



Embassy of the Bolivarian Republic of Venezuela

CONTEXT PAPER

TOWARDS A BOLIVARIAN SOCIAL ECONOMY

The transformation from a capitalist economic model to a socialist one has been a cornerstone of the Bolivarian Process in Venezuela since President Hugo Chávez took office in 1999. According to the National Superintendence of Cooperatives, the cooperative sector in Venezuela - representing an important part of the country's "Social Economy" - **makes up about 14% of the gross domestic product and employs about 18% of workers throughout Venezuela.**¹

As in many parts of Latin America, neoliberal economic reforms occurring in the 1980s and '90s exacerbated the problems of poverty and inequality in Venezuela. By 1999, Venezuela's poverty rate had reached 50%.² At the World Social Forum in 2005, President Chávez stated: "We must transcend capitalism [since] it is impossible, within the framework of the capitalist system to solve the serious problems of poverty of the majority of the world's population."³

The Social Economy is sovereignty, social justice, just distribution and real democracy. A Venezuela for everybody.
(Alo Presidente 164)

Under the Chávez administration, Venezuela has embarked on a completely different path. The economy is now seen as a vehicle for creating a more inclusive and equal society based on the redistribution of wealth and the principles of solidarity, community participation and endogenous development.

The Social Economy of Venezuela, as explained by President Chávez, "brings together economic and social interests and gains strength from the dynamism in local communities and the participation of citizens and workers of alternative enterprises, such as associative enterprises and self-managed micro-enterprises."⁴

This vision of the Social Economy is also codified in the 1999 Constitution of the Bolivarian Republic of Venezuela. That charter guarantees institutional support for the creation of new and innovative initiatives in this area.

¹ MINCI, Sector Cooperativo representa 14 % del PIB Venezolano, <http://www.minci.gob.ve/noticiaseconomia/1/15865/sector_cooperativo_representa.html> (accessed June 10, 2008).

² Weisbrot, Mark, Sandoval, Luis, Rosnick, David, "Indices de Pobreza en Venezuela: En búsqueda de las cifras correctas," CEPR, May 2006, <http://www.cepr.net/documents/venezuelan_poverty_rates_2006_05_spanish.pdf> (accessed, June 16, 2008).

³ Cleto A. Sojo, 13 Jan. 2005, "Venezuela's Chávez Closes World Social Forum with Call to Transcend Capitalism" <<http://www.venezuelanalysis.com/news/907>> (accessed June 7, 2008).

⁴ Alo Presidente No. 164, 14. Sep. 2003, Palacio Miraflores, <http://alopresidente.gob.ve/component?option=com_docman/Itemid,0/task,cat_view/gid,20/dir,DESC/order,date/limit,5/limitstart,130/> (accessed June 7, 2008)



Embassy of the Bolivarian Republic of Venezuela

The 1999 Constitution

Article 299 of the 1999 Constitution emphasizes human development, social justice, participatory democracy, and a fair distribution of wealth. The importance of participation is also expressed in **Article 70**, which states that the involvement of people in the exercise of their social and economic affairs should be manifested through citizen service bodies, self-management, co-management, cooperatives in all forms, community enterprises, as well as other kinds of associations guided by the values of mutual cooperation and solidarity.

Article 308 highlights the importance of small- and medium- sized organizations, family owned businesses, community associations and other arrangements of collective ownership.

This is meant to strengthen the country's economic development "**based on the initiative of the people.**" And finally, **Article 118** makes it the State's **mandate** to "**promote and protect these associations destined to improve the popular economic alternative.**"

Today, hundreds of thousands of people participate actively in the Social Economy in Venezuela... Between 1999 and 2007, the Human Development Index (HDI) increased from 0.72 to 0.8, and the Gini coefficient (measuring inequality) decreased from 0.49 to 0.42.

Today, hundreds of thousands of people participate actively in the Social Economy in Venezuela. Unemployment has decreased from 14.7 % in 1999 to 7.9 % in 2008.

Employment in the informal sector has decreased by 6.4% during that same time.

