one of the most important procedural policy tools utilized by the government in the design of fiscal policies has been based on communication strategies. The use and manipulation of information-based instruments has definitely complemented the work of substantive policy tools primarily designed for changing fiscal policy dynamics and pre-existent rules.

One discernible way in which the government manipulated policy processes and policy makers within the fiscal policy community and in other policy-making spaces was through the use of information about changing processes and policy content. On one front the government would overload the communication spaces with an enormous amount of messages about the multiple changes taking place; while on the other, it would retain important information regarding the actual content of the many reforms going on. For instance, the enormous amounts of legal changes and new administrative edicts were understandably hard to trace and accurately follow when the entire fiscal apparatus (among other substantial changes in other policy sectors) was being reformed. Starting with the Constitution, many changes were taking place in a very short period of time.

The release of information on the constant legal changes, amendments and new governmental resolutions, also including organizational rearrangements, was rapidly channeled through official gazettes that would inform on a daily basis the many new resolutions adopted. This amount of information rapidly overcrowded and saturated the communication spaces. In a way, multiplying the information regarding the multiple legal reforms taking place, is a procedural information instrument that seizes to justify in terms of public opinion the changes

done to the fiscal scheme in the construction of a new financial architecture that was actually satisfying centralizing and discrete decisions over the management of public finances. However, from another perspective, many of these announcements were limited to superficial aspects of the legal modification but did not necessarily contain information on the substance or further implications of the legal change, not to mention the little and inaccessible debates organized prior to settling and deciding on these issues to begin with. On this last respect, and considering the increased centralization of public spending decisions and the overall management of public finances, transparency loses importance if the public cannot act on the information displayed because there is limited consensus over policy resolutions, and decisions are reached through centralized and personalized decrees (Heuty and Aristi 2010). As a result, a procedural strategy of the government could have been directed at undermining the power of information over policy-making processes. The more centralized decisions are, the little influence can information exert on them.

In general, there has been a great deal of ambiguity in the presentation of legal reforms to the general public. Official gazettes can randomly provide extensive details on some issues, whereas barely inform on others. The creation of certain agencies and funds, for instance, can be sometimes published with motivation statements presented to the National Assembly during political debate sessions, while in other cases information can be limited to general aspects such as date, name, decree number, etc. This investigation in particular, found official sources of information regarding the multiple amendments done to several legal texts, however, in some cases, this information was rather superficially treated or merely indicative of the existence of the change but not much was said about the full content and implication of the modification *per se*.

A clearer example can be the creation of many of the extra-budgetary mechanisms of the new PFM order. Legally, all of these mechanisms were appropriately registered according to the legal stipulations of the system; and accordingly, information about their foundation and registration was easily accessed through official portals and publications. Nevertheless, more robust information about the content on the functioning, rules and other dynamics of these mechanisms was not released. Noguera (2004) for instance would assert that despite the official and institutional endorsement given to the creation of certain fiscal tools, such as the FONDESPA in 2004, there was no release of public and transparent information regarding the criteria for contributions and/or withdrawals, the destiny and management of funds, and even less, the accountability mechanisms built for the new fiscal tool. She would argue “it is only known, by statements made by official spokesmen, that the fund is constituted by 50% of

the oil surplus (without any clear definition of what a ‘surplus’ is), and that the resources will be used both in bolivars and to cover expenses abroad, being BANDES the channeling entity in charge” (Noguera 2004, 4–5)¹⁸³.

In the same vein, another interesting use of information instruments is related to the way in which legal texts were generally written. Many of the legal reforms were prepared in rather ambiguous ways giving much room to interpretation or to further adjustments if future conditions were attractive enough to reconsider the legal content. One particular example can be found in the reform of the rules of the FIEM and the Intergenerational Savings fund; in both legal texts, rules for making contributions or withdrawing resources were not entirely clear and were left to the discretion and personal criterion of the policy maker and what he or she would consider to be a reasonable margin for contributions (Zambrano Seguin 2000).

Similarly, the creation and reform of fiscal tools or institutions was systematically made with legal texts containing wide and ambiguous elements. The definition of goals, scope of action, responsibilities, mechanisms, etc., would be mostly written in very broad terms and without clear specifications. For instance, in the legal text that creates the Central Planning Commission, it is stated among the leading objectives¹⁸⁴: ‘promoting the transition to an integrated model of centralized planning’, nonetheless, the text also states as an objective the ‘establishment of a model able to guarantee the fulfillment of spiritual and material needs of society in order to reach the supreme happiness of the socialist model’ (Art.2). This main objective is also joined by the ‘preservation of sovereignty and national integrity’, along with the ‘promotion of international alliances’ (Art. 2). In terms of the scope of action, the legal text stipulates that strategic guidelines will be in political, social, economic, territorial, security, defense, scientific-technological arenas, along with any other area decided by the President of the Republic by decree (Art. 3). Along its main functions there is the formulation of a central map for a national economic structure, the control and coordination of all public entities and any other stated by the President (Art.5). Additionally, the Commission has the authority to request exhaustive information about performance or about other aspects of any public or private entity (Art. 16). From these selected articles, it becomes rather evident that the Central Planning Commission was created with many objectives and ambitions but few clear and delimited functions. Indeed, it would seem nearly impossible to define all parameters and guidelines for objectives and responsibilities as different as ‘establishing a model to guarantee the fulfillment of spiritual and material needs of society’ while

¹⁸³ Translation by the author

¹⁸⁴ Translation by the author

simultaneously ‘promoting international alliances’ across all the areas indicated in the text. The legal text seems dramatically undersized to possibly cover regulations and parameters for all aspects considered. As a result, all powers are given with little specifications and slight informative details.

Another clear example is the halfway application of the multiyear budgets as stipulated in both the Constitution and the LOAFSP. While their full preparation has not to date been done, the referential or indicative nature is also incomplete and opaque as it only relates to Central Government fiscal actions (public spending and debt) and not to the entire public sector that has played an increasingly important fiscal role during the period examined. In this sense, the BCV would explicitly claim that in order to improve fiscal transparency and discipline, it was necessary to prepare the pluri-annual budgets including all the public sector, and even more when a considerable fraction of total public spending is executed through other public entities and not by the central government (BCV 2004).

Overall, one of the most prominent characteristics of the government during the period analyzed is the opaqueness of information about public finances management overall. Whereas social programs were massively advertised, little was disclosed on how these programs were being financed, through what mechanisms, under what conditions and to what extent. Considering that the vast majority of these programs has been financed outside annual budgets, it would seem rather significant to provide information on their implementation time-frames and their future prospects; however, they have been arbitrarily and intermittently included in random periods without specifying in further commitments.

From public institutions, such as the Central Bank, to academics and different societal groups and NGOs, have systematically pointed out the lack of information on how public resources have been generally managed. Indeed the evaluation of fiscal performance cannot be accurate or complete since there is no consolidated, exhaustive and timely information about spending and investment levels carried out by PDVSA, FONDEN and other special funds (BCV 2008); furthermore, the annual report prepared by the BCV would inquire that the actual impact of the oil bonanza could not be fully appreciated or measured in the accounting system in place since the new regulatory frame had atomized both revenues and expenditures through different mechanisms off the regular books (BCV 2008).

Already in 2000 with the first changes to the SFIs and the BCV, economists started alerting on an increased fiscal weakness resulting from the lack of transparency or clearness regarding the actual cost of certain fiscal measures directed at stimulating sectorial policies, in an environment of fragile fiscal revenues and undermined mechanisms to stabilize public

spending. Analysts would claim that the incentives given were to capture transitory rents, without necessarily producing benefits in terms of investment, production and employment (C. Ochoa and Vivancos 2000).

Newly acquired fiscal roles of PDVSA, numerous direct transfers and several other off-budget devices have resulted as parallel mechanisms to channel oil rents' surpluses with less institutional restrictions and lack of public control. Once oil rents go to parallel funds they can be more freely used and they do not have to endure political debates on how much of them will be disbursed or where to allocate them. Similarly, this parallel use of rents complicates monitoring and subsequent evaluations of public spending performance. Logically, if traditional negotiations among political actors, regarding the share of income to spend and where, are avoided, the impact analysis of this fiscal approach is also bypassed. Just as much, off-budget resources become less visible as they are not registered with other budget items for the subsequent analyses.

But far from being a random policy element, the opacity of information corresponds to a specific instrument tool that allows the government to conceal its strategies and avoid accountability pressures. For example, the use of other important political strategies need to be masked for both attaining success and their questionable legitimacy, such as the articulation of procedural instruments for policy network creation, the system of awards and punishments done at discretion, or the interest-group creation through the use of network creation tools, not to mention patronage, clientelism and cronyism techniques. All of these political strategies were for the most part financed through off the book accounts, and subsequently could not have been safely or conveniently displayed to the general public.

Another important procedural instrument based on the use of information was the advertisement given to social programs and heavy investments supposedly being financed by new fiscal mechanisms. It seems that the pressure exerted from academics, economists, the press and recognized analysts, on the opacity of fiscal practices and overall on the management of public finances could have potentially raised suspicions about corruption, misappropriation and embezzlement of public funds. Therefore, the government embarked on a continuous campaign about the many social programs funded by the *Bolivarian Revolution*, and under the overarching slogan placed at the center of the new model: “*Ahora Venezuela es de todos, el petróleo es de todos*”, which translates¹⁸⁵ into ‘*now Venezuela belongs to everyone, the oil is the people’s*’ representing the marrow of the new management scheme: oil

¹⁸⁵ Translation by the author

will be distributed but through centralized decisions and directions. Overall, in these campaign efforts, the emphasis was manifestly put on investment projects, or social programs in general, but no information was given on how these programs were being financed, under what conditions, time prospects, etc.

Clear, regular and institutional information was never disclosed. Reports would be random, appearing as part of the work performance of some Ministry in one period and of some other agency or institution in another term; there were clear differences in the figures presented from term to term or from institution to institution, and references to the origin and conditions of the use of these funds were never clarified. For instance, many of these major projects were actually funded through public debt, in some cases through bilateral agreements with other governments, but these details were not made public, nor were they accessible in official documents or available as other institutional documents were. During some broadcasted TV shows, or during interviews or statements made by governmental spokesman new information would be arbitrarily released, sometimes contradicting official publications or other governmental reports. In this sense, public campaigns on the social work of the government was always focused on the final end of social commitments, and making general allegations about the new role given to oil rents in the new administration or the so-called *Fifth Republic*. However, little information was regularly and officially displayed about the actual management of public resources, especially regarding the particular case of extra-budgetary mechanisms.

In general terms, the use of information-based procedural instruments has been a fundamental articulator of key fiscal policy dynamics. For one part it has eased both the profusion of legal reforms as well as the consecutive organizational adjustments of the State apparatus; and on the other side it has concealed the indiscriminate use of public resources in multiple extra-budgetary ways. Overall, through the use of procedural information-based tools, the government can strategically design the release or obstruction of sensitive information to indirectly affect policy outcomes in a way that is consistent with its policy aims and intentions. Hence, it would seem that the government's efforts in the use of information and communicational resources has been for the most part directed by restrictive sensitive information about the management of public resources, while overcrowding spaces with both campaigns and legal announcements of the government regulations adopted.

Finally, another important remark about the way the information has been used to affect policy process is informality. The government has progressively relied on informal mechanisms and non-protocol approaches to inform highly relevant policy content. In this

sense, the new governance mode has developed a communication preference characterized by centralized and spontaneous mechanisms rather than relying on traditionally established communication channels. For instance, the government would avoid making public statements to address a particular economic measure, but would rather use an informal TV show to lightly announce in the context of an informal conversation, the economic resolutions adopted.

