TACKLING VENEZUELA'S HUMANITARIAN CRISIS

Mobilizing Resources Through a Political Agreement

OIL FOR VENEZUELA

April 2021

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ABOUT OIL FOR VENEZUELA

Oil for Venezuela is a non-profit organization dedicated to the study of policy initiatives that can address Venezuela's humanitarian crisis without being conditioned on a solution to the country's political conflict. We search for de-politicized, transparent, and sustainable mechanisms that can harness the country's wealth and productive potential in order to attend to the most urgent problems faced by Venezuelans today.

RESEARCH TEAM FOR "TACKLING VENEZUELA'S HUMANITARIAN CRISIS: MOBILIZING RESOURCES THROUGH A POLITICAL AGREEMENT"

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EXECUTIVE SUMMARY

This policy paper outlines a proposal for Venezuela to access external financing to deal with the significant balance-of-payments difficulties caused by a combination of external and internal shocks suffered in recent years. Concretely, we develop a proposal that would allow the country to access some of its funds abroad currently blocked because of legal disputes and obtain financing under the Rapid Financing Instrument (RFI) of the International Monetary Fund, a financing modality designed to provide urgent financial assistance to countries in emergency situations.

At the root of our proposals is a recommendation for a political agreement between the parts of the country's political conflict that advances in unifying some key institutions that play an essential role in the management of external assets. These unified institutions can be created from the existing bodies as part of an overarching political agreement to resolve the dispute over the legitimacy of Venezuela's political institutions or, alternatively, as part of partial agreements directed at addressing the consequences of the country's economic and humanitarian crisis even in the absence of a definitive resolution to its political crisis.

The proposal laid out in this paper is also embedded in a more general framework and forms part of a broader approach that underscores the need for agreements between the parts of Venezuela's political conflict that facilitate the re-insertion of the country into the global economy to enable it to attend its serious economic and humanitarian problems.

Venezuela is experiencing one of the largest economic contractions documented in world history. The country has now spent 40 months in hyperinflation, one of the longest documented spells to date. A consortium of leading national universities estimated income poverty at 96 percent in 2019, up from 48 percent in 2014. More than five million persons, or approximately one-sixth of the country's population, have left the country.

Quantitative methods show that the Venezuelan economy's contraction can be traced primarily to the massive contraction in imports seen during the last eight years, with poor productivity growth playing a secondary yet important role. The decline in import capacity is clearly driven by the decline in the country's oil revenues, which have fallen by more than four-fifths.

Although they are far from its only cause, economic sanctions have played an essential role in contributing to this decline in import capacity. Oil revenues began declining in 2014 with the collapse of oil prices set off by a supply glut caused by the growth of shale oil production and OPEC's decision not to stabilize prices at the time. When oil prices began recovering in late 2016, exports did not recover in tandem with them due to the decline in oil production that began in 2016 and accelerated after 2017. Empirical research strongly supports the hypothesis that economic sanctions played a significant role in the decline in oil production.

Venezuela's public health system is particularly ill-equipped to handle a large public health emergency. According to a recent study, Venezuela ranks 176 out of 195 countries evaluated in terms of health security and capacity to confront infectious disease outbreaks. Venezuela has only 0.8 hospital beds per thousand persons, as opposed to a Latin American average of 2.2 and a world average of 3.0.

Fortunately, Venezuela is not among the countries hardest hit by the COVID-19 pandemic. As of March 9th, 2021, Venezuela had documented 143,321 cases of COVID-19 and 1,415 deaths. This makes it the country with the 7th lowest infection rate out of 33 countries in Latin America and the Caribbean in per capita terms. Whether Venezuela's low prevalence rate is genuine or not is a controversial issue. Venezuela has had much less access to PCR testing than other countries, so the data could well reflect testing constraints causing a bias towards underestimation of prevalence.

The country furthermore faces this crisis with very weak public finances. Most of its international bank accounts have either been frozen or passed on to the administration of National Assembly President Juan Guaidó, who many countries recognize as president. U.S. financial sanctions also impede Venezuela from borrowing or restructuring its debt. Access to multilateral lending is restricted, as these entities have taken stances on recognition that impede the Maduro government from accessing funds under the current political status quo. Bilateral lending is also constrained in practice, given that Venezuela has fallen into arrears with its two most important bilateral creditors – China and Russia.

In principle, multilateral financial assistance should be available. The COVID-19 pandemic has forced most countries in the world to run large fiscal deficits in response to external shocks coming from a slowed-down world economy, as well as the costs of each country's own measures to curb the spread of the disease. In response to this growing need for funding, multilateral financial institutions have committed to providing additional financing under improved terms for their member countries.

Different multilateral institutions have taken contrasting positions concerning the recognition of Venezuela's government. The International Monetary Fund (IMF) has stated that Venezuela's requests for funding can't be considered because there is no clarity among its 189 member states on who they recognize as Venezuela's rightful government. The IMF's position appears to reflect the lack of agreement within the organism coupled with management's unwillingness to force a decision against the opposition of many important member states. In contrast to the IMF, there has been no public statement from the World Bank regarding this issue, while the Inter-American Development Bank (IADB) has chosen to recognize Guaidó, and the Andean Development Corporation (CAF) continues to recognize Maduro.

In the event of an end to the current legitimacy crisis, Venezuela would –in theory- be able to access several of the IMF funding mechanisms. Note that Venezuela is not eligible for concessional financing arrangements that are open only to countries eligible for International Development Association (IDA) financing. However, given the deterioration in its living standards, a good case can be made that its exceptional conditions configure a strong argument for consideration for IDA status and eligibility for the associated concessional financing. Venezuela's SDR quota currently stands at SDR 3.7bn (amounting to USD 5.3bn). A recent proposal by the IMF and G20 to issue an SDR allocation for SDR 455bn (USD650bn) would lead to an additional SDR 3.6bn (USD 5.1bn) becoming available for use by the central bank.

Venezuela could also try to tap existing funds blocked because of sanctions or due to the legal implications of the recognition decision of host states. To unlock access to each of these sources, the cooperation of some other country's government would typically be needed.

One of these sources may be readily available in case of a political agreement: the Central Bank of Venezuela's (BCV) gold holdings in the Bank of England. These funds, whose current value rises to USD 1.98bn, are currently the subject of a legal dispute in English courts which could take months or even years to be resolved.

We propose two solutions that would allow access to both IMF financing and Bank of England deposits. First, the IMF or the British government could decide to deal with one of the two governments, either solely for the purposes of this program or more generally. We call this the **single government solution.** Second, the parts to the conflict could jointly appoint a board of the Central Bank. We call this the **single central bank solution.** These are not mutually exclusive, and under a highly probable interpretation, they would need to both be applied in the case of accessing IMF funds. However, the latter will likely be sufficient for accessing Bank of England funds. In the case of the Bank of England, given that the funds are part of international reserves, a mechanism would need to be found for these funds to become available for public spending. We explore several constitutional options.

Once the funds are disbursed, it is up to the government to spend them. For those purposes, we recommend setting up an Administrative Board that would have as its function the management and oversight of the program. The Administrative Board would procure all goods and services to be purchased with the loan funds and other revenues of the program and the distribution of those goods and services in Venezuela.

As with any other part of the Venezuelan state, the Administrative Board should be subject to legislative oversight. We recommend that both the 2015 AN and the 2020 AN have independent powers to approve budgets of the Administrative Board. We also recommend that the Oversight Committees of both the 2015 AN and the 2020 AN have the authority to investigate the activities of the Administrative Board.

The program in question only makes sense within the context of a broader political agreement. This agreement should be subscribed by the parts to the political conflict and should have as its main purpose undertaking concrete actions to address the country's humanitarian emergency. We recommend that the negotiation of this agreement be separated from negotiations on the country's broader political legitimacy crisis.

There is also an overarching necessity of oversight of compliance with the program and whether it is being run consistently with the objectives of the political agreement that gave rise to it. An independent body, mainly composed of representatives of the international community and guarantor countries, should monitor compliance with such provisions.

We provide some cost estimates of a program for Venezuela to deal with the pandemic with the following characteristics: (i) a subsidy to each family whose main income earners are made to stay at home during the quarantine (ii) funds to cover health sector expenses related to the crisis (iii) general budget funding to cover 25% of the losses from the decline in oil revenues relative to last year (iv) transfers for Venezuelan migrants in conditions of vulnerability. The total cost of the program would rise to $8.5bn over two years. Therefore, the availability of the combined $7.7bn of potential RFI financing and $2.0bn Bank of England holdings would allow to fund this program entirely.

Among the menu of options of IMF financing, the Rapid Financing Instrument (RFI) would appear to be the most adequate for Venezuela's current condition. The RFI and the related concessional RCF are designed to help countries facing urgent balance of payments needs. Unlike other IMF instruments, RFI/RCF access does not require the country to have a full-fledged economic program nor to have strong economic fundamentals or a solid policy framework. We believe Venezuela could satisfy the IMF requirements for an RFI request in the context of a political agreement.

Access to the RFI would require that the country's debt be considered sustainable by the IMF (or on track to become sustainable) and a demonstration that it is pursuing appropriate policies to address the crisis. The IMF is precluded from lending unless the member takes debt to restore sustainability over a realistic period. However, the IMF does provide emergency financing to countries in debt distress as long as it is assured that countries are taking steps to restore sustainability.

Typically, sustainability is evaluated by simulating the debt stock's behavior over different fiscal policy scenarios, given the interest rate, the economy's growth rates, and other debt parameters. Applying this framework to Venezuela in its current condition raises several complex questions, given that it is unclear what the relevant cost of financing is for a country to which it is illegal to lend to (as a result of US financial sanctions) and has no intention to pay its past creditors as long as this restriction is present.

What would put us closer to a standard IMF scenario would be one in which the political agreement between the parts entails a commitment to attempt to restructure Venezuela's debts. Proceeding on the assumption of such an agreement, we estimate a maximum sustainable debt stock of between USD 27.7 bn (at an oil price of $32) and USD 43.1bn (at an oil price of $50). Given that the current debt stock stands at USD 147bn, in order to assume IMF debt of 150% of quota (USD 7.7bn), the country would have to secure an aggregate haircut on its debt of 76-86%. We note that current market values of the country's bonds, which trade at around 10% of their face value, indicate that this scenario is likely priced in.

Our proposal forms part of what would need to be at the very least a partial political agreement intending to address the country's humanitarian crisis. Such a partial political deal is, of course, no substitute for a full-fledged political accord. But it could help set the basis for one.