The number of people living in poverty has decreased from 50.4 % in 1998 to 33.6 % in 2007 and the number of those living in

extreme poverty has decreased from 20.3 % to 9.6 % in that same period. The Human Development Index (HDI) increased from 0.72 in 1998 to 0.8 in 2007, and during that time, the Gini coefficient (a measure of economic inequality) decreased from 0.49 to 0.42.⁵

As is reflected in the 1999 Constitution, the active involvement of citizens in the Social Economy today is not a coincidence, but rather the outcome of a conscious process initiated by the government of Venezuela, leading to concrete actions that inspired Venezuelans to participate in and organize the Social Economy.

In 2004, the Ministry of People's Power for Popular Economics (now the Ministry of People's Power for the Communal Economy) was formed, in order to oversee and implement policies to bring about a socialist economy. This required a coordinated effort among various institutions, as well as the participation of organized communities and cooperatives.⁶

Cooperatives

Although many new, creative and alternative forms of economic organizing have been growing all over Venezuela the most numerous by far are cooperatives. The cooperatives serve as a platform and first step towards more advanced socio-economic models.

⁵ INE, Indicadores Sociales – Junio 2008," Presentation Powerpoint.

⁶ Ministry for the People's Power of the Communal Economy, <<http://www.minec.gob.ve/contenido.php?id=29>> (accessed June 5, 2008).



Embassy of the Bolivarian Republic of Venezuela

According to the Superintendence of Cooperatives (SUNACOOB), which oversees cooperatives in Venezuela, there were 910 cooperatives nationwide in 1999, while by the end of 2007, that number rose to 228,004.⁷ **The cooperative sector in Venezuela now represents about 14 % of Venezuela's GDP, and accounts for about 18 % of employment in Venezuela.**⁸ Most of the cooperatives fall under the service sector (61.29%) and the production sector (27%).⁹

The rise of cooperatives began in 2001, with the "Special Law of Cooperative Associations" that emphasize the importance of the State in promoting cooperatives through various mechanisms including education, improved access to financial services, direct tax exemption and the prioritization of cooperatives in public contracting (Article 89). In fact, the rise in number of cooperatives accelerated in the year 2003 as a result of the implementation of these mechanisms through various state agencies.

Social Missions: *Misión Vuelvan Caras & Misión Che Guevara*

One of the most important programs in this regard was the creation of "Vuelvan Caras" Mission in early 2004. This state-run program offers both technical education, such as classes in agriculture, tourism or construction, and orientation as to what the Social Economy is about. Between March 2004 and August 2007, over 670,000 people completed the program, resulting in the creation of more than 10,000 cooperatives by its alumni.¹⁰ More than 3,000 of these organizations pertain to the agricultural sector, and they are an important element of Venezuela's social economy.¹¹

"Vuelvan Caras" is one of 25 "social missions," or state-sponsored social development programs, currently operating in Venezuela in diverse fields of human development such as education, health, culture and nutrition. They are a fundamental part of Venezuela's policy of redistributing wealth and making basic social services accessible to all citizens. Studies have found that the social missions contributed to a 9.9% decrease in the poverty rate since 2003.¹²

In September 2007, "Vuelvan Caras" continued under its new name, "Che Guevara," to emphasize the incorporation of new elements into its educational plan. This new plan aims to educate students about the distinctive socio-economic models that have been evolving over time.

⁷Presentation SUNACOOB, Juan Carlos Baute, VIII Simposio Nacional de Economía Social, Universidad de los Andes, Trujillo Abril 2008, "Resultados de las Políticas Desarrolladas Por El Gobierno Bolivariano Para La Promocion Y Apoyo A Las Cooperativas."

⁸MINCI, Sector Cooperativo representa 14 % del PIB Venezolano, <http://www.minci.gob.ve/noticiaseconomia/1/15865/sector_cooperativo_representa.html> (accessed June 10, 2008).

⁹Ibid.

¹⁰Fundación Misión Che Guevara, "Oleadas MVC 2004-2005/2006 y Joven MchG 2007", (Presentation Power Point) February 22, 2008.

¹¹ According to information received from the "Fundación Misión Che Guevara" on March 24, 2008.