2. Treasury-based instruments

In terms of treasury-based instruments, one of the most important and salient procedural tools directly complementing and affecting fiscal policy processes, has been the systematic undermining of the formal annual and pluri-annual budgets.

Pluri-annual budgets were never fully adopted into fiscal policy designs, or were never fully implemented in the fiscal puzzle. They remained as ‘on-the-background’ fiscal tools, prepared halfway or only for ‘informative’ or ‘indicative’ purposes and as a way to claim legitimate compliance with legal postulates. Nevertheless, in terms of annual budgets the contextual dynamics were different. The annual budget was already subject to manipulations in design that had been implemented for long before the new political regime was introduced in the scenario and long before the ‘new financial architecture’ was conceived. In this sense, the new fiscal regime did not have to deal with stickiness or resilience to change, but did actually profit from an already established implementation preference aligned with policy aims of the new governance modes.

Alternatively, the idea that governance modes and policy regimes only change very slowly over time, and that new developments or attempts to change are successfully integrated only when there is some degree of compatibility or congruence with previous policy styles, is to a big extent ratified or confirmed by this particular remark. Furthermore, it could be said that the legacies of past policies were constraining the new policy orders (Howlett and Rayner 2009); certainly, if strictly referring to the legal parameters of both the old and new budget systems, neither were consistent with the overall policy aim transforming the financial architecture of the country. However, the prevailing implementation styles of undermining and conveniently manipulating budgets were for the most part compatible to the new policy dynamics.

From their formulation, through to the implementation stage budgets have been disregarded and weakened in different ways, all of which represent a procedural tool in the fiscal design altogether. Concerning their formulation, budgets have been systematically prepared with

underestimated revenues and manipulated macroeconomic premises. The systematic miscalculation of budget parameters helps undermining the formulating process during which major public spending and allocation decisions are made. In turn, their consecutive internal misconception makes budgets as rather inaccurate tools that invariably need *ad hoc* adjustments. Subsequently, in terms of the policy aims of centralizing and controlling the management of public finances, this procedural strategy has been a perfect fit to articulate the substantive efforts of legal reforms and organizational rearrangements, in two basic ways.

First, in direct connection to the misconception of budgets, it follows the need to adjust them *ex post* during their implementation phase. The use of supplementary spending formulas is naturally negotiated in other policy settings and under different circumstances that involve other policy spaces and policy actors. Consequently, this strategy directly leads to, and even promotes, the *ex post* budgetary decisions in more centralized and isolated policy environments. In fact, undermining annual budgets is what ultimately brings cohesiveness to the fiscal strategy. If annual budgets were not overshadowed or undermined, they would effectively compete with the other series of policy tools created and reformed to divert fiscal resources and especially those generated in the oil industry. Therefore, the systematic undermining of budgets is paramount in the new fiscal design, and affecting critical policy inputs such as the underestimation of oil related revenues, it guarantees the functioning of the other set of tools created.

By a second account, overshadowing annual budgets has given the government access to larger amounts of resources redeemed from pre-established fiscal obligations (legal expenditures) and more abilities to manage their deployment in mechanisms that are placed outside budgets.

The undermining of the annual budget, despite being the main fiscal tool traditionally utilized by governments to intervene in the economy, represents a clear policy strategy aligned with the aims of centralizing the management of public finances, as opposed to having to negotiate and cede management decisions and allocation patterns overall. Indeed, this procedural strategy is deeply aligned with all four policy objectives identified in the fiscal policy regime, and from that axial position it has directly and indirectly affected fiscal policy processes in coordination and compatibility with overarching governance modes.

When observing the numerous changes and organizational transformations gradually done to the PFM system overall, a logical expectation would naturally be to also see budgets accommodate to more convenient fiscal practices directly aligned with major policy aims, in the same tone and rhythm as the other torrent of fiscal reformulations have. However, as it

has been previously discussed, budgets are the most public of fiscal contracts and involve numerous policy actors distributed across several policy sub-systems and levels. Hence, curving the rules of the budget would have been strictly opposed on many fronts. For one, the plan for reconstructing the entire fiscal scheme was originally well accepted by most policy actors and society in general on the basis of its alignment with constitutional mandates of transparency, fiscal prudence, etc., for which changing budgetary rules would have signified an internal contradiction toward the public and the fiscal policy community. Besides the new budgetary laws included many check-and-balance controls, and more considerations for longer-term planning and limits on spending and debt levels. Hence, altering any of the budgetary tools, namely the pluri-annual and/or the annual budget, would have been a difficult decision to execute and a time-consuming political effort. Besides, as Hallerberg, Scartascini and Stein assure “(...) changes in the formal budget process are not so effective if much of the budget is decided outside of that process” (2009, 314).

On another front, reforming the budget would have possibly revealed plans to divert funds toward other fiscal recipients and would have made mandatory, or at least more compelling the explanation or justification of crucial fiscal dynamics that have unquestionably be more useful by being on the dark and out of reach of accountability mechanisms.

Furthermore, having budgetary rules as they were originally designed at the beginning of the fiscal reform has been a great form to convey the message of preserving main fiscal principles established in the new constitutional order, also approved by the majority of the population in 1999. Nonetheless, despite maintaining their original legal form, budgetary tools have, by and large, been neglected and undermined in practice.

Another important element directly connected to the undermining of budgets through miscalculating its formulation, refers to the strategy of relying on extraordinary types of revenues in public spending configurations, and can be also considered a procedural tool based on treasury instruments. All in all, a new public income strategy has apparently emerged from underestimating budgets' resources. The moderation of oil-related income estimations has rebalanced the roles of ordinary types of revenues with respect to extraordinary ones: while it overshadows the weight and economic role of ordinary revenues, it has enhanced the political role of extraordinary revenues but through alternative mechanisms. Ordinary revenues are left to cover most legal expenditures and other regular spending items in the budget, while extraordinary revenues have taken a leading role in parallel funds usually created for visible social investment but invisible accountability mechanisms. Such strategy, manages to release a significant share of resources under the tag

of ‘extraordinary’, for greater political maneuver and direct fiscal action. Therefore, far from diminishing the importance of oil rents, this fiscal strategy resulting from a new fiscal management architecture, has given a greater role to oil rents in the political arena, as political actors can enjoy a freer use of these rents with less political debates and negotiations.

3. Organization-based instruments

The increasing creation and reorganization of government agencies can be considered a procedural organizational instrument, in fulfilling important policy coordination roles, internal controls and monitoring functions. During the period 2000-2010 the redesign of the fiscal regime has significantly relied on both the creation of new agencies and governmental departments, as well as in the dismantling and reorganization of preceding ones. The constant movement of institutional arrangements can be considered as an ongoing adjustment process in the search of better coordination assemblies and more stable controlling mechanisms. It can also be considered, as previously discussed, to be a clear indication that the policy design has important inconsistencies that impede reaching stable equilibriums and further reaching policy goals.

A good example of a procedural organization can be the creation of CADIVI, which in particular can be thought of as a combined figure. On one hand, it is a central agency linked to the political executive, fulfilling the role of a small coordinating organization, and in the other hand, it is a direct governmental organization, of the line department type, providing services directly to society. According to Howlett these types of agencies “(...) are central coordinating units which exercise a great deal of control over other bureaucratic agencies through their links to the executive and to the budgetary and policy processes in government” (2011, 73). As a central executive agency, CADIVI is a procedural organizational tool of the network management type. CADIVI was created in 2003 to centralize and control the exchange control regime. Although it was created in the middle of a political and economic crisis to control exchange rate policies in a more coercive and centralized way during the national oil strike, CADIVI soon became a permanent and significant coordinating instrument. In fact, throughout its evolution, it has become critical in designing and coordinating the exchange control regime, and has to a certain extent served to control the overall management of exchange rate policies of the central bank.

Conclusions

The study of natural resources has for long been a critical area of the social sciences universe. Defining the most appropriate way to exploit, manage and consume natural resources has been a paramount element for the survival and socio-economic development of societies. Early conventions about the role and benefits that natural resources should generate to host countries were associated with the comparative advantages that they could provide for development and economic growth strategies. These conventions were later contradicted by the fact that many naturally endowed countries were under performing in comparison to their resource-poor counterparts, or were seemingly unable to channel their riches for the attainment of stable growth rates. Furthermore, many naturally rich countries would exhibit high levels of dependence on the exploitation of their resources but with high levels of economic, political and developmental shortcomings.

This resource paradox has posed significant analytical challenges in many disciplines. Multiple debates have generated different theories to explain the resource puzzle and the evolution of these discussions has progressively developed fruitful academic spaces for further advancements. In this process, resource rich countries have been carefully examined, paying close attention to their socio-economic dynamics, political structures, institutional settings, historical foundations, etc. Remarkable commonalities have been found among them. These shared features suggest that beyond the significant and structuring dependence on their riches, these countries also have a propensity to rapidly overspend and deplete their resources or the wealth they obtain from resource exploitation. In fact this propensity has come to be identified as the 'rentier' paradigm or 'voracity' effect.

This project conducted an extensive revision of the literature on natural resources from which it identified many important contributions to the discussion, as well as some substantial limitations regarding the causal links elaborated in the explicative mechanisms proposed. Subsequently, this study has attempted to address the resource paradox by taking implementation gaps in fiscal policies as the main vehicle through which the rentier mechanics are materialized. To this account, this dissertation has ventured to demystify the resource paradox phenomenon by providing a concrete explanation: the fiscal indiscipline of rentier effects essentially responds to a policy design problem. Thenceforth, public spending decisions and the overall management of public finances embedded in the design of fiscal regimes can indeed reproduce many of the primary elements present in rentier paradigms.

This concrete proposal integrates both institutional arguments and political economy

perspectives. Ultimately, policy decisions do respond to politics and political dynamics, as well as to economic needs and performance; yet equally important, institutional settings do shape and constraint policy decisions, and they do so through a multi-level and nested system of policy interrelations. In order to support these arguments this study has provided important theoretical allegations and a case study for empirical analysis: the fiscal policy regime of Venezuela during the period 2000-2010.

The nested system of relationships that co-determines and influences policy regimes logistics through policy aims and means was carefully considered and therefore, a profile of the new governance strategies was developed. The logic and capacity of the fiscal policy regime in Venezuela during the period 2000-2010 were substantially determined by the policy aims of the new political regime introduced by Chávez, that of the *Socialism of the 21st century* and the *Bolivarian Revolution*. The governance modes of this new political order developed a discernible preference for the centralization of policy-making decisions for which resetting preceding structures and dismantling, or circumventing still standing formal institutions were essential tools. Overall, a comprehensive narrative of the policy-making dynamics and the framing nature of the new political regime was developed, as well as a documentation of key policy factors taking place at the *meta*, *meso* and *micro* levels of policy action.

While changes in governance modes do not necessarily translate into drastic changes across all policy sectors, and these changes do not impact all policy domains equally, the introduction of a new governance mode with the arrival of Chávez to the Presidency of Venezuela in 1999, did propel, as a critical conjuncture in the sense of Mahoney (2001), an impressive change in the design of the fiscal policy regime. This came as a natural result, as fiscal policy is a strategic and critical piece of any governance arrangement. Fiscal policies are at the core of the global strategy of any administration, which is not necessarily the case of other policy domains such as education, health, transport and insurance. In terms of fiscal regimes, they are paramount in the strategic positioning and global design of the governmental approach.

The fiscal institution of Venezuela, understood as the PFM system, changed considerably in the 2000s with the introduction of new ideas for the management of oil rents and for the role that the State should play in their management. The ‘sowing the oil’ paradigm was replaced by a system of direct distribution of oil rents through a centralized spending scheme (Ochoa 2008). A ‘new financial architecture’ and a reorganization of the oil sector were subsequently devised with new policy orientations that granted new empowering roles for the State in the management of oil rents, an expanded scope for discretionary spending mechanisms, and the

extraordinary *petrolarization* of public finances.