Venezuela's political crisis has deep roots in the zero-sum nature of its winner-take-all political institutions. Combined with a high level of political polarization, these institutions incentivize high levels of risk-taking by political actors, who are willing to do all that is within their reach to stay in or come to power. In this context, there is much to say in favor of sectoral political agreements that help resolve concrete societal problems through cooperation. These agreements are akin to small gradual institutional transformations that create moderate gains from partial cooperation by the sides. They can become the building blocks that make possible a gradual transformation of political incentives and can break ground for finding the more comprehensive cooperative solutions needed to find a way out of Venezuela's catastrophic stalemate.

INTRODUCTION[1]

This policy paper outlines a proposal for Venezuela to access external financing to deal with the significant balance-of-payments difficulties caused by a combination of external and internal shocks suffered in recent years. Concretely, we develop a proposal that would allow the country to access some of its funds abroad currently blocked as a result of legal disputes and obtain financing under the Rapid Financing Instrument (RFI) of the International Monetary Fund, a financing modality designed to provide urgent financial assistance to countries in emergency situations.

At the root of our proposals is a recommendation for a political agreement between the parts of the country's political conflict that advances in the direction of unifying some key institutions that play an essential role in the management of external assets. These unified institutions can be formed as part of an overarching political agreement to resolve the disputes over the legitimacy of Venezuela's political institutions or, alternatively, as part of partial agreements directed at addressing the consequences of the country's economic and humanitarian crisis even in the absence of a definitive resolution to its political crisis.

During the past two years, Venezuela has been unable to access multilateral financing of any type partly for reasons related to its particular governance crisis. For the same reasons, it is also impeded from having access to an important part of its external assets held by foreign financial institutions. The country is currently in a unique situation in which the government with authority to implement policy reforms does not control the legal representation of the Venezuelan state before a large part of the world economy. Added to significant prior macroeconomic imbalances, these limitations on the country's insertion into the global economy have significantly contributed to exacerbating Venezuela's macroeconomic problems, driving it into the deepest economic contraction seen in the region for more than half a century.

[1] We are grateful for the support of the Open Society Foundation in the conduction of this research. The initial draft has benefitted from comments and suggestions by Felipe Cala, Antulio Rosales, Jonathan Di John and Bernardo Pulido Márquez. All errors and shortcoming remain ours.

The proposal laid out in this paper is embedded in a more general framework and is part of a broader approach that underscores the need for agreements between the parts of Venezuela's political conflict that intend to facilitate the re-insertion of the country into the global economy to enable it to attend its serious economic and humanitarian problems.[2] The basic premise of our approach, based on extensive research on the causes of the country's economic collapse, is that the current political standoff has generated significant economic costs for society and that it is possible to revert some of these costs without necessarily reaching a general resolution to the country's political conflict.

Despite being part of a broader conceptual framework, the proposal laid out herein is also designed as a stand-alone initiative in the sense that it is possible and desirable to implement it as long as there is agreement on doing so between the parts to the political conflict. The main condition is that there is consensus not just on the decision to seek financing to fund the response to the crisis but also on the decision to jointly seek to address the current constraints on the country's repayment capacity.

The rest of the paper is organized as follows. Section 2 details the nature of the shocks experienced by the Venezuelan economy and the reasons for its current balance of payments difficulties. Section 3 explains the menu of options of multilateral financing available to the country, with special emphasis on those provided by the International Monetary Fund (IMF). Section 4 describes the variety of external funds to which access is currently blocked as a result of the country's political crisis, with particular emphasis on its holdings of gold under legal dispute at the Bank of England. Section 6 describes the current controversy over the recognition of Venezuela's head of state and its implications for the management of external funds. Section 6 presents our proposal for joint governance and management of resources under international supervision. Section 7 shows how this proposal would deal with the institutional and internal regulatory requirements of IMF financing, including the need to demonstrate repayment capacity. A final section offers concluding comments and suggestions on the way forward.

[2] See Rodríguez, F. (2019b) and Rodríguez, F. (2019c).

THE MOTHER OF ALL CRISES

VENEZUELA'S GREAT CONTRACTION

Venezuela is experiencing one of the largest economic contractions documented in world history. The decline is the largest in per capita GDP observed since there is comparable data for Latin American economies since 1950, as well as the ninth-largest in the world in that period. It is also the second-largest seen in the world in the same period outside of war-time and greater than those seen in several Latin American countries, including Venezuela, for which historians have estimated data going back to independence. The country has now experienced 40 months of hyperinflation, one of the longest documented spells to date. Regrettably, authorities stopped publishing income poverty data back in 2015, probably a reflection of how dismal the figures had become. A consortium of leading national universities estimated income poverty at 96 percent in 2019, up from 48 percent in 2014.[3] More than five million persons, or approximately one-sixth of the country's population, have left the country.

Table 1: Worst per capita contractions in Latin America (1950-today)

Rank	Country	Trough-to-peak ratio (percentage decline)	Period	Years	Average percentage decline	Years of initial GDP lost	Armed conflict
1	**Venezuela**	-68.4%	**2012-2020**	**8**	-13.4%	**-262.0%**	**Peacetime**
2	Nicaragua	-58.2%	1977-1993	16	-5.3%	-681.9%	Intrastate conflict
3	Haiti	-45.3%	1980-2010	30	-2.0%	-928.7%	Peacetime
4	Cuba	-37.8%	1985-1993	8	-5.8%	-94.8%	Peacetime
5	El Salvador	-27.8%	1978-1983	5	-6.3%	-94.1%	Intrastate conflict
6	Bolivia	-26.3%	1977-1986	9	-3.3%	-115.7%	Peacetime
7	Chile	-23.4%	1971-1975	4	-6.4%	-46.9%	Intrastate conflict
8	Argentina	-23.2%	1979-1990	11	-2.4%	-133.2%	Peacetime
9	Peru	-21.6%	1967-1992	25	-1.0%	66.9%	Intrastate conflict and Peacetime
10	Honduras	-18.9%	1950-1955	5	-4.1%	-47.7%	Peacetime

Sources: PennWorld Tables, IMF

[3] Universidad Católica Andrés Bello, UCAB. (2020).

Table 2: Worst per capita contractions in the World (1950-today)

Rank	Country	Trough-to-peak ratio (percentage decline)	Period	Years	Average percentage decline	Years of initial GDP lost	Armed conflict
1	Liberia	-89.2%	1974-1995	21	-10.1%	-737.6%	Intrastate conflict
2	Kuwait	-86.8%	1970-1991	21	-9.2%	-1134.0%	Interstate conflict
3	Iraq	-77.3%	1979-1991	12	-11.6%	-366.8%	Interstate conflict
4	D.R. of the Congo	-75.6%	1974-2002	28	-4.9%	-1191.0%	Interstate conflict
5	United Arab Emirates	-72.4%	1970-2010	40	-3.2%	-1741.6%	Peacetime
6	Tajikistan	-71.4%	1990-1996	6	-18.8%	-289.9%	Intrastate conflict
7	Lebanon	-70.8%	1974-1976	2	-45.9%	-102.1%	Intrastate conflict
8	Georgia	-70.7%	1990-1994	4	-26.4%	-214.8%	Intrastate conflict
9	**Venezuela**	-68.4%	**2012-2020**	**8**	-13.4%	**-262.0%**	Peacetime
10	Iran (Islamic Republic of)	-66.6%	1969-1988	19	-5.6%	-793.6%	Inter and intrastate conflicts

Sources: Penn World Tables, IMF

The crisis does not appear to be abetting. The IMF estimates that the economy shrank by 25% in 2020, more than any other economy in the region.[4] This is due to the country suffering several separate shocks to its economy this year. The first one comes from the COVID-19 pandemic and the economic costs of social distancing and lockdown policies. The second one comes from the global decline in oil prices, which fell by 45% in 2020. The third one comes from the collapse of oil production, which is now 41% below its average for 2019. An additional factor is return migration caused by the disappearance of job opportunities for migrants in destination countries, leading to the return of more than one hundred thousand persons, which contributes both to the slowing of remittances and to renewed pressure on domestic social services.

Growth decomposition methods show that the Venezuelan economy's contraction can be traced primarily to the massive contraction in imports seen during the last eight years, with poor productivity growth playing a secondary yet important role.[5] Venezuelan merchandise imports have fallen from USD 66.0bn in 2012 to an estimated USD 8.0bn in 2019, an 88% decline. Venezuela's economy is highly import-dependent: historically, 78% of the variation in non-oil GDP is associated with variations of non-oil imports. Given this economic structure, a decline of imports by nearly nine-tenths is bound to cause a huge economic implosion.

[4] International Monetary Fund (2020a).

[5] Productivity growth, measured as the efficiency of human and physical capital to generate value-added, is a reasonable proxy for the effects of economic policies in the Venezuelan setting. Once the window of comparison is widened to account for the country's performance since 1999, underperformance in productivity plays a larger role relative to import decline. In other words, while most of the contraction since 2012 can be attributed to the import decline, most of the underperformance relative to what we would have seen with stable productivity can be traced back to the effect of declining productivity since 1999. See Rodríguez and Guerrero (2020).

The decline in import capacity is clearly driven by the decrease in the country's oil revenues, which have fallen by a similar magnitude, from USD 93.9bn in 2012 to USD 18.7bn in 2019, an 80.1% decline. The fact that the decline in imports is proportionately greater than the decline in exports is partly due to the fact that the country also lost access to financial markets during this period so that it went from running a current account deficit of 2.3% of GDP in the 2012-16 period to a current account surplus of 9.7% of GDP in 2017-19. The resulting surplus is not the result of a policy choice but rather of the constraint of not being able to receive financing.

Economic sanctions have played an important role in contributing to this decline in import capacity, although they are far from the only cause. As we have pointed out, there are two drivers to the drop in import capacity: declining exports and loss of access to international capital markets. Both economic sanctions and other forces have played a role in each of these.