¹² Venworld, "Venezuela's Social Missions Five Years Later,"

<<http://venworld.wordpress.com/2008/05/13/venezuelas-social-missions-five-years-later/>> (accessed June 13, 2008)



Embassy of the Bolivarian Republic of Venezuela

Social Production Enterprises

The Social Production Enterprise (EPS) is one such new model that has developed in Venezuela within the last few years. They are defined by the government as “economic entities dedicated to the production of goods or services in which work has its proper and authentic value, with no discrimination associated with any type of work, no privileges related to certain positions or hierarchies and with equality between its members, based on participative planning.”¹³

In practical terms, Social Production Enterprises represent an advanced cooperative model, where parts of profits are invested into community projects. Today, there are at least 3,060 Social Production Enterprises in Venezuela, representing about 30% of the supplier contract value with state enterprises.¹⁴

Oil and the Social Economy of Venezuela

PDVSA, Venezuela’s state-owned oil company, has taken a leading role in bringing about the move towards a new socio-economic model. **10% of the investment volume of every project carried out by PDVSA goes into a social fund that is used for projects in education, health, infrastructure or the social missions.**¹⁵

PDVSA is supporting endogenous (or inward-focused) development in Venezuela. By working hand in hand with the private sector, they plan to invest \$56 billion in 6 large development projects until the year 2013.¹⁶

An important part of this amount will be used to strengthen Venezuela’s technology sector.¹⁷ As part of this plan, called “Sowing the Oil” (Plan Siembra Petrolera), PDVSA has increased its **Supplier Diversity Program** to include Social Production Enterprises in its supplier base and give small cooperatives the chance to develop their own capacities and technologies. In so doing, PDVSA complies with its special role in the “National Socio-Economic Development Plan 2007 – 2013.”

In 2004, PDVSA’s national contracts were valued at \$6 billion. Of this amount, 80% was concentrated in the

“The state company dedicated to the development of hydrocarbons, given its extraordinary buying and contracting capacity, will play a fundamental role in the development of EPS. This will be achieved by delegating productive activities to EPS on a step by step basis”

(Líneas Generales del Plan de Desarrollo Económico y Social de la Nación 2007-2013)

¹³ Translated from “Alo Presidente” # 240, Nov. 20, 2005,

http://alopresidente.gob.ve/component/option,com_docman/Itemid,0/task,cat_view/gid,20/dir,DESC/order,date/limit,5/limitstart,55/ > (accessed June 10, 2008)

¹⁴ According to information received from PDVSA, June 16, 2008.

¹⁵ According to the “Gerencia Regional EPS-Delta Caribe Oriental,” April 2008.

¹⁶ PDVSA, “Plan Siembra Petrolera” <

http://www.pdvsa.com/index.php?tpl=interface.sp/design/readmenuprinc2.tpl.html&newsid_temas=32> (accessed June 11, 2008).

¹⁷ PDVSAS, “Aspectos Tecnológicos Plan Siembra Petrolera,”

http://www.pdvsa.com/siembra_refinacion_internet/pdf/copia_de_aspectos_tecnologicos.pdf> (accessed June 11, 2008)



Embassy of the Bolivarian Republic of Venezuela

hands of 148 firms.¹⁸ In accordance with the concept of participatory democracy in Venezuela, PDVSA made it a priority to “democratize” its supplier base, meaning that it opened up to the many small cooperatives prevalent throughout the country. This way, the state oil company fostered an endogenous model of development that is in line with Venezuela’s social principals.

By December 2007, PDVSA’s supplier network included more than 3,000 Social Production Enterprises.¹⁹

In fact, PDVSA developed an extensive program around the inclusion of EPS, having hundreds of people work on the identification of supplier opportunities, a standardized EPS registration system, and an educational program aiming at strengthening social production enterprises and preparing them to do business with PDVSA and other government entities. In its “EPS School,” the potential suppliers pass through three phases of socio-economic and technical education, receiving up to 760 hours of preparation, depending on the sophistication of the service to be provided.²⁰

Once an EPS has a contract with PDVSA, it commits itself to contributing about 3% of profits to PDVSA’s Social Fund, which currently holds millions of dollars being invested in community projects.²¹ The remaining companies within PDVSA’s supplier chain that are not EPS converted to “EPS Promotion Enterprises,” meaning that they comply with certain criteria, such as supporting and establishing alliances with EPS or contributing to PDVSA’s Social Fund just like the EPS themselves.