The breaches in fiscal contracts and implementation gaps in public spending agreements typically observed before the period 2000-2010 were mostly the result of adjustments to fiscal instruments at the *micro* and *meso* levels of public action. These fiscal adjustments were reproducing the underlying rentier paradigm in consecutive turns, as part of what has been defined the typical ‘rentier effects’, namely: fiscal pro-cyclicality, erratic and short-lived policies, budget flexibility, etc. In the 2000’s however, there was an institutional reform emerging from new governance modes that affected the ways in which the rentier paradigm was executed. These changes disrupt previous fiscal dynamics by promoting institutional reforms in the fiscal policy regime. This study has put forth, as a central argument, that what characterizes the decade 2000-2010 and sets clear distinctions from previous decades, was precisely the changes at the *meta* level of policy dynamics that defined a new orientation in governance styles.

The analysis of ‘rentier’ implementation gaps in Venezuelan fiscal policies during the period 2000-2010 was conducted through the assessment of fiscal policy designs that is, through the analysis of the consistency and coherence of instruments choices and the ways in which they were combined and coordinated along the entire period. Since instruments mix respond to particular context-dependent features of the policy sector (Howlett, Kim, and Weaver 2006), a characterization of the fiscal policy area was accordingly developed in order to more easily identify natural dynamics and typical fiscal tools. From this exercise, the following elements were identified as important factors to consider in fiscal regimes, and most specifically in naturally endowed countries where rich natural resources can significantly influence and disturb the execution of formally agreed fiscal formulations:

- The budget-making process was identified as critical in the configuration of resource allocation and fiscal management configurations. After all, budgets are the most public of all fiscal contracts and one of the most important fiscal tools used by governments to intervene in the economy.
- Likewise, in settings where natural resources add an important dimension to the management of rents, special fiscal institutions (SFIs) are utilized as mechanisms to soften the impact of boom and bust cycles of their main commodities, and in order to contain the incentives for the discretionary use of rents.
- In terms of fiscal dynamics, the intrinsic volatility of commodity prices, such as oil, can be advantageously used to accommodate political objectives and opportunely adjust the public spending schedule.

- Implementation gaps and difficulties to fully apply fiscal agreements and public spending arrangements are very common in resource rich economies. Essentially, it appears that natural wealth management compels a permanent struggle between abiding by established fiscal rules and giving-in to appealing incentives for defection.
- Reorganization of the overall fiscal rule system can substantially restructure both public revenues and spending designs in ways that systematically enlarge the gaps between initial fiscal plans and actual fiscal action.

The case study of Venezuela during the period 2000-2010 has provided a tangible example of the introduction of a new governance mode, with new ideas for the management of oil rents and a reorganization of the oil sector, created a context for PFM system rearrangements that later, combined with skyrocketing oil prices, further pushed the incentives to make and conveniently adapt fiscal design strategies. The fiscal re-ordering was conducted to a big extent, to enhance the strategic use of oil rents through mechanisms that overtly contravened fiscal rules and public spending limits established in formal budgets, or that would directly channel revenues through extra-budgetary spending devices.

Naturally endowed economies tend to produce large enough resource rents to foster rent-seeking incentives, combined with institutional frameworks flexible enough to channel such incentives. Therefore, resource rich countries add a distinctive dynamic to PFM rearrangements, and international prices are critical in prompting such adjustments. However, it has been argued throughout this project that most of these hasty fiscal adjustments observed in rentier economies, correspond to adjustments based on either on-the-ground instruments at the *micro* level of public action, or to dominant types of instruments at the *meso* level of fiscal dynamics. As such, fiscal adjustments through the tuning of instruments relentlessly reproduced underlying paradigmatic pillars, as they related to policy changes of the first and second order accordingly, in Hall's typology of policy change (Hall 1993). Hence, in rentier states, fiscal adjustments that closely follow oil price variations tend to occur only at *micro* and *meso* levels of public action, reflecting the mechanics of deeply rooted rentier paradigms.

On the other hand, the new financial architecture developed in Venezuela in the 2000s is a result of a profound institutional re-accommodation generated by the new political regime that introduced new conceptions over public finances management and more specifically over the management of oil rents. In this sense, the change of ideas and conceptions propelled by this new political regime, introduced meaningful alterations to policy dynamics and to the way the rentier paradigm would be executed.

Whereas the rentier profile of the country had for long existed, and its fiscal trajectory had

invariably shown a systematic tendency to deviate from public spending agreements, the design of the 'new financial architecture' initiated in 1999 introduced new and more sophisticated elements to exacerbate and deepen the rentier pattern. In this sense, the reconfiguration of the PFM system was aligned with a new 'rentier' architecture that distinctively reinforced the counterproductive nature of the rentier logics.

The reform of the PFM affected the structure of public income generation and public spending patterns. An increased use of non-recurrent fiscal revenues was added to the budgetary exercise, exposing public finances to fiscal sustainability issues. Additionally, supplementary spending went beyond the consecutive enlargement of already sanctioned budgets to the exacerbated generation of alternative extra-budgetary mechanisms to allocate oil resources. Lastly, a recentralization of public finances in the executive branch of government was developed through the discretionary and authoritative decisions on public spending and rent allocation patterns.

This study has found important elements to conclude that in fact implementation gaps in public spending arrangements have been exacerbated in the period studied when compared to previous periods of time. The design of the fiscal regime has allowed the unprecedented proliferation of parallel and off the book spending mechanisms within the PFM system. Moreover, the persistent and progressive use of supplementary spending during budgets' execution has gradually deinstitutionalized the policy-making of budgets while institutionalizing the un-penalized practice of exceeding spending limits (O. Ochoa 2008; Puente et al. 2006).

The design of the new financial architecture and its unifying logic were for the most part aligned with pre-existing rentier logics, as new policy developments can be successfully integrated only when there is some degree of compatibility or congruence with previous policy styles (Howlett and Cashore 2009; Howlett and Rayner 2009; Howlett and Rayner 2007; Howlett, Kim, and Weaver 2006). Nevertheless, the institutional remodeling generated by the construction of the new financial architecture, extended into an endless process of repetitive permutations and rearrangements that revealed the impossibility of reaching policy stability. One possible argument to explain such instability is the extent to which path dependence and policy legacies can limit the actual possibilities of change of policy regimes. After all, policy design and implementation do not take place on clean slates but are rather "always embedded in pre-existing contexts where the relics of earlier policy initiatives are found in paradigms, institutions, practices and established actor networks" (Howlett and Rayner 2009, 99). Hence, the institutional reforms prompted by the new governance modes

could have been mere adaptations of previous forms, generating intrinsic inconsistencies with other newer policy elements. In this sense, it seems important to remark that the institutional reforms initiated with the new political regime were more than a mere political project as they resulted from new ideas and conceptions; nevertheless, institutions are also, to a big extent, captives of their past and as such, they can haul previous dynamics into new policy dynamics without necessarily harmonizing with them.

Another possible explanation refers to the limited role that new ideas can actually play in shaping policy shifts. Ultimately, new ideas and conceptions may stimulate meaningful changes in policy-making processes and they can be revolutionary in their hegemonic role over policy processes; however, they cannot necessarily guarantee consistency across institutional designs, nor can they assure compatibility and harmony among the different elements that conform the policy mix, as their shaping influence is also limited by policy legacies and past trajectories.

Assessing the policy mix of the Venezuelan fiscal regime for the period 2000-2010, allowed the perception of a clear alignment between general policy aims and the instrument choices or plans of action designed to attain such aims. More than implying a technical alignment, the policy mix can be considered internally consistent and coherent vis-a-vis the main policy goals established. This does not mean that policy outcomes were necessarily optimal or desirable in the long-term perspective, however, they were actually effective in an immediate or short-term basis in terms of political objectives, which was the underlying rationale driving most policy reforms anyway. Ultimately, “(...) policy instrument mixes are consistent, in the sense of being mutually supportive in the pursuit of policy goals” (Howlett and Rayner 2009, 100), and policy goals across the different levels of policy action were not fundamentally aligned with what an optimal fiscal policy package may portray. In Morales words “the ultimate objectives of fiscal, monetary, exchange, commercial, industrial and financial policies of the State respond to the explicit and implicit objectives of dominant economic institutions, and those can only be objectives that benefit the elites and groups in the political and economic power” (2010, 120)¹⁸⁶.

In this particular case study, the inefficiency of policy outcomes was not necessarily related to the internal consistency or coherence of policy instrument mixes, but to the nature of policy aims that generated its design in the first place. Views on development may vary from policy maker to policy maker and there is no intended claim on the assessing the actual perspectives

¹⁸⁶ Translation by the author.

of the different policy makers involved in the fiscal design. But it can in turn be argued that there were some leading political objectives that directly influenced policy designs, and aimed to ensure internal consistency within policy mixes (in the short-run).

The normative assessment of the policy mix might suggest a number of deficiencies and fiscal incongruences if strictly seen from a fiscal and economic perspective. In a strictly fiscal sense, the policy design of the new financial architecture is riddled with inconsistencies, and this project has argued extensively on the main sources of such inconsistencies. Moreover, the lack of coordination between monetary, exchange and fiscal policies during the period analyzed also led to futile and unprosperous results. Nevertheless, on the other hand, the direct management and manipulation of fiscal resources allowed the government to directly pursue political objectives by delivering immediate and attractive social programs of significant magnitude. Political strategies of different sorts were financed and sustained by the direct control of fiscal resources with few institutional constraints, if any. Seen from this perspective, the fiscal policy regime was indeed effectively designed and was consistent and coherent with respect to the main policy goals pursued. The clear mismatch is not between policy goals and means in the policy mix of the fiscal regime, but in the way the fiscal regime is subordinated to political aims altogether.

On one front, this study argued that fiscal policy failure in the case of Venezuela during the years 2000-2010 is the result of internally consistent design, aligned with policy aims that were not conducive to either growth or development but to political ambitions. On a second front, this study argued that implementation gaps and fiscal breaches, increased during this period, were the result of inconsistencies in fiscal policy designs that purposely undermine budgets and create extra-budgetary mechanisms that collide with other fiscal tools and institutions. The policy failure observed in the fiscal regime performance can be also a result of 'exhaustion' as Howlett and Raymar describe it (2009), where policy regimes become self-undermining over time.

The empirical case study of this work has provided important and persuading arguments to support the main analytical proposals portrayed. The new political regime introduced in 1999, inserted a new governance mode in which institutional reforms were the means to strategically centralize power. In turn, these institutional rearrangements shaped and determined fiscal policy designs as much as they leaned on them to channel the use of resources in particular rentier ways. This model ultimately led to exacerbated rentier effects through larger fiscal implementation gaps along with the disadvantages this rentier pattern tends to generate. The assessment of PFM adjustments in the light of expanding resource

rents has attempted to contribute to the study of fiscal implementation distortions in naturally endowed economies in particular. Further empirical analysis can be developed to attain more nuanced assessments of the impact that different policy designs behind rent allocations and rents' management can have on the configuration of fiscal contracts.