Oil revenues began declining in 2014 with the collapse of oil prices set off by a supply glut caused by the growth of shale oil production and OPEC's decision not to stabilize prices towards the end of that year. However, when oil prices began recovering in late 2016, exports did not recover in tandem due to the decline in oil production that began in 2016 and accelerated after 2017. Empirical research strongly supports the hypothesis that economic sanctions played a significant role as one cause of the decline in oil production, although they are certainly not the only contributing cause.[6]

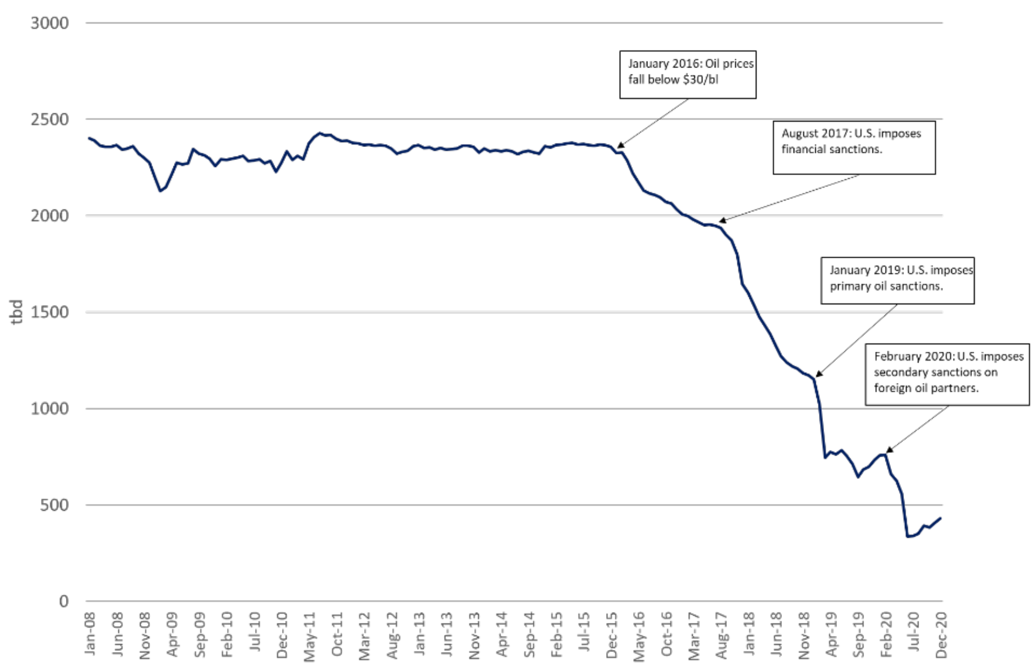
As shown in Figure 1, Venezuelan oil production was fairly stable during the 2008-15 period. It began to decline in early 2016 when oil prices plummeted to below $30 per barrel. This decline is not atypical given the price slump and was seen at that time in other high-cost oil producers. However, the decline accelerated after the August 2017 financial sanctions and deepened further immediately after the 2019 oil sanctions and the 2020 secondary sanctions. The existence of three separate inflection points in a time series immediately after significant changes in interventions strongly supports the hypothesis that sanctions are an important contributory cause, even though not necessarily as the primary cause, of this decline in oil production.

[6] See Rodríguez (2018, 2019a, 2019b, 2020a), Weisbrot and Sachs (2019) Oliveros (2020). Some scholars argued in mid-2019 that there was insufficient evidence that sanctions had affected oil production, among them Hausmann and Muci (2019), Bahar et al. (2019) and Morales (2019). However, none of these authors have reiterated that position given the more recent evidence.

As we have noted, the decline in oil exports is one part of the story, while another one is the decline in the access to finance. Disentangling the effect of sanctions on the loss of access to capital markets is somewhat more complex. Venezuela's government and state-owned oil firm PDVSA were nearly shut out of capital markets by late 2016 when they could only issue debt at high rates or posting collateral. On the other hand, PDVSA continued to have access at reasonable rates for its joint ventures with foreign partners as well as commercial credit.

Collateralized lending and joint-venture access to financing both came to an end with the 2017 sanctions. Perhaps even more importantly, U.S. financial and oil sanctions barred any restructuring of debt, which would have occurred sooner or later in virtually any reasonable counterfactual scenario. Thus, it is hard to argue that the country would still be running large current account surpluses today in the absence of U.S. sanctions – rather than accumulate the large surpluses to pay debt, the government would have most likely entered into a restructuring agreement if it had been able to.

Figure 1: Venezuela oil production (Jan 2008-Dec 2020)



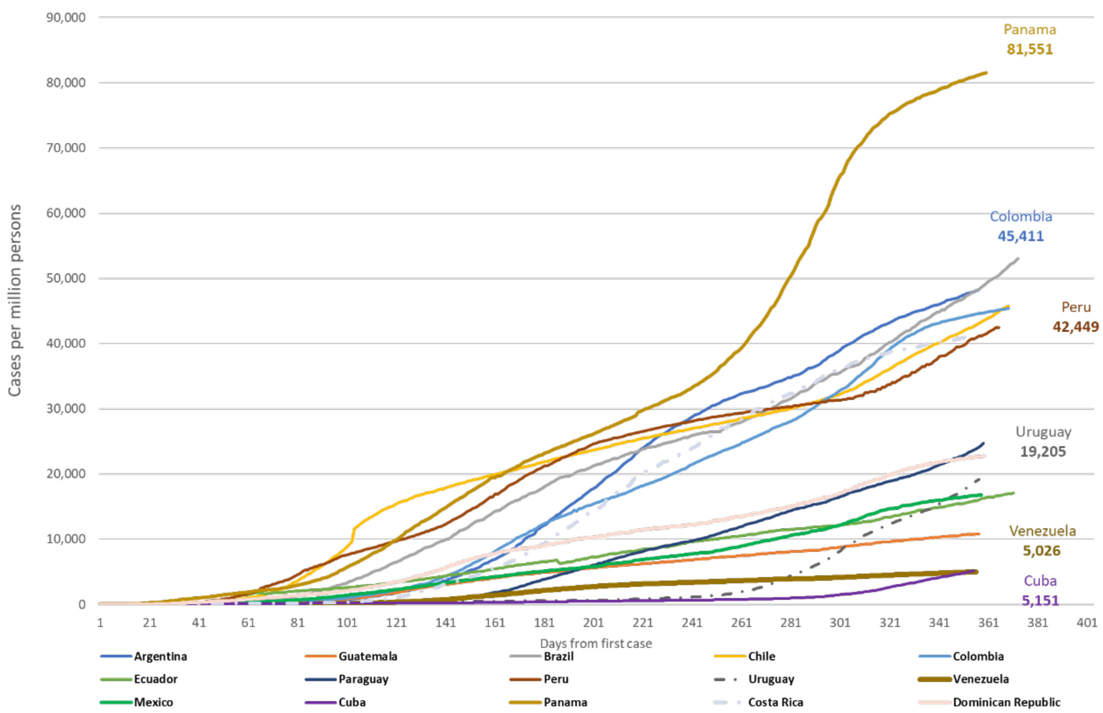
Sources: OPEC

THE PANDEMIC ARRIVES

As of March 9th, 2021, Venezuela had documented 143,321 cases of COVID-19 and 1,415 deaths. This makes it the country with the 7th lowest infection rate out of 33 countries in Latin America and the Caribbean in per capita terms. If we omit the island economies of the Caribbean, it has the 2nd lowest infection rate out of 20 non-island economies, after Nicaragua.

Whether Venezuela's low prevalence rate is genuine or not is a controversial issue. Venezuela has had much less access to PCR testing than other countries, so the data could well reflect testing constraints. Although Venezuela touts having conducted 2.9 million tests, which would imply a coverage of 11.3% of the population – slightly lower than the 17.0% average for Latin America-, only 17-18 percent of these are PCR tests, implying that PCR tests have reached less than 2 percent of the population. By contrast, the average PCR testing rate among the eight countries that clearly distinguish between PCR and other tests in its statistics is 22.8 percent (Table 3). This suggests that testing constraints may be significantly contributing to the illusion of small numbers in Venezuela.

Figure 2: COVID-19 cases per capita, selected Latin American countries



Sources: John Hopkins University, OurWorldInData, PCR tests have become the accepted standard in testing. They are the type of testing currently recommended by the World Health Organization for identification and laboratory confirmation. However, these tests are extremely scarce and require specialized personnel and equipment to implement. Rapid serology tests, also known as antibody tests, are much less expensive and easier to administer, yet a scientific consensus has yet to emerge related to their effectiveness. Currently, the WHO does not recommend rapid diagnostic tests for patient care but encourages research to establish their usefulness in disease surveillance and epidemiological research.[7] A third variety of rapid tests, antigen tests, are more accurate in determining if someone is currently infected, unlike previous rapid antibody tests, which can show when someone has had COVID-19 but often give a negative result during the early stages of infection.[8] On September 11th, 2020, the WHO recommended the use of some types of antigen tests when PCR tests are unavailable.[9]

Table 3: COVID-19 tests performed in selected Latin American countries

Country	Total tests	Tests per million	Type of test reported
Argentina	7,887,278	174,398	PCR
Brazil	28,600,000	134,407	*Unclear*
Chile	9,916,911	518,798	PCR
Colombia	11,870,511	233,376	*Unclear*
Costa Rica	717,791	141,053	PCR
Cuba	2,594,515	229,071	*Unclear*
Dominican Republic	1,241,357	114,545	*Unclear*
Ecuador	1,053,241	59,714	*Unclear*
Guatemala	965,028	53,983	PCR
Mexico	5,711,049	44,303	PCR
Panama	1,995,370	462,456	PCR
Paraguay	796,345	111,604	PCR
Peru	8,105,930	245,845	PCR + rapid tests
Uruguay	1,101,948	317,181	PCR
Venezuela	2,987,875	105,070	PCR+Rapid tests
Venezuela (Bloomberg January 21 report)*	485,000	17,055	PCR

** According to Ministry of Health documents seen by Bloomberg, Venezuela had done 485 thousand PCR tests up to January 2020, since the arrival of the disease in Venezuela.*

Sources: Worldometers.org

[7] World Health Organization, WHO. (2020).
[8] PanAmerican Health Organization, PAHO. (2020).
[9] World Health Organization. (2020).

In August, the Panamerican Health Organization (PAHO) announced plans to provide 370 thousand antigen tests to Venezuela.[10] The kits were to be distributed as part of what is to date the only agreement of any type between the Guaidó and Maduro administrations and paid from funds previously frozen as a result of US sanctions.[11] The kits arrived in mid-October, and PAHO expected that they could add an additional capacity to test 3 to 4 thousand more patients per day.[12] However, as of January 21st, only 3,000 tests were administered, according to Bloomberg's story.[13] The low utilization rate led to recriminations among the sides, with the government denying the reports of underuse and the opposition presenting them as evidence that the government could not be trusted to uphold agreements.