NUDES and Social Production Networks²²

Beyond the Social Production Enterprises, many other new socio-economic concepts have evolved in recent years, such as the “Nuclei of Endogenous development” (NUDES). In Venezuela NUDES are formed when communities discover potential projects, linked to a physical space in their surroundings (installations, factories, land) and organize in and around this space to carry these projects out. For example, various cooperatives might join to renovate the area of an abandoned factory, reinvigorating in this way a whole neighborhood and linking the inhabitants of this area to the activities of the NUDE, such as in the case of the Nucleus “Fabricio Ojeda.” A huge inventory plant in the

“Today a dream is coming true for us. In the past, doing business with PDVSA was the privilege of a view large enterprises. Small companies found closed doors at PDVSA. This changed with President Chávez...now it’s the first time that small businesses are given the chance to participate as suppliers and partners of PDVSA, contributing in this way to the socio-economic development of our country....and we are feeling proud of this.”

(Alumn of PDVSA’s EPS-School, May 2008)

¹⁸ PDVSA, Ministerio de Energía y Petróleo, “Las Empresas de Producción Social: Una vía para democratizar la riqueza petrolera,” Discursos No. 3, Caracas, January 2006, pg. 6.

¹⁹ According to information received from PDVSA.

²⁰ PDVSA Gas, “Programa de Empresas de Producción Social-Proyecto Delta Caribe Oriental,” Presentation Power Point, April 2008.

²¹ According to the “Gerencia Regional EPS-Delta Caribe Oriental,” April 2008.

²² PDVSA, Nucleo de Desarrollo Endógeno,

http://www.pdvsa.com/index.php?tpl=interface.sp/design/readmenu.tpl.html&newsid_obj_id=215&newsid_temas=92 >, (accessed June 16, 2008).



Embassy of the Bolivarian Republic of Venezuela

neighborhood Catia in Caracas had been inactive for 12 years until the community decided to turn it into a NUDE. In February 2004, 330 persons formed 24 cooperatives for carrying out diverse construction projects in the nucleus and bringing the area back to life. Today, the Nucleus is a flourishing and active community center hosting more than 60 cooperatives in various areas and counting on important facilities and services such as health care clinics, *Misión Che Guevara*, sports camps and pharmacies, just to name a few. **Today, there are more than 100 NUDES in Venezuela including more than 950 cooperatives active in various fields and especially in agriculture.**²³

Social Production Networks are formed when a Nucleus connects with other Nuclei, or with cooperatives, EPS's, Socialist Production Units or any form of alternative organization to carry out activities for the benefit of the community.²⁴

Socialist Production Units (UPS)

Socialist Production Units are companies run by the government and marked by extensive community involvement. UPS's are found predominantly in the agricultural sector, and they promote national agricultural sovereignty. Part of the profits of these companies is invested into community projects, which are identified jointly with local community leaders. In the long term, UPS's will ideally be handed over directly to the community and run as community enterprises.

For example, the UPS Agrimiro Gabaldón, formerly a privately-run coffee plantation that was forced to close down due to a drop in coffee prices, was recently inaugurated as a Socialist Production Unit. Under the new model, it extended its coffee cultivation area from 35 hectares to 96 hectares in the year 2005, and began selling its output mainly to public entities.²⁵

Thanks to the creation of these NUDES, Socialist Production Units, and Social Production Networks, an important number of neglected sites and companies have been revived, providing new jobs and linking local economies to local communities to carry out infrastructure and social projects.

Barter Trade

In order to strengthen regional economies and make them less vulnerable to financial crisis, the government of Venezuela has actively supported the rise of the barter system and the creation of communal currencies throughout Venezuela. **Currently, about 4,000 people practice bartering in 7 different regions in Venezuela** (Yaracuy, Falcón, Sucre, Nueva Esparta, Margarita, Barinas, Trujillo). Each has its own local currency. Agricultural products are mainly

²³ Piñeiro Harnecker, Camila, "The New Cooperative Movement in Venezuela's Bolivarian Process," Monthly Review, December 12, 2005 <<http://mrzine.monthlyreview.org/harnecker051205.html>> (accessed June 16, 2008).