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Annex I

Main legal expenditures

Type of Legal Expenditure	Stipulations
<p>Constitutional appropriation: Goes directly to all States of Venezuela and the Capital District in the following proportion: 30% to be equally distributed among all states and the capital district; and 70% according to population proportions in each of these units.</p>	20% of total ordinary revenues
<p>Law of Special Economic Assignments – LAEE: It is part of the management of resources generated by mines and hydrocarbons and it is to be assigned to all sub-national governments (States) and the Caracas Metropolitan district. Seventy percent (70%) of this amount will go to the States where there are mines and hydrocarbons production, while the thirty percent (30%) left will go to the non-hydrocarbons producing States and the Caracas Metropolitan District. States are to distribute no less than 40% of this income to municipalities.</p>	25% of oil revenues after Constitutional appropriation is deducted
<p>Inter-territorial Compensation Fund: It is constituted as a decentralizing mechanism and it manages resources for the Federal Government Council.</p>	15% of IVA (VAT) + LAEE remainder
<p>System of Justice: Established by the Constitution in Article 254 for the Judiciary Power as a functionally and economically autonomous public body.</p>	2% of total ordinary revenues
<p>Budgetary rectifications: This legal disposition allows the Executive to cover contingencies or other unexpected expenditures, as well as to enlarge other budget items that might run short of estimations with previous authorization of a Council of Ministers. The idea is to separate a small fraction of total ordinary revenues to respond to emergencies and extraordinary expenditures.</p>	0.5% - 1% of total ordinary revenues
<p>Debt Service: It is set according to the payment schedule agreed with borrowers and contemplates the regular payment of debt service as a legal expenditure, guaranteeing the regular repayment of interests and amortization obligations.</p>	It will be calculated each fiscal term

Source: LOAFSP, LORP, CBRV99

Annex II

Reforms to the law of the Central Bank 2000-2010

Year	Official Gazette	Modifications
2001	37.296 Oct, 03	<p>Enactment of the new Law of the Central Bank of Venezuela (BCV) according to the new fiscal dispositions of the Constitution of 1999.</p> <p><u>Art. 1:</u> The Central Bank of Venezuela is a legal entity, part of the National Public Power with constitutional rank.</p> <p><u>Art. 15:</u> The Directory Board consists of a President and 6 Directors. One of the Directors will be the Minister of the Economic and Financial Area appointed by the President of the Republic. The other 5 directors will be at full-time positions for periods of 7 years.</p> <p><u>Art. 16:</u> The President of the Republic designates the President of the Central Bank and 4 of the 6 Directors of the Board, including the Minister of the Economic and Financial Area. The National Assembly appoints the other 2 Directors of the Board.</p> <p><u>Art. 71:</u> From the annual net earnings, whatever their origin or nature, 10% will go to the General Reserve Fund of the Bank. The Board shall determine the quantitative limit of this fund. The remainder of annual net earnings (after deducting what corresponds to the General Reserve Fund and to a Voluntary Fund which cannot exceed 5% of total net earnings) will be delivered to the National Treasury Office within 6 months following the end of the fiscal year.</p> <p>The calculation of accumulated earnings to deliver to the National Treasury Office will be done on the total annual net earnings realized and collected under the rules of the Superintendence of Banks and Other Financial Institutions (SUDEBAN). The remnant earnings will be delivered to the Executive programmatically and in accordance with the objectives and targets set in the Macroeconomic Coordination Agreement.</p> <p><u>Art. 113:</u> The resources in foreign currency obtained from oil exports shall be exchanged exclusively with the Central Bank at the exchange rate in force. The equivalent in local currency shall be deposited in the corresponding account in the Central Bank. The BCV will provide PDVSA with the resources in foreign currency that the company requests to meet its needs in accordance to the budget approved by the National Assembly. PDVSA will not keep foreign funds above the limit authorized by the BCV's Board, to cover operating payments abroad, which will be appropriately documented on the balance sheets of the company. Similarly, PDVSA will report quarterly (or at the request of the BCV) on the use and destination of these funds.</p>
2002	35.606 Ext- 5.606 Oct, 18	<p><u>Art. 65:</u> The Central Bank of Venezuela will close all accounts on June 30th and December 31st of each year.</p> <p><u>Art. 71</u> modified the time length to calculate and transfer accumulated earnings to the Executive from an annual to a semiannual basis as follows: “(...) The calculation of accumulated earnings to deliver to the National Treasury Office will be done on the total biannual net earnings realized and collected under the rules of the Superintendence of Banks and Other Financial Institutions (SUDEBAN). The remnant earnings will be delivered to the Executive programmatically and in accordance with the objectives and targets set in the Macroeconomic Coordination Agreement.”</p> <p><u>Transitory disposition:</u> Regarding the application of article 71, the Central Bank will close the current fiscal year on September 30th 2002 and proceed to deliver the collected accumulated earnings to the National Treasury Office as indicated in article 71. Likewise, it will initiate a new fiscal period from October 1st 2002 to December 31st 2002 for which the procedure for the delivery of retained earnings will apply according to the same terms specified in article 71.</p>
2005	38.232 Jul, 20	<p><u>Article 7</u> adds a new function to the Central Bank: “estimate an <i>Appropriate Level of International Reserves</i> (or foreign monetary reserves) of the Republic”.</p> <p><u>Article 21</u> adds a new function to the Directory Board: No. 11 “Conduct a study that allows the accurate estimation of the <i>Appropriate Level of International Reserves</i> (Foreign Monetary Reserves) of the Republic according to the law.”</p>

		<p><u>Art. 48</u>: The deadline for the delivery of <i>Titles</i> to other financial institutions is extended for up to two years (it used to be 30 days). Numerals 6 and 8.</p> <p><u>Art. 75</u>: The Central Bank will inform the Executive not only about the performance of the economy but also about the <i>Appropriate Level of International Reserves</i> (Foreign Monetary Reserves), for which it will present a study for the purposes of formulating the federal budget and the Macroeconomic Coordination Agreement.</p> <p><u>Art. 113</u>: The compulsory exchange of resources in foreign currency resulting from oil exports to the BCV does no longer apply to PDVSA. PDVSA will only exchange foreign currency received through the export of hydrocarbons, for the amounts required to meet local operational costs and fiscal obligations relative to the estimations made for the annual budget law.</p> <p>The remnant of resources in foreign currency will be transferred monthly to the special fund that the Executive will create for the purposes of financing investment projects in the real economy, education and health, improve the public debt profile and take care of special strategic situations.</p> <p>The provision of a ceiling for the funds held in foreign currency abroad by PDVSA (to cover operation costs) is removed from the article, leaving only a mention to the fact that there is a possibility of holding accounts overseas and that there is an obligation to report on them regularly.</p> <p><u>New Art. 114</u>: To calculate the <i>Appropriate Level of International Reserves</i>, the BCV will establish one unique methodology adapted to the Venezuelan economy. On the contrary, the BCV will send relevant studies to the National Assembly whom will be in charge of designing the required methodology.</p> <p><u>Transitory disposition</u>: The BCV will release and transfer only once, the amount of US\$ 6 Millions to the Executive in an open account in the Central Bank on behalf of the Fund to be created for this purpose.</p>
2009	39.301 Nov, 06	<p><u>Art. 48</u>: The temporal reference regarding the validity of financial instruments that the BCV can keep with other commercial banks is eliminated. Numerals 6 and 8.</p> <p><u>Article 75</u> eliminates the association between the calculation of the <i>Appropriate Level of International Reserves</i> and the budget formulation, and/or its inclusion in the annual policy agreement between the Executive and the BCV. This calculation can be biannual if the circumstances are adequate according to the opinion of the Board of Directors (of the BCV).</p> <p><u>Article 113</u>, adds that the transfers that under the provisions of this article performs the BCV will be made within 15 days after the end of each 6-month-period, taking into consideration the estimation of the appropriate level of international reserves.</p> <p><u>Article 114</u> eliminates the possibility that the National Assembly designs a methodology for calculating the appropriate level of international reserves in case the BCV does not design it.</p> <p><u>Article 115</u> incorporates the following: "in its role of managing international reserves, the BCV will address general criteria for liquidity, security and profitability of instruments, observing international financial markets and analyzing different types of risk involved in investment activities".</p>
2010	39.419 May, 07	<p><u>Article 1</u> is amended to add although the BCV is not subordinated to the Executive, it will contribute in achieving the higher goals of the State and the Nation.</p> <p><u>Article 5</u> adds that the BCV will promote solidarity, citizen participation and social responsibility.</p> <p>Numeral 14 is added to <u>article 7</u> establishing that the BCV will be responsible of promoting actions that foster solidarity, citizen participation and social responsibility in order to contribute to the development of the population and its socio-economic education.</p> <p><u>Art. 33</u>: (New) "For the proper fulfillment of its functions, the Central Bank must have a <i>Strategic System for Financial and Foreign Exchange Information</i> that enables the tracing and monitoring of the economic transactions performed by the different agents of the economy.</p> <p>The <i>Strategic System for Financial and Foreign Exchange Information</i> of the BCV will have the structure, methods and enabling procedures to provide timely monetary, financial and exchange information flows, in order to facilitate decision-making processes by the monetary authority on the channeling and coupling of credit instruments for productive sectors, the monitoring and control</p>

	<p>of payment systems and the implementation of the exchange rate policy regime among other measures. To this end, individuals and corporations, public and private shall provide the information required by the BCV on the different economic transactions executed, as well as any other information required for the proper functioning of the system.”</p> <p><u>Art. 49 (before 48)</u>: Numeral 9 establishes the acquisition of loan assets from financial institutions as well as the reception of credit as the assignee in order to preserve financial liquidity. The conditions of numerals 6 and 8 have also been expanded to add that the Board will establish the bases, amounts and terms of credit instruments according to the sector and other variables.</p> <p><u>Art. 58 (before 56)</u>: adds the following: “for the purpose of contributing to the harmonious development of the national economy and ensuring social welfare, the BCV, through its governing body, will establish special conditions for the operations of numeral 8 of article 49, when held with state institutions or public funds for the development of particular sectors and for the activities enumerated in this numeral. Special conditions on a preferential basis will be established, in terms of time and financial aspects of the transactions.</p> <p><u>Art. 113 (now 125)</u>: The transfers done by the Central Bank under the provision of this article will be made within 15 days after the end of each 6 month period, taking into account the estimation of the Appropriate Level of International Reserves provided in article 87. The application of the resources transferred to the Fund covered by this article shall be informed to the BCV in the terms and at the time intervals that its directory boards determines to that effect.</p>
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Source: Central Bank Official Webpage.