Venezuela's public health system is particularly ill-equipped to handle a pandemic. According to a recent study by a joint task force of the John Hopkins University, the Nuclear Threat Initiative (NTI),[14] and the Economist Intelligence Unit,[15] Venezuela ranks 176 out of 195 countries evaluated in terms of health security and capacity to confront infectious disease outbreaks. The country does relatively poorly in the categories of early detection and reporting and rapid response and mitigation, which would appear crucial in the response to the COVID-19 pandemic, and in which it ranks respectively #182 and #180. In fact, Venezuela gets a score of 0/100 in a set of key subdimensions such as its capacity for surveillance and reporting, its epidemiologic workforce, and its risk communications system. [16]

Nevertheless, one should probably take these indices with a grain of salt, given recent experience. There is evidence that many less-developed countries with weak health systems have not been as affected by COVID-19 as would be expected. There are also substantive criticisms of cross-national health preparedness indicators.[17]

More general cross-national comparisons also show a relatively weak public health system. Venezuela has only 0.8 hospital beds per thousand persons, as opposed to a Latin American average of 2.2 and a world average of 3.0; it also lags in other key indicators (Table 4). It must also be noted that some of the data used in these comparisons does not always reflect the acute deterioration observed in recent years, given delays and lags in data reporting.

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[10] Freites, A. (2020).
[11] Grattan, S. (2020).
[12] Pan American Health Organization (2020) and United Nations Office for the Coordination of Humanitarian Affairs (2020).
[13] Yapur (2021).
[14] The Nuclear Threat Initiative is an NGO seeking to "prevent catastrophic attacks with weapons of mass destruction and disruption—nuclear, biological, radiological, chemical and cyber." See: NTI. (2020).
[15] Cameron, E., Nuzzo, J., Bell, J. (2019).
[16] That said, the authors explicitly singled out Venezuela (as well as Syria) as "challenging" from a research and data collection standpoint, given that "these countries' political and health systems are in turmoil owing to ongoing conflict." Op. cit., p. 83.
[17] See Deaton (2021) and Milanovic (2021).

Table 4: Health security indicators for Venezuela, Global Health Security Index

Category	Score	Min score	Average score	Max score	Rank
Prevention of the emergence or the release of pathogens	23.5	1.9	34.8	83.1	140
Early detection and reporting	8.7	2.7	41.9	98.2	182
Rapid response and mitigation	19.7	11.3	38.4	91.9	180
Sufficient and robust health sector	12.9	0.3	26.4	73.8	141
Commitments to improving national capacity, financing and adherence to norms	42.2	23.3	48.5	85.3	132
Overall risk environment and vulnerability	38.2	15.9	55.0	87.9	164
Overall	**23**	**16.2**	**40.2**	**83.5**	**176**

Scoring is made on a 0-100 scale. Scores between 0 and 33.3 are considered low, while mid scores are considered to be between 33.4 and 66.6 and high scores are between 66.7 and 100. Ranking is based on the list of 195 countries assesed in the report.

Sources: Global Health Security index

Table 5: Selected health system indicators for Venezuela, Latin America and the World

	World	LAC	Venezuela
Hospital beds (per 1,000 people, 2013)	3.5	2.2	0.8
Current health expenditure (% of GDP, 2017)	6.6	6.7	1.2
Current health expenditure per capita, PPP (current international $, 2017)	1484.5	1050.2	141.0
Immunization, DPT (% of children ages 12-23 months, 2018)	88.0	89.8	60.0
Immunization, HepB3 (% of one-year-old children, 2018)	87.1	88.9	60.0
Immunization, measles (% of children ages 12-23 months, 2018)	87.5	90.7	74.0
Maternal mortality ratio (national estimate, per 100,000 live births, 2011)	115.4	61.3	72.2
Mortality rate, infant (per 1,000 live births, 2018)	21.4	15.1	21.4

**Data is presented per year in which it is available for all three geographical categories.*

Sources: World Bank, Global Health Security index

Venezuela furthermore faces this crisis with very weak public finances. The country has spent 40 months in hyperinflation (according to the classical definition)[18], making it one of the longest hyperinflationary spells in world history.[19] The hyperinflation reflects the fact that the country's expenditures far outstrip its revenues, forcing its government to either carry out a politically costly fiscal adjustment or resort to money printing. Venezuela has not reported fiscal statistics since 2017, when the fiscal deficit reached 16.6% of GDP; most analysts coincide that it

[18] The Cagan (1956) definition of hyperinflation classifies an economy as being in hyperinflation if it has seen inflation of 50 percent or greater during one of the last twelve months. By that definition, Venezuela entered hyperinflation in December 2017 and will be in hyperinflation until at least December of 2020. See: Cagan, P. (1956).

[19] Out of 54 episodes of hyperinflation in history, Hanke and Krus (2012) estimate the average hyperinflation lasted 16 months per the "strict" use of Cagan's definition. Note that the longest lasting was that of Nicaragua, with 58 months. Similarly, IMF CPI data for all member countries between January 1950 and 2019 shows 19 Cagan hyperinflation episodes averaging 19 months –however, note that this database excludes well documented episodes such as that of Zimbabwe or Nicaragua. The longest lasting episode in this case is that of Angola, which lasted 38 months. See: Hanke, S. & Krus, N. (2012).

remains in the best case at or near double digits. Venezuela's fiscal and export revenue is strongly dependent on oil, which accounted for 87% of exports in 2019.

In this sense, the collapse in oil prices experienced in 2020, which has strongly impacted government revenues, severely complicates any initiatives to deal with the pandemic. In the case of Venezuela, the collapse in oil prices is compounded by the effect of United States oil sanctions imposed in early 2019. These sanctions not only cut off Venezuela from access to what was previously its main export market and impeded it from importing vital inputs from the U.S.; they also significantly raised the regulatory and reputational cost of dealing with Venezuela's state-owned oil company, leading oil traders to charge increasingly high discounts for handling Venezuelan oil.[20] This problem came to a head in early 2020, when the U.S. sanctioned two subsidiaries of Russian oil company Rosneft for helping the country sell its oil internationally.

Venezuela has few if any sources of funds to face the crisis. Most of its international bank accounts have either been frozen or passed on to the administration of National Assembly President Juan Guaidó, who many countries – including the U.S. and all of Western Europe – recognize as president. U.S. financial sanctions also impede Venezuela from borrowing or restructuring its debt. Access to multilateral lending is restricted, as these entities have taken stances on recognition that impede the Maduro government from accessing funds without an agreement with Guaidó. Despite their political support of Maduro, China and Russia have been unwilling to provide significant levels of net financing to the country during the crisis.[21]

[20] Cohen, L., Parraga, M. (2020).

[21] This is not to say that lending would immediately materialize in the absence of sanctions. Setting out a counterfactual for lending in such a scenario is a complex task, as it would depend on the policy mix and the external environment, among other factors. It is certainly the case that Venezuela lost access to international markets in 2016, before sanctions were imposed. The reticence of China and Russia, which are not formally restricted by sanctions, to offer financing is an additional sign that sanctions are not the only cause of lack of credit market access. Nevertheless, what is clear is that sanctions severely restrict the possibility of the country accessing international financing, even in a scenario in which economic reforms were carried out.

THE MULTILATERAL FINANCING OPTION

The COVID-19 pandemic has forced most countries in the world to run large fiscal deficits in response to external shocks arising from a slowed-down world economy, as well as the costs of each country's own measures to curb the spread of the disease. These actions result in a dire need for funding and a steep increase in the already-high levels of indebtedness in the world.

In response to this growing need for funding, multilateral financial institutions have committed to providing additional financing under improved terms for their member countries. Due to its particular role in the world economy, the IMF stands out among these institutions –as its *raison d'être* is that of providing relief to economies suffering from a considerable and otherwise unsolvable balance of payment distress.

There are four major conventional sources of multilateral financing that Venezuela would have access to under normal conditions: The International Monetary Fund (IMF), the World Bank (WB), the Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF). Each of these instances has taken different positions concerning the recognition of Venezuela's government.

VARIETIES OF RECOGNITION

GUAIDÓ RECOGNITION: THE INTER-AMERICAN DEVELOPMENT BANK

At one extreme, we have the IADB, which recognizes the interim government of Juan Guaidó. This decision was taken on March 15th, 2019, as the Bank voted to replace the representative of the Nicolás Maduro administration with an economist appointed by the administration of Juan Guaidó. As a result, the lender's 48-member board of governors went to a vote just two weeks before its annual meeting scheduled to be held in China. Most countries on the IADB board backed Ricardo Hausmann, Guaidó's nominee, except those that did not recognize Guaidó at the time, such as Mexico, Uruguay, Nicaragua, Bolivia, and China.[22] The fact that recognition by the Bank took place at the moment of the decision whether to accept a

[22] Reuters staff (2o19).

country's envoys suggests that the institution does not have well-established processes for dealing with disputes regarding government recognition.

Thus, in principle, the IADB could disburse resources to the interim government, yet there are two important constraints. One of them is the IADB's policy of not lending into arrears.[23] As of December 2019, Venezuela maintains a debt with the IADB of USD 2.1bn, of which USD 623mn are in arrears. Thus, Venezuela would have to pay that debt to have access to new resources. The other constraint is that it is unclear that the Guaidó administration has the capacity to pay back any loans at a later time nor to make use of these loans in the country.

The Bank appears to share the view that lending to the Guaidó administration is improbable. In a recent policy paper, the IADB conducted an inventory of policy interventions that should be taken in the event of a transition.[24] The document, which was coordinated with the team of the interim government, does not discuss any policy interventions - such as migrant assistance - that could be undertaken by a government that has no control over the territory.

It would, in principle, be possible for IADB to disburse resources to be used in humanitarian agreements entered into by the Guaidó and Maduro administrations, such as the recent COVID-19 initiative undertaken by the PanAmerican Health Organization as part of an accord between the National Assembly and Maduro's Health Minister.[25] On the other hand, the new President of the IADB, Mauricio Claver-Carone, comes from serving as Western Hemisphere Director of the National Security Council, where he was one of the architects of the U.S. "maximum pressure" strategy on Venezuela of the Trump administration. It is therefore unclear how open the institution's new management may be to facilitating humanitarian accords.