²⁴ MINEC, "Desarrollo Endógeno Bolivariano" <http://www.minec.gob.ve/publicaciones/desarrollo_endogeno.pdf> (accessed June 5, 2008).

²⁵ MINCI, "Un Plan Real para el Rescate del Café," <http://www.alopresidente.gob.ve/reportajes/un-plan-real-para-el-rescate-del-cafe.html> (accessed June 11, 2008).



Embassy of the Bolivarian Republic of Venezuela

available for barter trade, and the practice fosters local agriculture.

Community Councils and Communal Banks

Communal Banks were developed hand in hand with Community Councils, or elected neighborhood-based councils. Community Councils oversee local politics and execute development projects geared toward improving the socio-economic status of their communities.

The concept of Community Councils is grounded in the Law of Community Councils, which was passed in April 2006.

Communal Banks are the financial arm of the Community Councils. They are constituted as cooperatives and administered democratically by five persons elected to the Citizens' Assembly, which is the highest decision-making body of the Community Councils.²⁶ Communal Banks facilitate the flow of resources toward community development projects.

According to the Ministry of People's Power for Participation and Social Development, there were 19,500 Community Councils in Venezuela by March 2007,²⁷ and the majority of them received funding from various ministries and state institutions.

Thanks to the thousands of community projects carried out by Community Councils, many important initiatives such as street paving, sports fields, medical centers, and sewage and water systems have been financed and implemented.

For example, by March 2008, the Ministry of People's Power for the Communal Economy alone has approved more than \$400 million to be handed over to 2,540 Communal Banks for productive projects. 1,533 of these banks have already received the whole amount assigned to them, and another 833 received part of the amount. With this money, 21,277 micro-credits were allotted to cooperatives and individual entrepreneurs. Most is used for projects in the service industry, commerce or agriculture. By the end of this year, FONDEMI (the Microfinance Development Fund) plans to finance 3,000 more Communal Banks, distributing yet another \$420 million for productive projects.²⁸

Thanks to the thousands of community projects carried out by Community Councils, many important initiatives such as street paving, sports fields, medical centers, and sewage and water systems have been financed and implemented.

The current government has made enormous strides in bringing about the turn from a capitalist economy to a socialist economy. Changes have occurred on both the governmental level as well as the societal level, and these have been the result of a commitment by state actors, big industries such as PDVSA, and most importantly, the participation of the people. It is thanks to these combined efforts that advancements were achieved.

²⁶ MINCI, "Bancos Comunes: nueva forma de hacer política que empodera al pueblo," May 28, 2006, <http://www.rnv.gov.ve/noticias/index.php?act=ST&f=17&t=33873> (accessed June 11, 2008).

²⁷ Aporrea, "Minpades registra 19 mil 500 consejos comunales," <http://www.aporrea.org/poderpopular/n94588.html> (accessed June 11, 2008).

²⁸ FONDEMI, "Ficha General de Bancos Comunes," Presentation Power Point, March 2008.



Embassy of the Bolivarian Republic of Venezuela

Additional Information

Ministry of Popular Power for the Communal Economy: <http://www.minec.gob.ve/>

Mission Che Guevara: <http://www.minec.gob.ve/contenido.php?id=176>

Sunacoop: <http://www.sunacoop.gob.ve/>

Inapymi: <http://economiasolidaria.inapymi.gob.ve/>, <http://www.inapymi.gob.ve/>

Banco del Pueblo: <http://www.minec.gob.ve/contenido.php?id=6>

Banco de la Mujer: <http://www.banmujer.gob.ve/>

Universidad de los Andes – Cayapa: <http://saber.ula.ve/cayapa/>

PDVSA:

http://www.pdvs.com/index.php?tpl=interface.en/design/readmenuprinc.tpl.html&newsid_temas=38