Available at: <http://www.bcv.org.ve/c3/legislacion.asp> and <http://www.pgr.gob.ve>

(*) Reforms done via Enabling Law to the President of the Republic

Annex III

Reforms and amendments to the FIEM-FEM 1999-2010

Year	Official Gazette	Modifications
1998	36.575 Nov, 05	<p>Creation of the Fund for Investments and Macroeconomic Stabilization (FIEM) <u>Articles 4, 5 and 6</u> regulate the contributions to the Fund. The Central Government, sub-national governments and the national oil company, PDVSA are the contributors to the fund.</p> <p><u>Art.4:</u> The Central Government (as the ‘State’) will contribute the oil-related revenues generated by a) Income Tax, b) Dividends and c) Exploitation Taxes when these funds exceed the average of the previous 5 continuous years.</p> <p><u>Art. 5:</u> Subnational governments will transfer to the FIEM the oil income received by constitutional and other legal assignments when these funds exceed the average of the previous 5 continuous years.</p> <p><u>Art. 6:</u> PDVSA will keep in the FIEM the income generated by oil exports after subtracting tax duties when oil prices are higher than the average price of the previous 5 consecutive years.</p> <p><u>Articles 9, 10 and 11</u> stipulate the partial reimbursement of funds to the contributors when oil income falls below the average of the previous 5 consecutive years.</p> <p><u>Art. 12:</u> The Commission of Finances of the Senate and the Chamber of Deputies of the Congress must give an opinion to any funds’ transfer from the FIEM to the State, sub-national governments and to PDVSA. The opinion must be delivered to the Executive within 20 days of having received the request, time after which it is considered to be favorable.</p> <p><u>Art. 15:</u> The FIEM will reimburse or transfer funds to the contributors for amounts that do not exceed the difference or income gap resulting from lower oil-related revenues. In any given fiscal year, total transfer of funds from the FIEM to contributors cannot exceed 2/3^{rds} (66.66%) of the FIEM savings registered at the end of the immediate previous year.</p> <p><u>Article 16</u> stipulates that once the FIEM accumulates 80% of the average amount of oil exports income perceived during the previous 5 continuous years, it will partially redistribute saving funds to its contributors as follows: the amount corresponding to the Central Government will go to a special fund for debt recovery, sub-national governments will receive the funds for investment purposes, and PDVSA will receive funds for a non-specified use.</p> <p><u>Article 18</u> stipulates that the FIEM will be managed by the Central Bank in a separate account different than the one for foreign reserves.</p> <p><u>Article 20</u> stipulates that the FIEM cannot engage in financing or debt related operations</p>
1999	36.722 June, 14	<p><u>Article 4</u> is modified in the following way:</p> <p>a) Central government will contribute oil-related income taxes when these exceed the amount of US\$ 420,000,000.00.</p> <p>b) Central government will transfer to the FIEM oil and gas exploitation taxes when they exceed the amount of US\$ 967,000,000.00.</p> <p>c) Central government will transfer to the FIEM oil-related dividends when they exceed the amount of US\$ 1,254,000,000.00.</p> <p><u>Art. 6:</u> PDVSA will keep in the FIEM the income generated by oil exports after subtracting tax duties when oil prices are higher than US\$ 9 per barrel.</p> <p><u>Art. 9:</u> The FIEM will transfer (via the National Treasury Office) to the Unified Social Fund (FUS), 40% of surplus funds when a) oil-related income tax revenues fall below the amount of US\$ 420,000,000.00, and b) oil and gas exploitation taxes fall below the amount of US\$ 967,000,000.00.</p> <p><u>Art. 10:</u> The FIEM will transfer to sub-national governments when a) legal and constitutional assignments associated to oil income taxes fall below the amount of US\$ 105,000,000.00, b) oil and gas exploitation taxes and/or special economic assignment to sub-national entities fall below the amount of US\$ 323,000,000.00.</p> <p><u>Art. 11:</u> The FIEM will transfer to PDVSA the amount corresponding to the re-estimation of oil export revenues when oil barrel prices fall below US\$ 9 per barrel.</p> <p><u>Art. 16:</u> Once the FIEM accumulates 80% of the average amount of oil exports</p>

		<p>income perceived during the previous 5 continuous years, it will redistribute funds to its contributors as follows: The fraction corresponding to the State: a) 40% to the Unified Social Fund (FUS) b) 25% to the Fund for the Debt Rescue c) 35% to the Fund for Investments of Venezuela (FIV) The fraction corresponding to sub-national governments will be for investment purposes and, The fraction corresponding to PDVSA: the President of the Republic and his/her Cabinet (the Ministerial Council) will determine how to use these funds. <u>Art. 25:</u> During the period 1999-2004 it will only be transferred to the FIEM, 50% of the parameters established in articles 4, 5 and 6. <u>Art. 26:</u> During the first 5 years of the FIEM, the President of the Republic and his/her Cabinet (the Ministerial Council) will be able to authorize the use of accumulated funds before they reach the 80% threshold stipulated in Art. 16. <u>Art. 27:</u> Until fiscal year 2004, for the application of article 15, the FIEM will transfer funds to its contributors in amounts that do not exceed the parameters established in articles 4, 5 and 6 accordingly.</p>
2001	37.308 Oct, 22	<p><u>Art. 24:</u> Regarding the application of articles 4, 5 and 6, for the period 2003-2007 it will be transferred to the FIEM in fiscal year 2003, the equivalent to 6% of total oil fiscal revenues. This percentage will be progressively increased in an annual constant rate of 1% until reaching 10% in 2007. <u>Art. 25:</u> Regarding the application of articles 4 and 5, for the period 2003-2007 it will be transferred to the FIEM in fiscal year 2003, the equivalent to 6% of oil exports taxes, once other legal obligations are subtracted. This percentage will be progressively increased in an annual constant rate of 1% until reaching 10% in 2007. <u>Art. 28:</u> The calculations and transfers of oil-related funds to the FIEM during the first 3 trimesters of fiscal year 2001 will be done following the rules established in the Law that creates the FIEM in June 14 of 1999, Official Gazette No. 36.722, partially reformed through this amendment. No funds will be transferred to the FIEM during the last trimester of fiscal year 2001 and throughout the entire fiscal year 2002.</p>
2002	37.547 Oct, 11	<p><u>Art. 24:</u> Regarding the application of articles 4, 5 and first part of article 6, for the period 2004-2008 it will be transferred to the FIEM in fiscal year 2004, the equivalent to 6% of total oil fiscal revenues. This percentage will be progressively increased in an annual constant rate of 1% until reaching 10% in 2008. <u>Art. 25:</u> Regarding the application of articles 4 and 5, for the period 2004-2008 it will be transferred to the FIEM in fiscal year 2004, the equivalent to 6% of oil exports taxes once other legal obligations are subtracted. This percentage will be progressively increased in an annual constant rate of 1% until reaching 10% in 2008. <u>Art. 28:</u> The calculations and transfers of oil-related funds to the FIEM during the first 3 trimesters of fiscal year 2001 will be done following the rules established in the Law that creates the FIEM in June 14 of 1999, Official Gazette No. 36.722, partially reformed through Decree No. 1.478 published in Official Gazette No. 37.308 in October 22 of 2001, and reformed through this amendment. No funds will be transferred to the FIEM during the last trimester of fiscal year 2001 and throughout the entire fiscal years 2002 and 2003. <u>Transitory disposition:</u> The funds transferred to sub-national governments according to article 16 during fiscal year 2002 and until June of 2003 can be used up until 20% to cover budgetary insufficiencies.</p>

2003	37.604 Jan, 07	<p><u>Art. 12:</u> The Permanent Finance Commission of the National Assembly must give an opinion to any funds' transfer from the FIEM to sub-national governments and to PDVSA. The opinion must be delivered to the Executive within 20 days of the request reception, time after which it is considered to be favorable.</p> <p><u>Art. 26:</u> During the first 5 years of this law, the President of the Republic and his/her Cabinet can authorize PDVSA to use accumulated funds disregarding the requirements stipulated in article 11 (oil prices falling below a specific threshold set at US\$/b 9 in the reform of June, 1999) and before meeting the requirements stipulated in article 16 (savings reach 80% of the average amount of oil exports income perceived during the previous 5 continuous years).</p> <p>Similarly and within the first 5 years of this law, the President of the Republic and his/her Cabinet can authorize the State and sub-national governments to use the surplus of savings before meeting the requirement stipulated in article 16 (saving threshold set at 80% of the average amount of oil exports income perceived during the previous 5 continuous years).</p> <p><u>Art. 27:</u> During the first 5 years of this law, the restriction established in article 15 will not apply to transfers from the FIEM to PDVSA.</p> <p>* <i>Restrictions of article 15:</i> transfers cannot exceed the difference or income gap resulting from lower oil-related revenues; and total transfers cannot exceed 2/3rds (66.66%) of the FIEM savings registered at the end of the immediate previous year.</p> <p>* It is reiterated in <u>Article 28</u> that no funds will be transferred to the FIEM during the last trimester of fiscal year 2001 and throughout the entire fiscal years 2002 and 2003.</p>
2003	37.665 Apr, 04	<p><u>Art. 27:</u> During the first 5 years of the application of this law, the restrictions established in article 15 will not operate. <u>Restrictions of article 15:</u> transfers cannot exceed the difference or income gap resulting from lower oil-related revenues; and total transfers cannot exceed 2/3rds (66.66%) of the FIEM savings registered at the end of the immediate previous year.</p> <p><u>First transitory disposition:</u> The funds transferred to sub-national governments according to article 16 during fiscal year 2003 can be used to cover budgetary and financial needs.</p> <p><u>Second transitory disposition:</u> During fiscal year 2003, transfers from the FIEM to sub-national governments do not need to meet the requirement established in article 10 and can be used to cover financial and budgetary needs.</p> <p>* <i>Restriction of article 10:</i> a) legal and constitutional assignments associated to oil income taxes oil income falls below the US\$ 105,000,000.00, b) oil and gas exploitation taxes and/or special economic assignment to sub-national entities fall below the amount of US\$ 323,000,000.00.</p> <p><u>Third transitory disposition:</u> The obligation of the State to sub-national governments will be paid through a fixed percentage of the amounts established in article 4. The Ministry of Finance in consultation with the Permanent Finance Commission of the National Assembly will determine the specific percentage to be paid.</p>
2003	37.827 Nov, 27	Creation of the Fund for Macroeconomic Stabilization (FEM)
2005	38.286 Oct, 04	Creation of the Fund for Macroeconomic Stabilization (FEM) with reordered and redefined stipulations and dispositions.
2007	38.670 Apr, 25	<u>Art. 26:</u> Is rewritten to extend until year 2006 the period for no contributions to the fund
2008	38.846* Jan, 09	<u>Art. 26:</u> Is rewritten to extend until year 2008 the period for no contributions to the fund

Source: Official Gazettes,

Available at: <http://www.bcv.org.ve/fiem/fiem.htm>, and <http://www.pgr.gob.ve>

(* Reforms done via Enabling Law to the President of the Republic

Annex IV

Reforms and amendments to the Organic Law of Financial Management of the Public Sector (LOAFSP) 1999-2010

Year	Official Gazette	Modifications
2000	37.029 Sept, 05	Enactment of the Organic Law of Financial Management of the Public Sector (LOAFSP)
2003	37.606 Jan, 09	<u>Art. 51</u> : The Director of the Presidential Office (of the Republic) and the President of the Moral Council of the Republic are added as new payment authorizers or requesters for budgetary obligations (along with all other Ministers, the President of the National Assembly, the Vice-President of the Republic, the President of the Supreme Court, etc.) <u>Art. 80</u> : The authorization of the Permanent Commission of Finances of the National Assembly is introduced as a new requisite to proceed with pre-approved debt operations contained in the Annual Indebtedness Law
2004	37.978 Jul, 13	<u>Art. 178</u> : Introduces a clause to present the Pluri-Annual budget corresponding to the period 2005-2007 for informative purposes only, and states that for the following period (2008-2010), the multiyear budget will be fully prepared as stipulated by the law <u>Art. 193</u> : New article to state that the reformed legal text becomes effective once publicly and formally published in official gazette.
2005	38.198 May, 31	<u>Articles 6, 11 and 63</u> : are modified to include a new district, the Distrito Alto Apure as a geographic entity of the federal system under the dispositions of this law.
2007	38.661 Apr, 11	<u>Art. 178</u> : Reforms the clause introduced in 2004, to present the Pluri-Annual budget corresponding to the periods 2005-2007 and 2008-2010 for informative purposes only, and states that for the following period (2011-2013), the multiyear budget will be fully prepared as stipulated by the law
2008	38.984 Ext-5.891 Jul, 31	<u>Art. 90</u> : Introduces the possibility, for financial entities of the public sector, to acquire debt (public credit operations) that surpass more than twice its net worth patrimony, if its regulatory frame allows it and with the consent of the President of the Republic in Council of Ministers.
2009	39.147 Mar, 26	<u>Art. 81</u> : is reformed to increase the possibilities to acquire public debt above the approved and sanctioned levels under emergencies and when fiscal revenues fall short of budgetary needs. It introduces the possibility of enlarging debt levels for purposes other than refinancing debt, such as food sovereignty, social investment, security and defense.
2009	39.164 Apr, 23	<u>Art. 91</u> : is reformed to increase the flexibility of the types of public entities to be allowed to acquire public debt. Public institutions not related to the financial sector are allowed to acquire public debt with the consent of the President of the Republic in Council of Ministers if aligned with national interests.
2010	39.465 Jul, 14	<u>Art. 178</u> : Reforms the clause introduced in 2004 and in 2007, to present the Pluri-Annual budget corresponding to the periods 2011-2013 for informative purposes only, and states that for the following period (2014-2016), the multiyear budget will be fully prepared as stipulated by the law
2010	39.556 Nov, 19	<u>Art. 51</u> : is modified in terms of the gender terminology of the authorities authorizing or requesting budgetary payments.