Maduro Recognition: The Andean Development Corporation (CAF)

At the other extreme, the Andean Development Corporation (CAF), which is based in Caracas, continues to recognize the government of Nicolás Maduro. Yet, due to increasing pressure from the opposition and some of its member states – which recognize Guaidó – CAF has taken the decision not to approve new loans to Venezuela without the approval of the National Assembly. The resulting impasse has made it impossible for Venezuela to rollover its debts with the organism, risking default and imperiling CAF's credit rating.

[23] Inter-American Development Bank (2020).
[24] Saboin, J. (2020).
[25] Al Jazeera staff. (2020).

CAF is a regional financing body created in 1970 and headquartered in Venezuela. It is a regional multilateral with 19 member countries and a total loan portfolio of USD 27bn. Venezuela is the institution's third-largest debtor, with its USD 3.7bn in debt accounting for 13.9% of the bank's lending. Venezuela has begun to go into arrears in its obligations with the institution, with the arrears totaling USD 183mn by the end of 2019.

The year 2019 marked the first time that CAF refused to extend financing to the government that would enable it to rollover its debt. In this case, political rather than economic factors appear to have played the main role. In the two previous years, CAF had approved loans (respectively for USD 400mn and USD 500mn) that allowed debt rollover. Those loans generated an increasing political outcry from the country's opposition, who questioned the legitimacy of loans lacking National Assembly approval.[26]

As a result, CAF management worked on a design for 2019 to allow for a new loan to be extended while also being acceptable to the country's opposition. USD 350mn in financing would have been offered to fund the recovery of the country's electrical sector, which has been under severe pressure in recent years due to underinvestment, mismanagement, and economic sanctions.[27] Funds obtained through the loan would have been managed by the United Nations Development Programme (UNDP), and the project would have to be approved by the opposition-controlled National Assembly. However, the project was shelved by the National Assembly after it was rejected by several opposition legislators who voiced concerns on the design of the projects.[28]

On March 3rd, 2020, CAF came up with another proposal to deal with the member's arrears. The board approved creating a "Temporary Liquidity Facility for Exceptional Situations" that would allow participating countries to remain on the board even after accessing it. According to opposition legislators, the facility enables Venezuela to resell some of its shares in the institution in order to cover coming amortizations. [29] An opposition legislator showed a presumably leaked document showing that the facility would be used to repurchase up to 20% of Venezuela's Class B shares, allowing it to access USD 169mn in funds, which would be used to repay the loan.

[26] El Espectador staff. (2019).
[27] Rodríguez, F. & Rodríguez, J. (2019).
[28] Sequera, V. & Ellsworth, B. (2020).
[29] CAF Press. (2020).

In approving the decision, member states entered into conflict with the Venezuelan opposition, which publicly called on them to reject it and declare Venezuela in default.[30] The economic rationale for their decision is not hard to see: a default from one of the institution's largest borrowers would have forced credit-rating agencies to downgrade CAF, involving increases in financing costs to all member countries. The majority of the board decided not to heed the opposition's call to deny the measure, despite the fact that 13 of 19 board members recognize Juan Guaidó as the country's president.

Standing in the Middle: The International Monetary Fund (IMF) and the World Bank (WB)

On March 15th, the administration of Nicolás Maduro requested USD 5bn from the IMF to improve the country's ability to detect and respond to the coronavirus pandemic. "This is a crucial moment, and knowing the aggressive and highly contagious levels of this disease, we will take quick and forcible measures to stop its propagation,"[31] said Maduro in a letter to IMF Managing Director Kristalina Georgieva, which was later shared by Venezuela's Minister of Foreign Affairs Jorge Arreaza on March 17th.[32]

Due to the IMF's lack of official response and press reports that the fund rejected the USD 5bn financial rescue package, Venezuela returned to the IMF on March 21st. It requested the fund to grant USD 1bn in assistance, arguing that the emergency funds could be allocated through programs designed to purchase food, medicine and improve some hospitals' infrastructure to care for coronavirus patients.[33]

The second request appears to have had some quiet diplomatic support from Europe. EU foreign policy chief Josep Borrell stated on March 23rd in a news conference held just two days after Venezuela's second request that the EU "agree[s] in supporting the request by Iran and also by Venezuela to the International Monetary Fund to have financial support."[34]

The IMF never responded to Venezuela's letter. On March 17th – prior to the second request - an IMF spokesperson said that Venezuela's request couldn't be considered because there was no clarity among the institution's 189 member states on who it recognizes as Venezuela's rightful leader: Nicolás Maduro or Juan Guaidó. "Unfortunately, the Fund is not in a

[30] Alvarado, A. (2020).
[31] Ojeda, L. (2020).
[32] Laya, P. & Vásquez, A. (2020).
[33] Vasquez, A., Bartenstein, B. & Zerpa, F. (2020).
[34] Reuters staff. (2020).

position to consider this request. As we have mentioned before, IMF engagement with member countries is predicated on official government recognition by the international community, as reflected in the IMF's membership (...). There is no clarity on recognition at this time," the spokesperson said in a statement.[35] The Fund has not given any further clarification after the second request, suggesting that the same impasse continues.[36]

In sum, the IMF has not decided whether to recognize the Guaidó or Maduro administrations, leaving the country in a limbo where it has no access to the resources to which it is entitled on account of its membership and quota contribution. The IMF's position appears to reflect the lack of agreement regarding recognition within the organism coupled with management's unwillingness to force a decision against the opposition of many important member states. It thus suggests that an initiative born out of a political agreement between the parts could open channels for some type of financing. For these reasons, we discuss below in greater detail the efforts taken by the IMF to deal with the pandemic and the possibility that they would open for Venezuela.

In contrast to the IMF, there has been no public statement from the World Bank regarding the issue of recognition. According to a story published by Reuters in April of 2019, the World Bank was at a similar impasse to the IMF in terms of recognition.[37] At issue is a more fundamental problem: there are two competing visions of what recognition should look like. While the coalition of countries that recognize Guaidó is sufficiently large to ensure a majority in all four multilaterals, not all of these countries share the same concept of what the reach of that recognition is.

More concretely, although 56 countries recognized Guaidó as of the end of last year, only 15 have accorded it full recognition both in *de jure* and *de facto* terms. The majority of countries on this list recognized Guaidó as the legitimate president of Venezuela (*de jure*) yet maintain relations with the Maduro regime on practical considerations based on the fact that it holds *de facto* power. In practice, this entails recognizing Maduro's ambassador as well as having an active embassy in Caracas that interacts with the Maduro government. Exhibit 1 shows the distribution of countries according to whether they recognized only Guaidó, Maduro, both, or neither. Exhibit 2 shows the response to the slightly different question of whether they chose to have relations with either, both, or neither of these governments. Both exhibits are as of December 31st, 2020.

[35] Goodman, J. (2020).
[36] It is nevertheless worth noting that the IMF refused to request Iran's request under strong pressure from the Trump administration. This suggest that forma support from the US is a necessary condition for any IMF-related proposal, including the one suggested here, to be feasible.
[37] Campos R. & Lawder, D. (2019).

Exhibit 1: Countries by formal announcement of recognition decision at the end of 2020

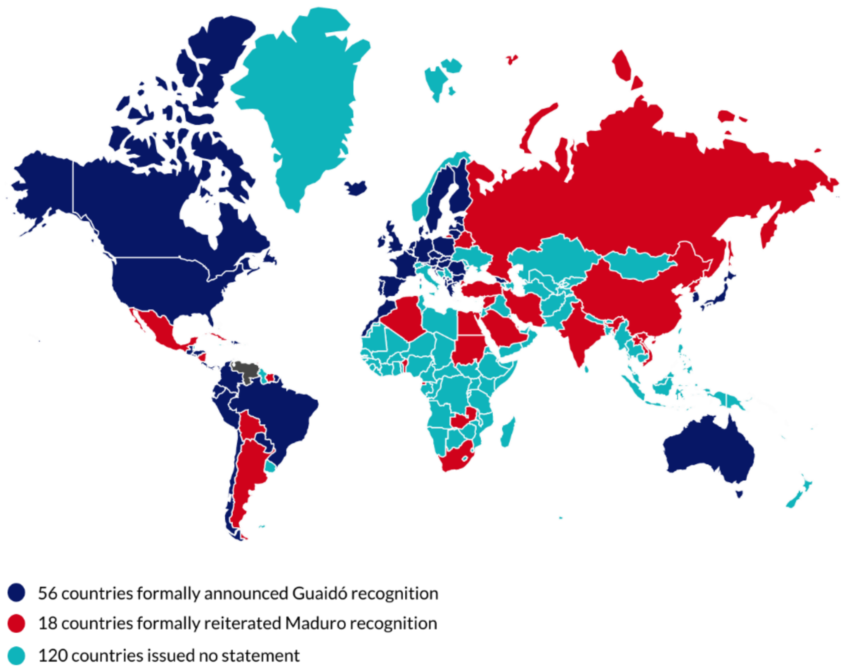
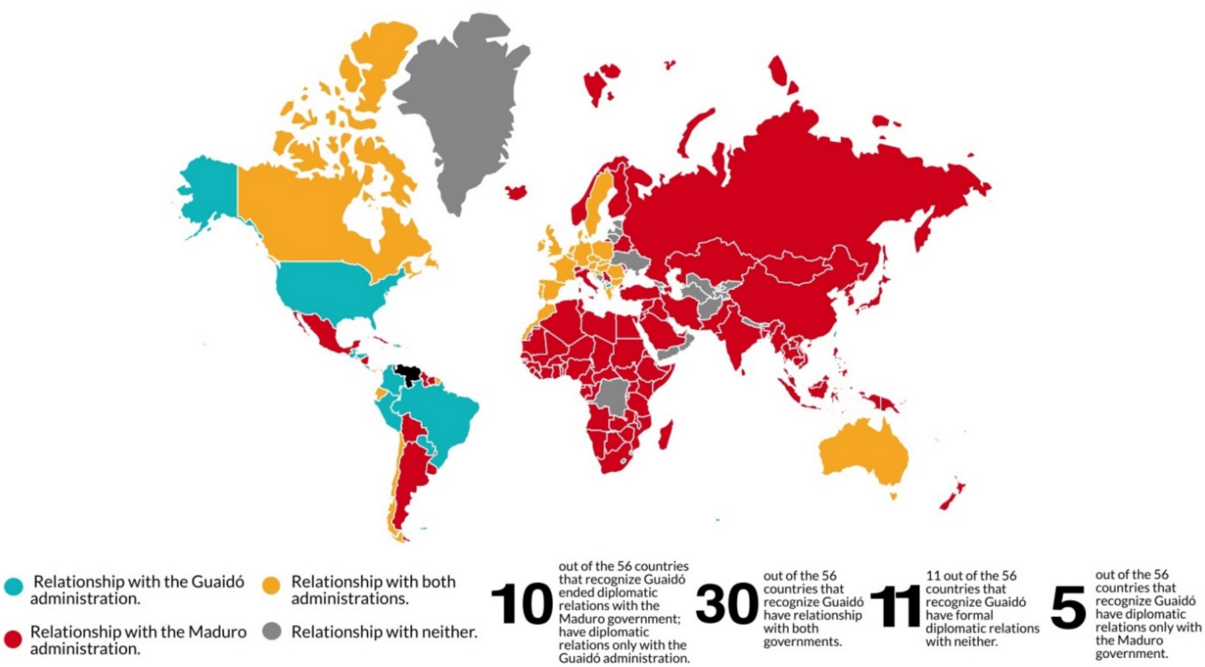


