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UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

R E P O R T*

of a mission to Venezuela
to study the current situation regarding industrial investments
undertaken by

Kurt V. Hartmann
on behalf of UNIDO

* This document has been produced without formal editing.

TABLE OF CONTENTS

	<u>Page</u>
RECOMMENDATIONS.....	1
GENERAL BACKGROUND.....	3
Political Situation.....	3
Election Year 1988.....	3
Need for New Investment.....	4
INVESTMENT CLIMATE.....	4
Permisologia.....	4
Exchange Rate.....	5
INSTITUTIONS IDENTIFYING/PROMOTING INDUSTRIAL INVESTMENT PROJECTS.....	6
Venezuelan Investment Fund (FIV).....	6
Ministry of Planning (CORDIPLAN).....	6
Ministerio de Fomento (Direccion Industrial).....	6
Corporación de Desarrollo de la Pequeña y Mediana Industria (CORPOINDUSTRIA).....	7
Corporación de Turismo (CORPOTURISMO).....	7
Fondo de Credito Industrial (FONCREI).....	7
POSSIBLE SPECIFIC PROGRAMMES OF ASSISTANCE.....	9
AREAS/SECTORS FOR INDUSTRIAL INVESTMENT PROJECT IDENTIFICATION...	10
EXISTING PROJECTS UNDER PROMOTION.....	11
EVALUATION OF THE ACTIVITIES UNDERTAKEN BY THE IDENTIFIED INSTITUTIONS.....	11
Project Identification and Formulation.....	11
Permisologia.....	12
Exchange Rate of Foreign Currency.....	12
LIST OF PERSONS MET.....	13

RECOMMENDATIONS

The mission to Venezuela was undertaken at the request of the Resident Representative in Venezuela, Dr. Elena Martínez, as well as the Vice-Minister of the Ministry of Development, Dr. Francisco García Palacios and Mr. Aquiles Viloria Viloria of the Venezuelan Investment Fund. During the first meeting with the Resident Representative Dr. Martínez, the consultant was informed that a programme for Venezuela should be prepared and that a preliminary proposal be drafted by May/June 1988 and negotiated with the current administration.

It was the opinion of the Resident Representative to involve the Venezuelan authorities concerned with the identification and/or promotion of industrial investment projects in the responsibility of designing a tailor-made programme for this particular country. A copy of a programme currently under execution in another country would not be adequate since the existing problems in Venezuela were completely different.

Having met Directors and Heads of Department, the consultant shares the opinion of Dr. Martínez and suggests - after having made a survey of the institutions, which is described in more detail in the following report - that since there are several institutions already working in different directions, this programme should:

1. Establish an institutional-building mechanism with a data bank to co-ordinate:
 - identification
 - formulation
 - preparation
 - appraisal, and
 - implementation,of industrial investment projects;
2. Promote such inputs for investment on the national and international levels.

All institutions involved with identification and/or promotion of industrial investment projects are aware of the need to alter or eliminate the endless process for obtaining the necessary permits and the need to create new policies to generate foreign investment (exchange rate).

The Venezuelan Investment Fund has drafted a list of four major points urging UNIDO to assist in solving the following problems:

1. To identify the causes which have made new investment impossible.
2. To formulate recommendations to help overcome this situation with emphasis on:
 - a) the definition of areas and sectors of priority
 - b) the establishment of a methodology for investment projects
 - c) the definition of an institutional mechanism to provide incentives for national and foreign investments in the priority areas.
3. The formulation of follow-up strategies for the recently created office of "Agilizacion y Seguimiento de Proyectos" and the pre-investment fund.
4. Recommendations regarding the simplification of the endless and time-consuming process of obtaining permits.

Assistance is required most urgently and follow-up of this mission should be guaranteed, since the country is at a particular stage of development. The Government has established new measures to stimulate the investment of the private sector as well as new policies to develop increased export of non-traditional products.

Since 1988 is an election year, the final project document should be signed by the new Administration to be formed in early 1989, thus guaranteeing any prospective investor a continuation of government policies for a period of five years.