Source: Official Gazettes, Vera Colina et al, 2009, Governmental webpages

Available at: <http://www.pgr.gob.ve>

(*) Reforms done via Enabling Law to the President of the Republic

Annex V

Medium and long term changes to the PFM system

Year	Measure	Decree	Official Gazette	Date	Income	Spending	Financing	Available at
1974	Creation of the Fund for Investments of Venezuela (FIV)	150	30.430	Jun, 21-1974	x	x		N/A
1997	Creation of the Fund for Public Debt's Recue		36.349	Dec, 05-1997			x	N/A
1998	Creation of the Fund for Investment of Macroeconomic Stabilization (FIEM)	2.991	36.575	Nov, 05-1998	x	x		http://www.bcv.org.ve/fiem/decreto2991fiem.htm
1999	Enabling Law No.1 (for a period of 6 months)		36.687	Apr, 26-1999				N/A
	Partial reform of the Law regulating the FIEM*	146	36.722	Jun, 14-1999	x	x		http://www.bcv.org.ve/fiem/fiem.htm
	Law authorizing the Executive Branch to acquire and execute public debt operations during the fiscal year 1999*	151	36.718	Jun, 08-1999			x	http://www.pgr.gob.ve/dmdocuments/1999/36718.pdf
	Partial reform of the Organic Budgetary Law*	185	Ext-5.358	Jun, 29-1999	x	x		http://www.pgr.gob.ve/dmdocuments/1999/5358.pdf
	Law for Ascription of Autonomous Institutions, State Enterprises, Foundations, Associations and Civil Societies of the State, to the Central Administration bodies *	257 370	36.775 Ext-5.395	Aug, 30-1999 Oct, 25-1999				http://www.pgr.gob.ve/dmdocuments/1999/36775.pdf http://www.pgr.gob.ve/dmdocuments/1999/5395.pdf
	Reform to the Organic Law of Central Administration*	369	36.775 36.807	Aug, 30-1999 Oct, 14-1999				http://www.pgr.gob.ve/dmdocuments/1999/36775.pdf http://www.pgr.gob.ve/dmdocuments/1999/36807.pdf

Year	Measure	Decree	Official Gazette	Date	Income	Spending	Financing	Available at
	Creation of the Unified Social Fund (FUS)*	301 364	36.781 36.800 Ext- 5.398	Sept, 07-1999 Oct, 04-1999 Oct, 26-1999		x		http://todoelderecho.com/Premium_Free/venezuela/leyes/ley_social.html http://www.pgr.gob.ve/dmdocuments/1999/36800.pdf http://www.pgr.gob.ve/dmdocuments/1999/5398.pdf
1999	Partial reform of the Law regulating the FIV*	412	Ext- 5.396	Oct, 25-1999	x	x		http://www.pgr.gob.ve/dmdocuments/1999/5396.pdf
	Partial reform of the law for bidding processes *	296	Ext- 5.386	Oct, 11-1999				http://www.pgr.gob.ve/dmdocuments/1999/5386.pdf
	Reform of the Income Tax Law (ISLR)*	307	Ext- 5.390	Oct, 22-1999	x			http://www.pgr.gob.ve/dmdocuments/1999/5390.pdf
	Reform of the Law of Financial Emergencies*	359	Ext- 5.390	Oct, 22-1999				http://www.pgr.gob.ve/dmdocuments/1999/5390.pdf
	Proclamation of the Constitution of the Bolivarian Republic of Venezuela (CRBV)			Dec, 20-1999	x	x	x	N/A
	Law authorizing the Executive Branch to acquire and execute public debt operations during the fiscal year 2000*		36.855 Ext- 5.414 Ext- 5.424	Dec, 20-1999 Dec, 29-1999	x		x	www.pgr.gob.ve/dmdocuments/1999/36855.pdf www.pgr.gob.ve/dmdocuments/1999/5424.pdf
	Constitution of the Bolivarian Republic of Venezuela (CRBV)		36.860	Dec, 30-1999	x	x	x	http://www.ucv.ve/fileadmin/user_upload/auditoria_interna/Archivos/Material_de_Descarga/Constitucion_de_la_Republica_Bolivariana_de_Venezuela - 36.860.pdf
2000	Partial reform of the Organic Budgetary Law		36.916	Mar, 22-2000	x	x		http://www.tsj.gov.ve/gaceta/marzo/20300/220300-36916-02.html
	Official publication of the CRRV		Ext- 5.453	Mar, 24-2000	x	x	x	http://www.tsj.gov.ve/legislacion/constitucion1999.htm
	Partial reform of the Law regulating the FIV	412	Ext- 5.463	May, 09-2000	x	x		N/A
	Special Law for the Acquisition and		37.004	Aug, 01-2000			x	http://www.tsj.gov.ve/gaceta/agosto/0

Year	Measure	Decree	Official Gazette	Date	Income	Spending	Financing	Available at
	Execution of Public Debt Operations							10800/010800-37004-02.html
	Partial reform of the Law for Special Economic Assignments originated by Mines and Hydrocarbons (LAEE)		37.022 37.066 37.086	Aug, 25-2000 Oct, 30-2000 Nov, 27-2000		x		http://www.tsj.gov.ve/gaceta/agosto/250800/250800-37022-38.html http://www.tsj.gov.ve/gaceta/octubre/301000/301000-37066-10.html http://www.tsj.gov.ve/gaceta/noviembre/271100/271100-37086-01.html
2000	Partial reform of the Law regulating the Intergovernmental Fund for Decentralization (FIDES)		37.022 37.066	Aug, 25-2000 Oct, 30-2000		x		http://www.tsj.gov.ve/gaceta/agosto/250800/250800-37022-30.html http://www.tsj.gov.ve/gaceta/octubre/301000/301000-37066-13.html
	Enactment of the Organic Law of Financial Management in the Public Sector (LOAFSP)		37.029	Sept, 05-2000	x	x	x	http://www.tsj.gov.ve/gaceta/septiembre/050900/050900-37029-02.html
	Enabling Law No.2 (for a period of 12 months)		37.706	Nov, 13-2000	x	x	x	http://www.tsj.gov.ve/gaceta/noviembre/131100/131100-37076-01.html
	Partial reform of the law for bidding processes *	1.121	37.097	Dec, 12-2000				http://www.pgr.gob.ve/dmddocuments/2000/37097.pdf
2001	Regulations of the Organic Budgetary Law	1.179	37.122	Jan, 18-2001	x	x		http://www.tsj.gov.ve/gaceta/enero/180101/180101-37122-05.html
	Reform of the Law No.370 Ascription of Autonomous Institutions, State Enterprises, Foundations, Associations and Civil Societies of the State, to the Central Administration bodies *	1.127	37.126	Jan, 24-2001		x		http://www.tsj.gov.ve/gaceta/enero/240101/240101-37126-04.html
	Law for the transformation of the FIV into the Bank for Economic and Social Development (BANDES) *	1.274	37.194 37.228	May, 10-2001 Jun, 27-2001		x	x	http://www.tsj.gov.ve/gaceta/mayo/100501/100501-37194-01.html http://www.tsj.gov.ve/gaceta/junio/270601/270601-37228-03.html
2001	Partial reform of the Law of the Central Bank of Venezuela (BCV)		37.296	Oct, 03-2001	x			http://www.bcv.org.ve/c3/leybcv.asp http://www.tsj.gov.ve/gaceta/octubre/031001/031001-37296-07.html

Year	Measure	Decree	Official Gazette	Date	Income	Spending	Financing	Available at
2001	Partial reform of the Law regulating the FIEM*	1.478	37.303 37.308	Oct, 15-2001 Oct, 22-2001	x	x		http://www.bcv.org.ve/fiem/fiem.htm http://www.tsj.gov.ve/gaceta/octubre/151001/151001-37303-05.html http://www.tsj.gov.ve/gaceta/octubre/221001/221001-37308-05.html
	Organic Law of Public Administration*		37.305	Oct, 17-2001	x	x	x	http://www.tsj.gov.ve/gaceta/octubre/171001/171001-37305-01.html
	Organic Tributary Code*		37.305	Oct, 17-2001	x			http://www.tsj.gov.ve/gaceta/octubre/171001/171001-37305-18.html
	Organization and Functioning of the Central Public Administration	1.475	37.305	Oct, 17-2001		x		http://www.tsj.gov.ve/gaceta/octubre/171001/171001-37305-46.html
	Partial reform of the Law regulating the Fund for the Development of Farming, Fishing, Forestry and related activities (FONDAFA)	1.435	37.317	Nov, 05-2001		x		http://www.tsj.gov.ve/gaceta/noviembre/051101/051101-37317-01.html
	Law No.53. Law of the SENIAT*		37.320	Nov, 08-2001	x			http://www.tsj.gov.ve/gaceta/noviembre/081101/081101-37320-01.html
	Proposal and creation of the Unified Social Fund (FUS)*	1.532	37.322	Nov, 12-2001		x		http://www.tsj.gov.ve/gaceta/noviembre/121101/121101-37322-01.html
	Hydrocarbons Organic Law*	1.510	37.323	Nov, 13-2001	x			http://www.tsj.gov.ve/gaceta/noviembre/131101/131101-37323-05.html http://www.pgr.gob.ve/dmdocuments/2001/37323.pdf
	Proposal and enactment of the Organic Law for Planning*	1.528	37.323 Ext-5.554	Nov, 13-2001	x	x	x	http://www.pgr.gob.ve/dmdocuments/2001/5554.pdf
	Partial reform of the Income Tax Law (LISLR)*	1.544	37.323	Nov, 13-2001	x			N/A
Organic Law for the Attorney General's Office of the Republic*	1.556	37.323 Ext-5.554	Nov, 13-2001				http://www.pgr.gob.ve/dmdocuments/2001/5554.pdf	
Partial reform to the Law of Ascription of Autonomous Institutions, State	1.512	Ext-5.556	Nov, 13-2001				http://www.pgr.gob.ve/dmdocuments/2001/5556.pdf	