Exhibit 2:Countries by status of diplomatic relations at the end of 2020



Sources: WOLA

The issue of recognition is still quite fluid and has experienced significant changes after the end of the 2015AN's initial constitutional mandate. On January 6th, the High Commissioner of the European Union issued a statement in which it expressed regret at the election of the 2020AN under a process that lacked democratic guarantees, yet also referred to the 2015AN as the "outgoing National Assembly elected in 2015." On January 25th, the EU's Council of State issued a statement in which it said that it would recognize Guaidó as a "privileged interlocutor."[38] While the EU had never actually referred to Guaidó as interim president (but it had referred to him as president of the National Assembly), a large number of EU member states had issued a separate statement recognizing him as interim president on February 4th of 2019[39]; the fact that it has not happened at this stage is in our view a signal that many UE states have decided to walk back on formal recognition. On January 27th, the Dominican Republic said that it would no longer be recognizing Guaidó as interim president, while on February 4th, Panamá withdrew the credentials of Guaidó's ambassador.[40]

This complex patchwork of varieties of recognition is born out of the fact that the decision to recognize governments that do not hold *de facto* control over their territory is an unusual one. The last time that the United States had recognized a government that did not have *de facto* control over at least part of its territory was during World War II, in the case of allied governments that fell to Nazi Germany.[41] The U.S. decision to recognize Guaidó – and the decision of many European and Latin American countries to follow suit – implied a break with diplomatic tradition. The result is the need by many governments to navigate uncharted territory, dealing with issues such as how to ensure representation of your nationals before countries whose governments you do not recognize.

Although no country has explicitly articulated publicly a link between the modality of recognition and its position regarding recognition by multilaterals, it is not hard to see a connection. Countries that balk at recognizing Guaidó as both *de facto* and *de jure* are likely to be hesitant to support recognition of Guaidó by multilateral financial organisms to which they belong.

[38] Council of the European Union (2021).
[39] UK Foreign and Commonwealth Office (2019).
[40] Hasbun, J. (2021) and Efecto Cocuyo (2021).
[41] Patch, B. W. (1942).

Table 6 maps the different types of recognition decisions into the ownership shares of the four multilateral banks that we have discussed, again as of December 31st, 2020. As we can see, 71.0% of the voting power in the IADB is in the hands of countries that recognize Guaidó. Of that, 48.6% corresponds to countries that only have relations with Guaidó. However, before December of 2019, when the Macri administration in Argentina recognized Guaidó, this latter share was 60.0%, assuring support for the recognition of Guaidó's representative in March of that year. [42]

Matters are more complex in the IMF and World Bank. In both of these institutions, the countries that recognize Guaidó have around three-fifths of voting power (more precisely, 60.1% in the IMF and 59.0% in the World Bank), but less than one-fourth (21.8% and 20.8%, respectively) is in the hands of countries that only recognize Guaidó in the sense of having no relations with the Maduro regime. In CAF, the issue is even more complex because CAF has two tiers of shares with voting power, with the countries fully recognizing Guaidó falling short of the necessary majority in one tier but exceeding the needed majority in the other.

Exhibit 1 and Table 6 are based on data as of December 31th, 2021. Will recent changes in recognition decisions by some European and Latin American countries change this outlook? We do not think that it will affect them in any material way. While many European countries do appear to be transitioning back to a status of "quiet recognition" of the Maduro government, they are doing so at the same time at which they are strongly questioning its legitimacy and the lack of democratic guarantees in the elections that have given rise to it. Therefore, we are skeptical that Europe would be willing to support the accreditation of Maduro appointees at the IMF or other institutions forcefully enough to change the decision of the IMF Managing Director. We note that in practice, the US has *de facto* veto power on several decisions, and the Biden administration has explicitly reaffirmed its decision to recognize Guaidó.[43] Therefore, we view access to resources at multilaterals as improbable under the current landscape of recognition.

[42] González, E. (2020).
[43] See. For example, Wadhams (2020).

Table 6: Voting shares by recognition, four multilateral banks

Country	CAF (A-class stocks) (*)	CAF (B-class stocks) (*)(**)	CAF (C-class stocks) (*)	IMF	World Bank	IADB	Recognition status
Argentina	9.1%	11.6%	-	0.7%	1.1%	11.4%	Only recognizes Maduro
Bolivia	9.1%	6.2%	-	0.1%	0.1%	0.9%	Only recognizes Maduro
Brazil	9.1%	9.2%	-	2.2%	2.1%	11.4%	Only recognizes Guaidó
Colombia	9.1%	19.5%	-	0.4%	0.4%	3.1%	Only recognizes Guaidó
Ecuador	9.1%	6.2%	-	0.2%	0.2%	0.6%	Diplomatic relations with both; Recognizes Guaidó
Panama	9.1%	3.6%	-	0.1%	0.1%	0.5%	Diplomatic relations with both; Recognizes Guaidó
Paraguay	9.1%	3.6%	-	0.1%	0.1%	0.5%	Only recognizes Guaidó
Peru	9.1%	20.1%	-	0.3%	0.4%	1.5%	Guaidó
Trinidad and Tobago	9.1%	2.6%	-	0.1%	0.2%	0.4%	Only recognizes Maduro
Uruguay	9.1%	3.8%	-	0.1%	0.2%	1.2%	Only recognizes Maduro
Venezuela	9.1%	13.7%	-	0.8%	0.8%	3.4%	Pending recognition
United States	-	-	-	16.5%	15.6%	30.0%	Only recognizes Guaidó
Japan	-	-	-	6.2%	7.6%	5.0%	Diplomatic relations with Maduro; Recognizes Guaidó
China	-	-	-	6.1%	4.7%	0.004%	Only recognizes Maduro
Germany	-	-	-	5.3%	4.2%	1.9%	Diplomatic relations with both; Recognizes Guaidó
France	-	-	-	4.0%	3.9%	1.9%	Diplomatic relations with both; Recognizes Guaidó
United Kingdom	-	-	-	4.0%	3.9%	1.0%	Diplomatic relations with both; Recognizes Guaidó
India	-	-	-	2.6%	3.0%	-	Only recognizes Maduro
Canada	-	-	-	2.2%	2.8%	4.0%	Diplomatic relations with both; Recognizes Guaidó
Total	**100.0%**	**99.9%**	**0.0%**	**52.0%**	**51.2%**	**78.6%**	
Others (Fully recognizes Maduro)	-	-	20%	27.9%	29.4%	11.7%	
Others (Diplomatic relations with Maduro; Recognize Guaidó)	-	-	-	2.4%	2.3%	0.6%	
Others (Diplomatic relations with both; Recognize Guaidó)	-	-	80%	13.9%	13.5%	7.0%	
Others (Fully recognize Guaidó)	-	-	-	0.9%	0.8%	1.7%	
Others (Relations with neither)	-	-	-	1.4%	1.6%	0.0%	
Others (Relations with neither; recognizes Guaidó)	-	-	-	1.3%	1.3%	0.5%	
Total (Others)	**-**	**-**	**100%**	**47.9%**	**48.9%**	**21.4%**	
Total	**100%**	**99.9%**	**100%**	**100%**	**100%**	**100%**	
Only recognize Maduro	36.4%	24.1%	20.0%	45.2%	46.5%	27.5%	
Holds diplomatic relations with Maduro, recognizes Guaidó	0.0%	0.0%	0.0%	8.5%	9.9%	5.6%	
Holds diplomatic relations with both, recognizes Guaidó	18.2%	9.8%	80.0%	29.8%	28.4%	16.8%	
Only recognize Guaidó (***)	36.4%	52.3%	0.0%	21.8%	20.8%	48.6%	
Relations with neither	0.0%	0.0%	0.0%	1.3%	1.3%	0.5%	

(*) For approval, CAF shareholder's ordinary decisions require 60% of class-A shareholders to vote in favor, and 50%+1 of B and C class shareholders to vote in favor.
(**) Remaining 0.1% of stocks in hands of private commercial banks.
(***) Includes countries recognizing Guaidó which have relations with neither governments.

Sources: CAF, IMF, World Bank, IADB

THE FUND AND THE PANDEMIC

In the eight months beginning in March 2020, the IMF has more than doubled the funding given out to member countries under all of its financial modalities when compared to the twelve-month period preceding the pandemic (March 2019 to February 2020).[44] Therefore, total funding since the pandemic has been USD 102.5bn, compared to USD 40.2bn in the preceding twelve-month period (See Figure 3). However, the pre-pandemic numbers may be inflated by the inclusion of a large (USD 32.4bn) Flexible Credit Line (FCL) to Mexico. This FCL, which was not designed to be used in all scenarios, represents 80.7 % of all IMF funding for the period. If we omit credit line financings, the comparison becomes starker: IMF funding totals USD 50.7bn in the eight months since the pandemic, as opposed to USD 7.8bn in the preceding 12-month period. Note that credit lines are commonly used as last resort funding options and, as a result, are used to help governments convince markets of robustness in the face of balance-of-payments shocks and are otherwise often left untouched.[45]

[44] Month in which the WHO officially declared spread of the COVID-19 as a pandemic. See: World Health Organization Press. (2020).
[45] International Monetary Fund (2020b).