GENERAL BACKGROUND

a) Political Situation

Venezuela, at the tip of Latin America, enjoys a stable democratic government freely elected since 1958 and has therefore experienced a booming industrial development during the last 30 years. Both public and private sector industries could freely determine their objectives and promote their projects without major interference or restrictions from the Administration. Within this free market climate, a variety of industries were established, providing the country primarily with national food products and locally manufactured textile products. The two major political parties, the Accion Democratica (AD), and the Partido Social Christiano (COPEI), headed the various administrations (and their respective presidents), since 1958 as follows:

Don Romulo Betancourt (AD)	1958 - 1963
Dr. Raul Leoni (AD)	1964 - 1968
Dr. Rafael Caldera (COPEI)	1969 - 1973
Carlos Andres Perez (AD)	1974 - 1978
Dr. Luis Herrera Campins (COPEI)	1979 - 1983
Dr. Jaime Lusinchi (AD)	1984 -

Throughout the years of the young democracy of Venezuela, the only handicap was that certain government policies were changed or altered by the new party forming the administration. The influence on the private sector was minor and only companies involved in government projects, (housing, infrastructure), suffered setbacks which were also due to changes in personnel in the different departments.

According to the last opinion polls, the candidate of the government party Accion Democratica, is currently leading by approximately 15 per cent over his nearest rival.

b) Election Year 1988

1988 is an election year and the two candidates, Carlos Andres Perez from AD and Dr. Eduardo Fernandez from COPEI, have not yet started their campaigns and no platform was presented to the electorate. However, a programme for Venezuela should be initiated this year in order to gain time and begin its implementation right after the elections.

c) Need for New Investment

The Venezuelan economy was, and is, based on state-owned companies dealing in:

- oil
- iron and steel
- aluminium
- petrochemicals.

Due to the fact that oil and steel have suffered serious price drops on the international market, Venezuela has had to look for new investment projects, oriented to exports of so-called non-traditional items, to generate foreign currency and strengthen this sector of the economy.

The State-owned oil, steel, aluminium and petrochemical companies account for approximately 80 per cent of the GNP and therefore, the Government is now paying special attention to the non-traditional sector of the economy with incentives to make this sector increase by 20 per cent in the 1990's. The new investments or external inputs should be oriented towards and cover this 20 per cent market. This is the market for which technology and know-how, joint venture agreements and international promotion is required. This sector of the economy will certainly grow in the future and will play an important role in the Venezuelan economy.

INVESTMENT CLIMATE

The investment climate in Venezuela has always been positive and for the above-mentioned reasons, it should make Venezuela more attractive. There are, of course, obstacles which have to be eliminated. The two major problems are:

1. "Permisología" (Permits)

Over the years, the government has created new jobs, thus increasing bureaucracy, which today represents one of the main obstacles to new investment projects (Annex I). It is very important to reduce the lengthy process of obtaining permits by eventually setting up a "one-stop investment office", which would help the prospective investor to obtain all the necessary permits through one office, provide advice on the presentation of documents and have the function of informing the investor of the actual progress of his project with regard to permits. This step would help solve a considerable part of the problem.

2. Exchange Rate

The Venezuelan authorities, via the Banco Central de Venezuela, accords foreign investors an exchange rate of Bolivares 14.50 for US\$ 1.00, whereby the current exchange rate on the free market is approximately Bolivares 30 to 31 for US\$ 1.00. This means that the State sells the investors' dollars to the commercial Banks at slightly lower than Bolivares 30 and gains approximately 100 per cent.

It would be imperative that the Government adjusts its policies with regard to foreign investment in such a way so as to make it attractive by means of adjusting the exchange rate for new investment projects to that of the free market value of the US dollar.

The consultant was advised that such a programme is under preparation (Annex II). It also appears that when the complicated exchange systems were put into effect following the devaluation of the Bolivar, more attention was paid to the existing industries and to the local investor, than to new foreign investments.