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2001	Enterprises, Foundations, Associations and Civil Societies of the State, to the Central Administration bodies *							
	Partial reform to the law for bidding processes*	1.555	Ext-5.556	Nov, 13-2001				http://www.pgr.gob.ve/dmdocuments/2001/5556.pdf
	Law No.58. Organic Law for the Para-fiscal Contributions for the Agricultural Sector*		37.337	Dec, 03-2001		x		http://www.tsj.gov.ve/gaceta/diciembre/031201/031201-37337-01.html
	Law No. 59. Organic Law of the General Comptroller of the Republic and the National System of Fiscal Control		37.347	Dec, 17-2001	x	x	x	http://www.pgr.gob.ve/dmdocuments/2001/5554.pdf
	Regulations No.1 of the LOAFSP	1.590	37.348	Dec, 18-2001	x	x	x	http://www.tsj.gov.ve/gaceta/diciembre/181201/181201-37348-07.html
2002	Reform of the Organization and Functioning of the Central Public Administration	1.634	37.362	Jan, 11-2002		x		http://www.tsj.gov.ve/gaceta/enero/110102/110102-37362-02.html
	Regulation No.3 of the LOAFSP, about the Treasury System		37.419	Apr, 09-2002		x		http://www.tsj.gov.ve/gaceta/abril/090402/090402-37419-02.html
	Partial reform of the Organization and Functioning of the Central Public Administration	1.928	37.509 37.522	Aug, 20-2002 Sept, 06-2002		x		http://www.tsj.gov.ve/gaceta/agosto/200802/200802-37509-06.html http://www.tsj.gov.ve/gaceta/septiembre/060902/060902-37522-01.html
	Partial reform of the Law regulating the FIEM		37.547	Oct, 11-2002	x	x		http://www.bcv.org.ve/fiem/fiem.htm http://www.tsj.gov.ve/gaceta/octubre/111002/111002-37547-01.html
	Partial reform of the Law of the BCV		35.606 Ext-5.606	Oct, 18-2002	x			http://www.bcv.org.ve/c3/refleybcv.asp www.pgr.gob.ve/dmdocuments/2002/5606.pdf
	Organization and Functioning of the Central Public Administration	2.083	37.562	Nov, 04-2002		x		http://www.tsj.gov.ve/gaceta/noviembre/041102/041102-37562-27.html
	Partial reform of the Organization and Functioning of the Central Public Administration	2.141	37.576	Nov, 22-2002		x		http://www.tsj.gov.ve/gaceta/noviembre/221102/221102-37576-27.html

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	Regulation No.4 of the LOAFSP, about the Public Accounting System	2.259	37.600 Ext-5.623	Dec, 30-2002	x			www.pgr.gob.ve/dmdocuments/2002/5623.pdf
2003	Partial reform of the Law regulating the FIEM		37.604	Jan, 07-2003	x	x		http://www.bcv.org.ve/fiem/fiem.htm http://www.tsj.gov.ve/gaceta/enero/070103/070103-37604-01.html
	Partial reform of the LOAFSP		37.606	Jan, 09-2003	x	x	x	http://www.tsj.gov.ve/gaceta/enero/090103/090103-37606-01.html
	The Ministry of Finance is empowered (authorized) to convene with the BCV, some temporary measures to limit and restrict the convertibility of national currency and money transfers to foreign funds	2.278	37.614	Jan, 21-2003	x			http://www.tsj.gov.ve/gaceta/enero/210103/210103-37614-01.html
	Partial reform of the Law regulating the FIEM		37.665	Apr, 04-2003	x	x		http://www.bcv.org.ve/fiem/fiem.htm http://www.tsj.gov.ve/gaceta/abril/040403/040403-37665-01.html
	Reform of the Organization and Functioning of the Central Public Administration	2.360	37.672	Apr, 15-2003		x		http://www.tsj.gov.ve/gaceta/abril/150403/150403-37672-09.html
	Partial reform of the Organic Law of Decentralization, Delimitation and Transference of Competencies of the Public Power		37.753	Aug, 14-2003		x		http://www.tsj.gov.ve/gaceta/agosto/140803/140803-37753-02.html
	Regulations of the LISLR	2.507	37.782 Ext-5.662	Sept, 24-2003	x			www.pgr.gob.ve/dmdocuments/2003/5662.pdf
	Law that creates the Fund for Macroeconomic Stabilization (FEM)		37.827	Nov, 27-2003	x	x		http://www.bcv.org.ve/fem/pdf/leyfem2003.pdf http://www.tsj.gov.ve/gaceta/noviembre/271103/271103-37827-01.html
2004	Creation of the Fund for Economic and Social Development for the Country			May, 14-2004	x	x		http://www.pdvsa.com/index.php?tpl=interface.sp/design/readmenuuprinc.t

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								pl.html&newsid_temas=39
2004	(FONDESPA)							
	Partial reform of the LOAFSP		37.978	Jul, 13-2004	x	x	x	http://www.tsj.gov.ve/gaceta/julio/130704/130704-37978-02.html
	Creation of the Ministry of State for the Financing of Development	3.128	38.027	Sept, 21-2004				http://www.pgr.gob.ve/dmdocuments/2004/38027.pdf
	Partial reform of the Organization and Functioning of the Central Public Administration	3.125	38.027	Sept, 21-2004		x		http://www.pgr.gob.ve/dmdocuments/2004/38027.pdf
	Creation of the Commission for the control, monitoring and evaluation of the recovery of the VAT and 'Draw Back' issued by the tax authority (SENIAT)	1.572	38.027	Sept, 21-2004	x			http://www.pgr.gob.ve/dmdocuments/2004/38027.pdf
2005	Regulation No.2 of the LOAFSP, about the Public Debt System	3.435	38.117	Jan, 28-2005			x	http://www.tsj.gov.ve/gaceta/enero/280105/280105-38117-02.html
	Partial reform of the Organization and Functioning of the Central Public Administration	3.570	38.162	Apr, 08-2005		x		http://www.tsj.gov.ve/gaceta/abril/080405/080405-38162-02.html
	Partial reform of the LOAFSP		38.198	May, 31-2005	x	x	x	http://www.tsj.gov.ve/gaceta/mayo/310505/310505-38198-01.html
	Partial reform of the Law of the BCV		38.232	Jul, 20-2005	x			http://www.bcv.org.ve/c3/refleybcv2005.asp http://www.tsj.gov.ve/gaceta/julio/200705/200705-38232-01.html
	Regulations No.1 of the LOAFSP, about the Budgetary System	3.776	38.249 Ext-5.781	Aug, 12-2005	x	x		www.pgr.gob.ve/dmdocuments/2005/5781.pdf
	Constitutive and Statutory Certificate of the Bank of the Treasury (Banco del Tesoro)		38.252	Aug, 17-2005		x		http://www.tsj.gov.ve/gaceta/agosto/170805/170805-38252-06.html http://www.bt.gob.ve/node/118?l=no de/130
	Creation of the Foundation 'Fertile Land'	3.799	38.261	Aug, 30-2005		x		http://www.tsj.gov.ve/gaceta/agosto/300805/300805-38261-02.html

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2005	Creation of the Fund for National Development (FONDEN)	3.854	38.261	Aug, 30-2005		x		http://www.tsj.gov.ve/gaceta/agosto/300805/300805-38261-03.html
	Partial reform of the Organization and Functioning of the Central Public Administration	3.753	38.262	Aug, 31-2005		x		http://www.tsj.gov.ve/gaceta/agosto/310805/310805-38262-02.html
	Constitutive and Statutory Certificate of FONDEN		38.269	Sept, 09-2005		x		http://www.tsj.gov.ve/gaceta/septiembre/090905/090905-38269-08.html
	Law that creates the Fund for Macroeconomic Stabilization (FEM)		38.286	Oct, 04-2005	x	x		http://www.bcv.org.ve/fem/pdf/leyfem2005.pdf http://www.pgr.gob.ve/dmdocuments/2005/38286.pdf
	Partial regulation of the Law for Biddings (Request for Biddings)	4.032	38.304 38.313	Nov, 01-2005 Nov, 14-2005		x		http://www.tsj.gov.ve/gaceta/noviembre/011105/011105-38304-16.html http://www.tsj.gov.ve/gaceta/noviembre/141105/141105-38313-05.html
	Exchange agreement No.9 (Convenio Cambiario No.9)		38.318	Nov, 21-2005	x	x		http://www.pgr.gob.ve/dmdocuments/2005/38318.pdf
	Partial regulation No.4 of the LOAFSP, about the Public Accounting System	4.099	38.318 38.333	Nov, 21-2005 Dec, 12-2005	x	x		http://www.tsj.gov.ve/gaceta/noviembre/211105/211105-38318-10.html http://www.tsj.gov.ve/gaceta/diciembre/121205/121205-38333-18.html
Reform of BANDES		38.162	Abr-2005		x		N/A	
2006	Partial reform of the Organization and Functioning of the Central Public Administration	4.276 5.022	38.386 38.574	Feb, 23-2006 Nov, 29-2006		x		http://www.pgr.gob.ve/dmdocuments/2006/38386.pdf http://www.pgr.gob.ve/dmdocuments/2006/38574.pdf
	Partial reform of the Law regulating the FIDES		38.403 Ext-5.805	Mar, 22-2006		x		www.pgr.gob.ve/dmdocuments/2006/5805.pdf
	Partial reform of the LAEE		38.408	Mar, 29-2006		x		http://www.tsj.gov.ve/gaceta/marzo/290306/290306-38408-02.html

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2006	Law that regulates the participation of the private sector in primary activities listed in the Decree No. 1.510 of the Organic Law of Hydrocarbons		38.419	Apr, 18-2006	x			http://www.tsj.gov.ve/gaceta/abril/180406/180406-38419-22.html
	Regulation No.3 of the LOAFSP, about the Treasury System	4.464	38.433	May, 10-2006		x		http://www.tsj.gov.ve/gaceta/mayo/100506/100506-38433-18.html
	Creation of the National Fund of the Communal Councils	4.485	38.439	May, 18-2006		x		http://www.tsj.gov.ve/gaceta/mayo/180506/180506-38439-02.html
	Partial reform of the Law of Hydrocarbons	1.510	38.443 38.493	May, 24-2006 Aug, 04-2006	x			http://www.tsj.gov.ve/gaceta/mayo/240506/240506-38443-01.html http://www.tsj.gov.ve/gaceta/agosto/040806/040806-38493-01.html
	Creation of the Fund for the Endogenous Development		38.500	Aug, 15-2006		x		http://www.tsj.gov.ve/legislacion/LeyesOrdinarias/25.-GO_38500.pdf
	Partial reform of the LISLR		38.529	Sept, 25-2006	x			http://www.tsj.gov.ve/gaceta/septiembre/250906/250906-38529-04.html
	Partial reform of the LAEE		38.542 Ext-5.824	Oct, 13-2006		x		www.pgr.gob.ve/dmdocuments/2006/5824.pdf
	Creation of the Fund for Strategic Heavy Investment (with Iran)		38.546	Oct, 19-2006		x		http://www.tsj.gov.ve/gaceta/octubre/191006/191006-38546-41.html
2007	Organization and Functioning of the Central Public Administration	5.103	38.599 Ext-5.836	Jan, 08-2007		x		N/A
	Resolutions No. 002 and 003 of the Organic Law of Hydrocarbons		38.602	Jan, 11-2007	x			http://www.tsj.gov.ve/gaceta/enero/110107/110107-38602-18.html
	Enabling Law No.3 (for a period of 18 months)		38.617	Feb, 01-2007				http://www.tsj.gov.ve/gaceta/febrero/010207/010207-38617-01.html
	Partial reform of the LISLR		38.628	Feb, 16-2007	x			http://www.tsj.gov.ve/gaceta/febrero/160207/160207-38628-02.html
	Law for the Migration of Mixed Enterprises of the Oil-bearing Strip Association Agreements; and the Exploration agreements based on shared risks and profits*	5.200	38.632	Feb, 26-2007	x			http://www.tsj.gov.ve/gaceta/febrero/260207/260207-38632-03.html