Figure 3: IMF funding per region (USD bn)

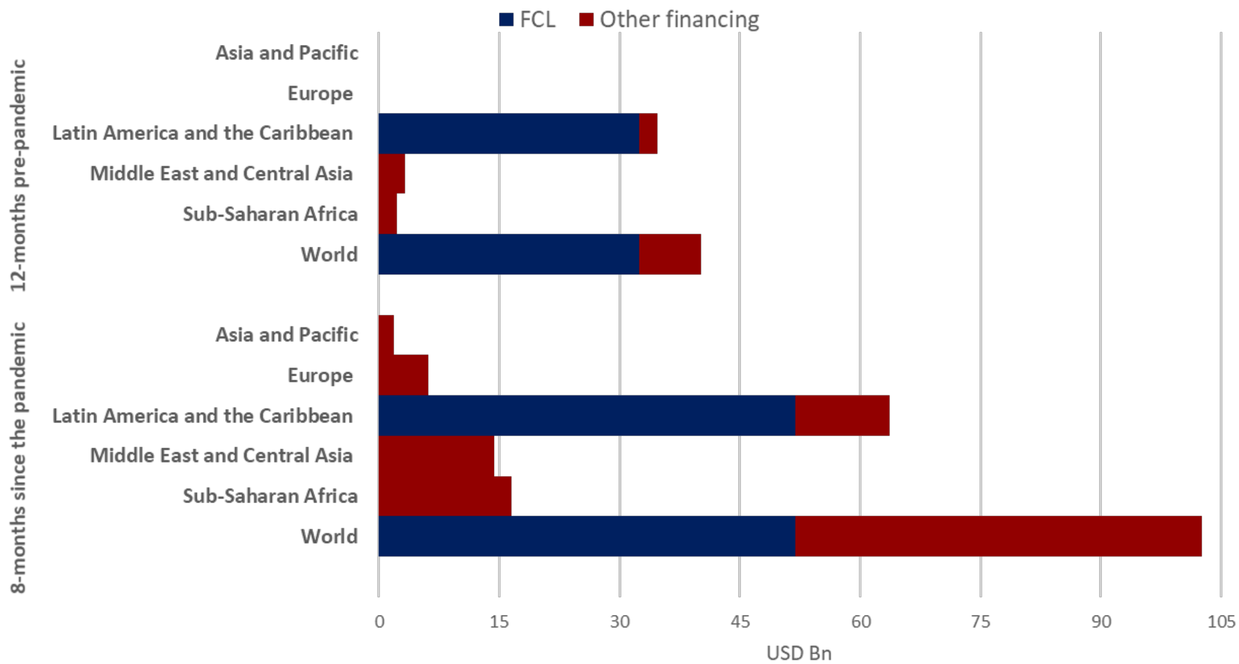
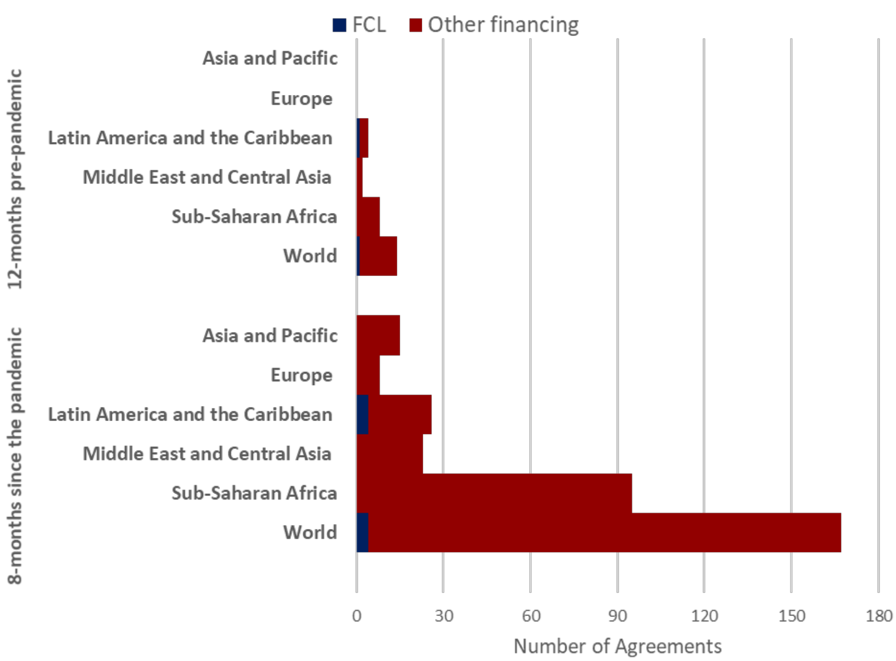


Figure 4: IMF funding agreements per region



Sources: IMF

Table 7 lists the diverse financing instruments offered by the IMF. Stand-by facilities are the traditional IMF loan to address balance-of-payments needs in the context of a macroeconomic program. These include both the Stand-by Agreements (SBAs) typically used by middle-income countries and the shorter-term Stand-by Credit Facility (SCF) used by low-income countries. There is also the longer-term Extended Fund Facility (EFF) designed for countries that are undertaking structural reforms over longer periods of time and an Extended Credit Facility (ECF) aimed at poorer countries with long-term balance of payments problems given in concessional terms. Then there are the credit lines – the Flexible Credit Line (FCL), the Short-Term Liquidity Line (SLL), and the Precautionary and Liquidity Line (PLL), which can be sizable but are designed to ideally not be used. Last, there are the rapid loans: the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) designed to help countries deal with urgent balance of payments needs without the requirement of a program.

Table 7: Conditions and requirements for existing IMF funding options (part 1)

	Funding	Elegibility	Program duration
Traditional lending agreements	Stand-By Agreement (SBA)	All members facing actual or potential external financing needs. Typically used by middle-income countries.	1 to 3 years
	Standby Credit Facility (SCF)	Low income countries with short-term BoP needs.	1 to 3 years
Extended lending agreements	Extended Credit Facility (ECF)	All Poverty Reduction and Growth Trust-eligible countries facing a long standing BoP problem.	3 to 5 years
	Extended Fund Facility (EFF)	Assistance for countries experiencing serious payment imbalances due to structural issues or slow growth.	Up to 4 years
Credit lines	Flexible Credit Line (FCL)	Crisis prevention and mitigation for countries with "strong policy frameworks" and "strong economic fundamentals."	3 to 5 years
	Short-term Liquidity Line (SLL)	Potential, moderate, short-term balance of payment needs for countries with strong policy frameworks and fundamentals facing external shocks.	1 year
	Precautionary and Liquidity Line (PLL)	Actual or potential BoP needs of countries with sound policies and fundamentals who "May have some remaining vulnerabilities," (and can't use an FCL)	Six months to 2 years
Emergency facilities	Rapid Financing Instrument (RFI)	All member countries facing urgent BoP needs due to transitory and limited shocks.	One-off, can be repeated within the following 3 years if shock persists.
	Rapid Credit Facility (RCF)	Low income country urgent balance of payment needs. Where full-fleged economic programs are either unnecessary or not feasible.	One-off, can be repeated within the following 3 years if shock persists.

Sources: IMF

Table 8: Conditions and requirements for existing IMF funding options (part 2)

	Funding	Funding limits	Reviews?	Ex-post conditionalities?	Concessional?	Venezuela eligible?*
Traditional lending agreements	Stand-By Agreement (SBA)	Annual 145% of the country's quota, 435% of the quota for full program. Exceptional access beyond these limits may apply.	Yes	Yes	No	Yes
	Standby Credit Facility (SCF)	100% of the country's quota on a yearly basis, 300% quota on a cumulative basis. Exceptional circumstances may lead to an increase in caps to up to 133.33% of the country's quota on a yearly basis, 400% quota on a cumulative basis.	Yes	Yes	Yes	No
Extended lending agreements	Extended Credit Facility (ECF)	100% of quota per year, 300% of quota on a cumulative basis. Hard caps on exceptional terms are 133.33% yearly and 400% cumulative.	Yes	Yes	Yes	No
	Extended Fund Facility (EFF)	Annual 145% of the country's quota, 435% of the quota for full program. Exceptional access beyond these limits may apply	Yes	Yes	No	Yes
Credit lines	Flexible Credit Line (FCL)	No limit, assessed on a case-by-case basis depending on BoP needs.	Yes	No	No	No
	Short-term Liquidity Line (SLL)	145% of quota; revolving access	Yes	No	No	No
	Precautionary and Liquidity Line (PLL)	250% of quota for first year, up to 500% of quota cumulative.	Possible	Possible	No	No
Emergency facilities	Rapid Financing Instrument (RFI)	50% of quota at a yearly basis, 100% of quota on a cumulative basis (non-COVID shocks). 100% of quota at a yearly basis, 150% of quota on a cumulative basis (COVID shocks).	No	Possible	No	Yes
	Rapid Credit Facility (RCF)	50% quota per year, 100% quota on a cumulative basis. (Non-COVID related shocks). 100% quota per year, 150% quota on a cumulative basis. (COVID-related shocks).	No	No	Yes	No

Sources: IMF

While the Latin America and Caribbean region still received most of the funding given after the pandemic, it is the recipient of a smaller share, 62.1% (USD 63.7bn), of total funds committed so far than the 80.7% share of the pre-pandemic period. As noted, part of this imbalance reflects the impact of the Mexico loan; once we restrict ourselves to agreements different from credit facilities, the Latin America and Caribbean shares go from 5.9% of all financing in the preceding 12-month period to 11.5% in the eight months since the pandemic. However, many countries in the region have used credit lines to meet the financing needs associated with the pandemic, so the comparison, including credit lines, may be more revealing. USD 51.9bn of the USD 63.7bn given since the pandemic correspond to FCLs requested by Colombia (USD 16.9bn), Peru (USD 11.0bn), and Chile (USD 23.9). The remaining USD 11.8bn of the region are distributed among 19 countries, most of which requested Rapid Financing Instruments or RFIs (11, for a total of 4.7bn), Rapid Credit Facility or RCFs (6, which jointly requested USD 255mn), two Extended Fund Facilities (EFF) requested by Barbados for USD 91mn and Ecuador for USD 6.5bn, a USD 223mn Stand-by Agreement (SBA) and Stand-by Credit Facility (SCF) augmentation for Honduras, and a USD 11.2mn debt service relief for Haiti through the IMF's Catastrophe Containment and Relief Trust (CCRT).