INSTITUTIONS IDENTIFYING/PROMOTING
INDUSTRIAL INVESTMENT PROJECTS

a) Venezuelan Investment Fund (FIV)

This institution, together with CORDIPLAN, has a data bank and registers projects of national interest from either the public or private sector. FIV identifies, promotes and finances projects in the following sectors:

- hydrocarbons
- energy
- chemistry
- iron and steel
- metallurgy
- mining
- electronics
- aeronautics
- the naval industry
- international transportation.

b) Ministry of Planning (CORDIPLAN)

This office maintains a data bank of large projects of public interest in accordance with the plans of the Government. A programme (Annex III) by UNDP/DCTD has been signed with the Government and is presently being executed with the objective of helping CORDIPLAN to achieve its goals in the field of public investment and to train personnel.

Together with the FIV, CORDIPLAN organized a forum in October 1987 at which 116 industrial projects were presented to an audience of 600 people, composed of 80 persons from government institutions and 520 persons from the private sector including local investors and managers of multinational companies resident in Venezuela. These projects are the actual "stock", and represent investment opportunities within the priorities defined by the Government (Annex IV).

c) Ministerio de Fomento (Direccion Industrial)

The Ministerio de Fomento has a register of industrial projects with investments totalling more than Bolivares 1 million (approximately US\$ 69,000 at an exchange rate of Bolivares 14.50 for US\$ 1.00), complete with feasibility studies and ready to be promoted. During 1987, 900 projects were registered (Annex V). The Ministry has to be informed of the progress

of each project every six months. Should this information not be given for a period of one year, the project has to be re-registered. The actual follow-up of these projects, besides the above-mentioned progress reports, emerges after execution and via a register of information on the industrial potential (Annex VI RIPI). It is not the task of the Ministry to promote private projects, but to maintain general information on the industrial development of the country.

d) Corporación de Desarrollo de la Pequeña y Mediana Industria (CORPOINDUSTRIA)

This institution handles small and medium scale industry projects up to a value of Bolivares 24 million (US\$ 1.65 million). It identifies, promotes and finances projects. In the opinion of the consultant, CORPOINDUSTRIA is the institution which identifies and promotes projects partly covering the priority areas of the national Government and partly covering the 20 per cent market within the size of the projects it deals with, which is not the State-owned traditional industry.

e) Corporación de Turismo (CORPOTURISMO)

CORPOTURISMO identifies and promotes tourism projects. At present, they are not very active and due to the fact that statistics and information on national and international tourism are not up to date, an exact picture of the need for feasible projects is non-existent.

f) Fondo de Credito Industrial (FONCREI)

This fund manages projects up to a value of Bolivares 150 billion (US\$ 10.34 billion), and identifies, promotes and finances such large investment projects. Financing by the IADB (the Inter-American Development Bank), can be arranged.

Apart from the institutions of the public/private sector, several State-owned companies handle independently their projects and identify and promote them. The State-owned companies are in the so-called traditional industries (oil, steel, petrochemicals and aluminium). However, joint ventures with large foreign investments and foreign technology have been promoted and undertaken. The State-owned companies such as SIDOR, CVG, BAUXIVEN to name a few, are strategic organizations and their scope is to develop areas and sectors strictly of interest to the Government.

INDUSTRIAL INVESTMENT PROMOTION AND FINANCING INSTITUTIONS

Institution	Function	Public/ Private	Financial Coverage in US\$			Sectors	Amortization/ grace years
			Min.	Max.	% invest.		
1. Fondo de Inversiones de Venezuela (FIV)	Identification Promotion Financing	Public Private	10,300,000	-	-	Hydrocarbons Petrochemistry Chemistry Energy etc.	20/4
1a. Fondo de Preinversion (FIV)	Financing of preinvestment	Private	10,000	-	80%	All sectors	-
2. Fondo de Crédito Industrial (FONCREI)	Identification Promotion Financing	Public/ Private	-	137,000 or plus (BID)	70-75%	Agroindustry Capital Goods etc.	BID 4/- 12/2
3. Corporación de Desarrollo de la Pequeña y Mediana Industria (CORPO-INDUSTRIA)	Identification Promotion Financing	Private	-	1,650,000	-	Small/medium size industries	20/-
4. CORDIPLAN (including regional corporations)	Identification Promotion	Public/ Private	No Financing			Of national interest	n.a.
5. Ministerio de Fomento	Registration	Private	No Financing			All sectors	n.a.
6. Corporación de Turismo (CORPOTURISMO)	Identification Promotion	Public/ Private	No Financing			Hotels and Recreation	n.a.
7. State-owned companies SIDOR CVG BAUXIVEN	Identification Promotion	Public	No Financing			Strategic mega- projects	n.a.
8. Fondo de crédito agropecuario (FCA)	Financing	Private	-	-	30-50%	Agriculture Agroindustry	4-5/1-5
9. Fondo de Financiamiento a las Exportaciones (FINEXPO)	Financing	Private	n.a.	n.a.	n.a.	Feasibility Market studies Promotion costs	1.5-5/0
10. Fondo de Desarrollo Urbano (FONDUR)	Financing	Public/ Private	-	-	up to 100 %	Hotel/Housing centers	10/3
11. Banco Industrial de Venezuela (BIV)	Financing	Public/ Private	-	-	50-75%	All sectors	13/2
12. Commercial Banks	Financing	Public/ Private	-	-	up to 75%	All sectors	