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2007	Law for the Monetary Reorganization	5.229	38.638	Mar, 06-2007				http://www.tsj.gov.ve/gaceta/marzo/060307/060307-38638-12.html
	Partial reform of the LOAFSP*	5.262	38.648 38.661	Mar, 20-2007 Apr, 11-2007	x	x	x	http://www.tsj.gov.ve/gaceta/marzo/200307/200307-38648-18.html http://www.tsj.gov.ve/gaceta/abril/110407/110407-38661-02.html
	Reform to the Exchange agreement No.9		38.650	Mar, 22-2007	x	x		http://www.pgr.gob.ve/dmdocuments/2007/38650.pdf
	Organization and Functioning of the Central Public Administration	5.246	38.654	Mar, 28-2007		x		http://www.tsj.gov.ve/gaceta/marzo/280307/280307-38654-03.html
	Partial reform of the Law regulating the FIEM*	5.313	38.670	Apr, 25-2007	x	x		http://www.tsj.gov.ve/gaceta/abril/250407/250407-38670-23.html
	Law that regulates the reimbursement of the amounts corresponding to assigned Additional Credits, kept in public accounts of the Republic (of decentralized public entities with no financial activities), to the National Treasury*	5.314	38.680	May, 10-2007	x			http://www.pgr.gob.ve/dmdocuments/2007/38680.pdf
	Creation of the Central Planning Commission*	5.384	38.711 Ext- 5.841	Jun, 22-2007		x		www.pgr.gob.ve/dmdocuments/2007/5841.pdf
	Law on the Effects of the Migration Process of Mixed Enterprises of the Oil-bearing Strip Association Agreements; and Exploration Agreements based on shared risks and profits*		38.785	Oct, 08-2007	x			http://www.tsj.gov.ve/gaceta/octubre/081007/081007-38785-01.html
Decision ONT-2007-004-The BCV and all other Banks and Financial Institutions must open an account under the name of the National Treasury to receive the funds originating from the Financial Transactions Tax (ITF)		38.798	Oct, 29-2007	x			http://www.tsj.gov.ve/gaceta/octubre/291007/291007-38798-15.html	
2008	Partial reform of the Law regulating the FEM*	5.796	38.846	Jan, 09-2008	x	x		http://www.tsj.gov.ve/gaceta/enero/090108/090108-38846-02.html

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	Partial reform of the Organic Customs Law*	5.879	38.875	Feb, 21-2008	x			http://www.tsj.gov.ve/gaceta/febrero/210208/210208-38875-04.html
	Law for Public Contracting*	5.929	38.891 38.895 Ext- 5.877	Mar, 14-2008 Mar, 25-2008		x		www.pgr.gob.ve/dmdocuments/2008/5877.pdf http://www.tsj.gov.ve/gaceta/marzo/250308/250308-38895-03.html
	Law for the Special Contribution over Extraordinary Prices in the International Market of Hydrocarbons		38.910	Apr, 15-2008	x			http://www.tsj.gov.ve/gaceta/abril/150408/150408-38910-2.html
	Resolution No.151-Special Contribution over Extraordinary Prices in the International Market of Hydrocarbons		38.939	May, 27-2008	x			http://www.tsj.gov.ve/gaceta/mayo/270508/270508-38939-67.html
	Creation of the Social Fund for the pulling-in and use of resources in surplus of the National Public Administration Entities*	6.128	38.984 Ext- 5.890	Jul, 31-2008		x		www.pgr.gob.ve/dmdocuments/2008/5890.pdf
	Law regulating the BANDES*	6.214	38.984 Ext- 5.890	Jul, 31-2008		x		www.pgr.gob.ve/dmdocuments/2008/5890.pdf
	Organic Law of Public Administration*	6.217	38.984 Ext- 5.890	Jul, 31-2008	x	x	x	www.pgr.gob.ve/dmdocuments/2008/5890.pdf
	Partial reform of the LOAFSP*	6.233	38.984 Ext- 5.891	Jul, 31-2008	x	x	x	www.pgr.gob.ve/dmdocuments/2008/5891.pdf
	Law for the Agricultural Bank of Venezuela*	6.241	38.984 Ext- 5.891	Jul, 31-2008		x		www.pgr.gob.ve/dmdocuments/2008/5891.pdf
	Law for the simplification of administrative processes*	6.265	38.984 Ext- 5.891	Jul, 31-2008	x	x	x	www.pgr.gob.ve/dmdocuments/2008/5891.pdf
	Partial reform of the Organic Law for the Attorney General's Office of the Republic*	6.286	38.984 Ext- 5.892	Jul, 31-2008		x		www.pgr.gob.ve/dmdocuments/2008/5892.pdf

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	Decision ONT-2008-004-It must be reimbursed to the National Treasury, the amounts deposited in the Republic's accounts that have been not mobilized over a period of four months or longer		39.085	Dec, 22-2008	x			http://www.tsj.gov.ve/gaceta/diciembre/221208/221208-39085-27.html
2009	Amendment No1. to the Constitution of the Bolivarian Republic of Venezuela		39.124 Ext- 5.908	Feb, 19-2009	x	x	x	http://www.mp.gob.ve/LEYES/constitucion/constitucion1.html http://www.oncop.gob.ve/vista/documentos/CONSTITUCION%20DE%20LA%20REPUBLICA%20BOLIVARIANA%20DE%20VENEZUELA%20---%205..pdf
	Partial reform of the LOAFSP	6.233	39.147	Mar, 26-2009	x	x	x	http://www.tsj.gov.ve/gaceta/marzo/260309/260309-39147-1.html
	Organization and Functioning of the Central Public Administration	6.670	39.163	Apr, 22-2009		x		http://www.tsj.gov.ve/gaceta/abril/220409/220409-39163-20.html
	Partial reform of the LOAFSP		39.164	Apr, 23-2009	x	x	x	http://www.tsj.gov.ve/gaceta/abril/230409/230409-39164-2.html
	Partial reform to the Law for Public Contracting		39.165	Apr, 24-2009		x		http://www.tsj.gov.ve/gaceta/abril/240409/240409-39165-18.html
	Social Fund of the Bank of the Treasury		39.166	Apr, 27-2009		x		http://www.tsj.gov.ve/gaceta/abril/270409/270409-39166-7.html#
	Organic Law that reserves to the State the goods and services connected to primary hydrocarbon activities		39.173	May, 07-2009	x			http://www.tsj.gov.ve/gaceta/mayo/070509/070509-39173-1.html
	Organization and Functioning of the Central Public Administration	6.732	39.202	Jun, 17-2009		x		http://www.tsj.gov.ve/gaceta/junio/170609/170609-39202-3.html
	Partial reform to the Foreign Exchange Agreement No.9		39.239	Aug, 11-2009	x			http://www.tsj.gov.ve/gaceta/agosto/110809/110809-39239-23.html
	Regulations of the Organic Law of the General Comptroller's Office and National System of Fiscal Control	6.723	39.240	Aug, 12-2009	x	x	x	http://www.tsj.gov.ve/gaceta/agosto/120809/120809-39240-2.html
The Central Planning Commission will assume the direction, coordination, planning and supervising of the already created and future <i>Misiones</i>	6.882	39.246	Aug, 25-2009			x	http://www.tsj.gov.ve/gaceta/agosto/2582009/2582009.pdf#page=5	

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	Creation of Public Banking Corporation	6.916	39.267	Sept, 18-2009		x		http://www.tsj.gov.ve/gaceta/septiembre/1892009/1892009.pdf#page=2
	Partial reform of the Law of the BCV		39.300 39.301	Nov, 05-2009 Nov, 06-2009	x			http://www.bcv.org.ve/c3/refleybcv2009.pdf http://www.tsj.gov.ve/gaceta/noviembre/6112009/6112009.pdf#page=1
2010	Creation of the Fund Bicentenario	7.173	39.349	Jan, 19-2010		x		http://www.tsj.gov.ve/gaceta/enero/1912010/1912010.pdf#page=3
	Creation of the National Electrical Fund	7.257	39.371	Feb, 22-2010		x		http://www.tsj.gov.ve/gaceta/febrero/2222010/2222010.pdf#page=1
	Organic Law of the Federal Government Council		39.371 Ext- 5.963	Feb, 22-2010				http://www.minamb.gob.ve/files/Ley-consejo-federal.pdf www.pgr.gob.ve/dmdocuments/2010/5963.pdf
	Law that revokes the FIDES		39.394	Mar, 25-2010		x		http://www.tsj.gov.ve/gaceta/marzo/2532010/2532010.pdf#page=1
	Creation of the Fund of Socialist Efficiency	7.381	39.411	Apr, 27-2010		x		http://www.tsj.gov.ve/gaceta/abril/2742010/2742010-2835.pdf#page=3
	Partial reform of the Law of the BCV		39.419	May, 07-2010	x			http://www.bcv.org.ve/c3/refleybcv2010.pdf http://www.tsj.gov.ve/gaceta/mayo/752010/752010-2843.pdf#page=1
	The Autonomous Service of the FIDES is incorporated to the Vice-presidency of the Republic		39.422	May, 12-2010		x		http://www.tsj.gov.ve/gaceta/mayo/1252010/1252010-2846.pdf#page=1
	Partial reform of the Law regulating the BANDES	6.214	39.429	May, 21-2010		x		http://www.tsj.gov.ve/gaceta/mayo/2152010/2152010-2854.pdf#page=1
	Foreign Exchange Agreement No. 18		39.439	Jun, 04-2010	x			http://www.tsj.gov.ve/gaceta/junio/462010/462010-2866.pdf#page=7
	Partial reform of the LOAFSP		39.465	Jul, 14-2010	x	x	x	http://www.tsj.gov.ve/gaceta/julio/1472010/1472010-2899.pdf#page=2
Creation of the Central Planning Commission		39.476 Ext- 5.990	Jul, 29-2010			x	www.pgr.gob.ve/dmdocuments/2010/5990.pdf	

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	Special Law for the Liquidation of FIDES		39.476 Ext-5.991	Jul, 29-2010		x		www.pgr.gob.ve/dmdocuments/2010/5991.pdf
	Law for Special Economic Assignments originated by Mines and Hydrocarbons (LAEE)		39.476 Ext-5.991	Jul, 29-2010		x		www.pgr.gob.ve/dmdocuments/2010/5991.pdf
	Authorization to PDVSA to acquire debt up to a fixed amount		39.548	Nov, 09-2010			x	http://www.tsj.gov.ve/gaceta/noviembre/9112010/9112010-2991.pdf#page=11
	Partial reform of the LOAFSP		39.556	Nov, 19-2010	x	x	x	http://www.tsj.gov.ve/gaceta/noviembre/19112010/19112010-3002.pdf#page=2
	Enabling Law No.4 (for a period of 18 months)		39.576 Ext-6.009	Dec, 17-2010				www.pgr.gob.ve/dmdocuments/2010/6009.pdf
	Organic Law of the Popular Power		39.578 Ext-6.011	Dec, 21-2010				www.pgr.gob.ve/dmdocuments/2010/6011.pdf
	Organic Law for the public and popular planning		39.578 Ext-6.011	Dec, 21-2010		x		www.pgr.gob.ve/dmdocuments/2010/6011.pdf
	Organic Law of the Economic Communal System		39.578 Ext-6.011	Dec, 21-2010				www.pgr.gob.ve/dmdocuments/2010/6011.pdf
	Organic Law of the Social Audit Office		39.578 Ext-6.011	Dec, 21-2010				www.pgr.gob.ve/dmdocuments/2010/6011.pdf
	Partial reform to the Organic Law of the General Comptroller's Office		Ext-6.013	Dec, 23-2010	x	x	x	http://www.sunai.gob.ve/images/stories/PDF/Leyes/LOCGRSNCF_GO_6013_Ext_23-12-2010.pdf
	Creation of the Fund Simón Bolívar for the Reconstruction	7.936	39.583	Dec, 29-2010		x		http://www.tsj.gov.ve/gaceta/diciembre/29122010/29122010-3038.pdf#page=3

(*) Laws enacted by Special Enabling Laws conceded to the President of the Republic

Source: Official Gazettes (<http://www.pgr.gob.ve>), Governmental web sites