INDUSTRIAL INVESTMENT PROMOTION AND FINANCING INSTITUTIONS

POSSIBLE SPECIFIC PROGRAMMES OF ASSISTANCE

Assistance is required in establishing a system for investments ranging from project idea level to the actual promotion of projects. The national Government has established a new office for promotion and pre-investment within the Fondo de Inversiones de Venezuela with the objective of financing the pre-investment of projects within the framework of the priorities of the national development (see Annex VII, Reglamento de operaciones del programa de pre-inversion).

This office helps finance pre-investment projects of the private sector: Bolivares 150,000 to Bolivares 500,000 for pre-investment and up to Bolivares 2 million for feasibility studies. The promotor carries 20 per cent of the total cost and the Fund carries up to 80 per cent. The establishment of this new office was an important step in the promotion of investment projects since, in accordance with local bank laws, no commercial Bank is allowed to finance pre-investment.

The consultant was given a list of four points (Annex VIII) by the FIV, which has already been partly explained previously in this report. This list itself explains where assistance is required and in which areas and it expresses the urgency for the preparation of a programme by UNIDO.

In order to re-activate foreign investment in Venezuela, serious changes in the identification and formulation of industrial investment projects will have to be undertaken. Several institutions identify and promote the same projects. It is absolutely essential that the presentation of industrial investment projects is co-ordinated, using the right instruments of evaluation.

Here, the Industrial Investment Project Identification and Formulation Branch of UNIDO comes precisely into the picture, who, with the co-ordination of the local authorities and using a data bank, could analyze projects within the framework of the following six phases:

- identification
- formulation
- preparation
- appraisal
- implementation
- promotion.

Within this framework and with the Investment Promotion Section, UNIDO could render positive assistance.

It would be worthwhile to consider a promotional programme for Venezuela which would underline that it is a country where emphasis is placed on the stable political climate, there is a favourable investment climate and it is the gateway to Latin America and the Caribbean. Another very useful tool could be the distribution of material via the Venezuelan Embassies and Consulates as well as international advertizing in the major cities of the industrialized countries.

AREAS/SECTORS FOR INDUSTRIAL INVESTMENT PROJECT IDENTIFICATION

The areas to which most attention is given by the national Government are divided into two: Priority sectors and socio-economic objectives.

Priority sectors

- Agriculture
- Agro-industry
- Metallo-mechanics
- Chemicals and petrochemicals
- Capital goods
- Electronics and informatics
- Mining
- Tourism.

Socio-economic objectives

- a) to substitute imports
- b) to generate exports of non-traditional products
- c) to generate employment
- d) to take advantage of natural resources and of the existing infrastructure
- e) to contribute to the decentralization of the economy
- f) securing an attractive rentability.

Venezuela was, and to a certain extent is, an importing country and a large proportion of commerce and trade is based on products from the industrialized countries (USA and Europe).

Until recently, exports concentrated mainly on natural resources and are today termed "traditional exports". The country needs to create new industries in the areas and sectors defined as priorities in order to eliminate imports and to achieve the objectives detailed before. On the other hand, there is great interest in exports of "non-traditional products". Due to the low

labour costs and the country's energy resources, competitive items can be produced and the export of these products could generate foreign currency and help to establish a favourable balance of payments. It would be important to promote such industrial investment projects for future exports to the international markets.

EXISTING PROJECTS UNDER PROMOTION

In October 1987, the Fondo de Inversiones de Venezuela and the office of CORDIPLAN held the first National Forum for the Promotion of Projects. In a publication under the title of Investment Opportunities, projects at different stages of development were presented under the sponsorship of the Fondo and CORDIPLAN for a total of Bolivares 9.446.06 million, (US\$ 651 million), covering sectors such as industry, agriculture, mining, tourism and services related to the above-mentioned industries.

It is the consultant's understanding that at the present stage, some of these projects are promoted at the national level. The promoters of these projects are regional institutions of the public sector, contributing to the reactivation of the national economy, as well as promoters of the private sector. The main idea of this Forum was to inform the national and foreign investors of the opportunities for investment in certain areas of priority, the possibilities of financing, and to start a data bank which promotes projects of national interest at the national and international level.

EVALUATION OF THE ACTIVITIES UNDERTAKEN BY THE IDENTIFIED INSTITUTIONS

1. Project Identification and Formulation

Guidance has to be given to all projects of the private and public sector regarding the task of identification and formulation of projects. If - in accordance with the incentives of the national Government with respect to reactivation of the national productivity - promotion of projects on the international scale is desired, it is absolutely necessary to find ways and means of presenting all the projects of national interest in a uniform and coherent manner. At the present time, there are thousands of projects which are handled individually by regional and central governmental institutions as well as the private sector, and each of these projects is identified, formulated and presented in a different way. The consultant gained the

impression that many projects of national interest are managed locally for political reasons with only a remote possibility of success. Better results could be achieved by involving local or international industrial firms who know their markets and have a sound record of marketing products.

2. Permisologia (permits)

The long periods of time needed to obtain all the necessary permits from project inception to its actual implementation or completion will certainly prevent many foreign and local investors from considering any involvement. Many of the innumerable permits will have to be simplified and the period of obtainment shortened in order to generate interest on the side of possible investors. The same time-consuming "permisologia" exists for items exported from Venezuela to international markets. Despite the advantages of the geographic position of Venezuela, the low labour costs and the relatively high standard of living which guarantees a potential market, many investors did not consider the country as an interesting proposition due to the endless process of "permisologia".

3. Exchange Rate of Foreign Currency

As already mentioned in this report, participation of foreign investors in a project, either in the form of equity arrangements or machinery, is accorded with an exchange rate of Bolivares 14.50 for US\$ 1.00 by the Venezuelan authorities. By withdrawing their investment at any given time, the local authorities guarantee an exchange rate again of Bolivares 14.50. How this policy will develop in the near future is unknown. The current free market exchange rate given by commercial banks and exchange offices is at present approximately Bolivares 30 to 31 for US\$ 1.00.

LIST OF PERSONS MET

Dr. Elena Martinez, Resident Representative, United Nations Development Programme in Venezuela

Mr. Aquiles Vilorio Vilorio, Gerente de Cooperación Financiera Internacional, Fondo de Inversiones de Venezuela.

Ing. José Cermeño. Director, Dirección de Promoción y Desconcentración Industrial, Caracas.

Ing. Francisco José Acevedo, Director de Preinversión, Oficina Central de Coordinación y Planificación de la Presidencia de la República.

Mr. Manuel Tortora de Rangel, Director General de Planificación y Desarrollo Comercial, Instituto de Comercio Exterior.

Mr. José Rafael Betancourt, Gerente de Promoción y Preinversión, Fondo de Inversiones de Venezuela.

Mr. Juan Carlos Pérez-Segnini, Superintendente, Superintendencia de Inversiones Extranjeras, Ministerio de Hacienda.

Dr. José Luis Fernández, Director de Registro, Seguimiento y Control de Proyectos, Oficina Central de Coordinación y Planificación de la Presidencia de la República.

Mr. Dietrich Schroder, Gerente General, Ritecma C.A., Caracas.

Econ. José R. Sánchez M., Director de Secretaría, Despacho del Ministro, Ministerio de Fomento.