Figure 4 displays a marked increase in the number of agreements entered into by the IMF, which rise from 14 in the year before the pandemic (the March 2019-February 2020 period), to 168 in the months since the start of the pandemic. Of these 168, 51 are RCFs, 39 are RFIs, and 57 are CCRT debt reliefs, while the remaining 21 are distributed among remaining IMF funding options. Despite considerably leading in terms of the value of the acquired debts, Latin America and the Caribbean ranks 2nd in the number of agreements with 26, following Sub-Saharan Africa, which leads with 95.

The Fund has also increased funding caps for rapid funding options both for low-income countries (RCFs) and middle as well as high-income countries (RFIs). For example, annual RFI caps were raised from 50 to 100 percent of quota per year and from 100 to 150 percent on a cumulative basis. The Fund has clarified that these increases are temporary and expects them to be brought back to their normal levels once the pandemic is over.

HOW VENEZUELA COULD TAP IMF FUNDING

In the event of an end to the current legitimacy crisis, Venezuela would –in theory- be able to access an SBA, an EFF, or an RFI. Venezuela would not immediately be eligible for credit lines (FCL, SLL, or PLL), which require sound or strong economic fundamentals and policy frameworks.

Venezuela would also not be eligible for concessional financing arrangements such as the ECF and RCF, which are open only to countries eligible for International Development Association (IDA) financing. Eligibility for IDA financing depends on a country's relative poverty, as measured by its GNI per capita, which must fall below a threshold currently set at $1,185.[46]

Venezuela's GNI per capita has likely fallen or will fall near or below that threshold in the near future. The IMF estimates Venezuela's GDP per capita at $1,739 in 2020, falling to $1,544 by 2022. While Venezuela has not reported GNI data since 2014, figures from that year put GNI at 81.4% of GDP, reflecting large property income of multinational companies. If that same ratio holds, GNI per capita would fall to $1,257 by 2022. It's also worth noting that $1,185 is not a hard threshold, as some small island economies which exceed it have been included in the IDA category. A good case can be made that, despite not being an island economy, Venezuela's exceptional conditions configure a strong argument for consideration for IDA status and eligibility for the associated concessional financing.

[46] International Development Association (2020).

While Venezuela's economy could arguably make good use of a comprehensive reform program under SBA or EFF funding, due diligence associated with either instrument and political constraints which would exist depending on how the legitimacy crisis is solved, make both options unreasonable in the short run when compared to a less prerequisite-encumbered RFI.

In April of last year, the IMF increased the RFI funding cap in case of COVID-19 funding-related needs.[47] From a yearly access limit of 50% of a country's quota, the IMF now caps yearly funding requests through the RFI at 100% of the country's quota. A country can access RFI funding its COVID-19 response with a cap of 150% on a cumulative basis. At the current USD/SDR exchange rate, Venezuela's current quota of SDR 3.7bn allows the country to opt for a yearly limit of USD 5.3bn, while it can obtain a cumulative financing of up to USD 7.7bn. This would be equivalent to 9.1% and 13.6% of the country's GDP per our estimations. Perhaps more importantly, it could serve to fund between 54.3% and 81.5% of the value we estimate would be necessary for a COVID-19 response program.

Table 9: Approval process and elapsed time for RFIs in Latin America

Country	Date of approval	Date of ending of informal talks	Date of letter of intent	Days from end of informal talks to letter of intent	Days from end of informal talks to approval	Adjusted approval delay (Days)	Funds approved (USD Mn)	Requested funding (% of quota)	Approved funding (% of quota)
Bolivia	17-Apr-20	10-Apr-20	12-Apr-20	2	7	5	327	100%	100%
Costa Rica	29-Apr-20	16-Apr-20	22-Apr-20	6	13	7	508	100%	100%
Dominican Republic	29-Apr-20	17-Apr-20	13-Apr-20	-4	12	12	650	100%	100%
Ecuador	1-May-20	24-Apr-20	30-Apr-20	6	7	1	643	"Maximum available"	67%
El Salvador	14-Apr-20	3-Apr-20	4-Apr-20	1	11	10	389	100%	100%
Guatemala	10-Jun-20	21-May-20	1-Jun-20	11	20	9	594	100%	100%
Jamaica	15-May-20	1-May-20	8-May-20	7	14	7	520	100%	100%
Panama	15-Apr-20	7-Apr-20	7-Apr-20	-	8	8	515	100%	100%
Paraguay	21-Apr-20	7-Apr-20	8-Apr-20	1	14	13	274	100%	100%
The Bahamas	1-Jun-20	15-May-20	22-May-20	7	17	10	250	100%	100%
Average				**4**	**12**	**8**			

Sources: IMF

Venezuela currently has a quota of SDR 3.7bn (USD 5.3bn), amounting to 0.78% of the IMF's total shares. However, the Fund is currently considering a proposal[48] for a general SDR allocation of USD 650bn (SDR 455bn) backed by members of the G20, who hold 78% of IMF shares.[49] Given that general SDR allocations are in proportion to each country's quota shares at the IMF, we expect Venezuela to receive an additional issuance of SDR 3.6bn (USD 5.1bn).[50] Following this allocation, Venezuela would have total available resources of USD 5.5bn (SDR 3.9bn) for use by the central bank.

[47] International Monetary Fund (2020c).
[48] International Monetary Fund (2021a).
[49] G20 (2021). A general SDR allocation would require support of member states holding 85% of the Fund's total voting power.
[50] International Monetary Fund (2021b).

THE DISPUTED FUNDS OPTION

CONSTRAINTS ON ACCESS TO CASH HOLDINGS

Another possible alternative to fund a response to the crisis is to allow one or both of Venezuela's governments to have access to existing funds or sources of revenues. As we have already highlighted, Venezuela's governability crisis puts severe constraints on the ability of each of the country's two competing administrations to use the resources that would normally be available to the country's government. However, most of these constraints are caused by specific actions or decisions of governments of other countries that could in principle be modified in the context of a political agreement between the parts of Venezuela's conflict supported by the international community.

Table 10 lists our estimates of the funds that the Venezuelan government cannot access as a result of its governability crisis. We deal here only with liquid assets deposited in foreign bank accounts. We thus exclude any fixed or illiquid assets as well as access to financing or oil revenues foregone as a result of sanctions. We distinguish in the last column between the funds that would require agreement by both parties to access and those that could be mobilized by the Guaidó administration without an agreement with the Maduro administration.[51]

To unlock access to each of these sources of funds, the cooperation of some other country's government – often the United States – would also be needed. For example, we estimate that there are 8.4bn in US accounts of subsidiaries of Venezuela's state-owned oil company PDVSA. These include CITGO, which is wholly owned by PDVSA, and PDVSA-controlled joint ventures with accounts in the U.S.[52] However, in order for these companies to provide resources that could be spent by the Venezuelan government [in this case, the Guaidó administration], the Department of Treasury would need to issue a license allowing them to pay dividends to PDVSA, and PDVSA to pay dividends or taxes to the Republic. In the absence of such decisions, these funds remain restricted by U.S. law.

[51] Note that during a March 24 press conference, Maduro-appointed Vice President Delcy Rodríguez claimed that Venezuela had "more than" USD 7bn in liquid assets distributed among bank accounts in Curacao, Lichtenstein, France, Luxembourg, Bulgaria, Spain, Turkey, the US, Portugal, Switzerland, the UK, Germany, Belgium, and possibly other countries. After listing the countries detailed in the text, Rodríguez said "as well as all of the countries in which we have blocked resources," arguably implying that the list was not exhaustive. See: Venezolana de Televisión (2021). While we can account for some of the funds in France, the U.S., Portugal, and the U.K, Rodríguez did not give greater detail with regard to the amounts: for example, it isn't clear whether she's taking into account the cash holdings in CITGO, or the Deustche Bank gold swap holdings. This would leave between 1.0bn and 2.5bn in liquid assets at least among Curacao, Lichtenstein, Luxembourg, Bulgaria, Spain, Turkey, Switerland, Germany, Belgium, and other countries, which are excluded from the table due to lack of available detail.

[52] In the latter case, our estimate includes only the PDVSA share of these holdings.

Table 10: Funds unavailable for Venezuela due to ongoing political crisis

Sources of funds (USD mn)	Total	Conservative Estimate	Requires Maduro consent?
Joint ventures	6.989	3.000	No
CITGO	1.484	200	No
Novo Banco	1.667	-	No
Bank of England gold*	1.980	-	Undetermined
New York FED Holdings	5	5	No
CITIBANK gold swap holdings**	342		No
Deustche bank gold swap holdings	120	-	Undetermined
Treasury of France	49	-	Unknown
Total deposits in foreign accounts	**12.636**	**3.200**	

**33 tons valued at avg price in November USD 1866.5/troy oz.*

*** Partly commited to financing operations of the Guaidó AN.*

Sources: authors' calculations

GOLD DEPOSITS AT THE BANK OF ENGLAND

We now focus on one of these sources: the BCV's gold holdings in the Bank of England. Venezuela's Central Bank had traditionally held a large share of its central bank reserves in gold. In 2011, President Chávez ordered those reserves to be repatriated, alleging fears that they could be frozen in the context of a political crisis (as had happened with Libya's international reserves earlier that year).[53] While following Chávez's indication, the BCV decided at the time to maintain a small share of its gold holdings abroad for reasons of liquidity. Of these, there are currently 33 tons at the Bank of England, which are valued at $1.98bn at current market prices. This is equivalent to 3.7% of GDP and 15.7% of restricted public sector expenditures estimated for 2020. Additionally, Deutsche Bank is obliged to pay $120mn to the BCV as proceeds from a gold swap contract.

[53] O'Harrow, Grimaldi & Dennis (2011).

The Bank of England refused a request by Maduro's BCV to use the funds back in December 2018, despite the fact that at that time, Guaidó had not yet been recognized as President of Venezuela by the United Kingdom.[54] In April 2019, Maduro's Central Bank submitted a formal request to the Bank of England to use the funds for dealing with the COVID-19 pandemic.[55] Apparently, due to their lack of response, Maduro's BCV introduced a demand before a London Court seeking an order that the Bank of England released the funds. Guaidó's BCV board intervened legally in the dispute, claiming that it was the only legitimate representative of the central bank.

On July 7th, the Queen's Bench Division of the Commercial Court in the High Court of Justice issued a decision on two preliminary issues of the trial. First, the Court determined that Her Majesty's Government had recognized Guaidó – and therefore did not recognize Maduro – as Head of State. Second, it determined that decisions issued by the National Assembly or by Guaidó, including the appointment of the *ad hoc* BCV board, were to be considered valid and effective without inquiry as acts of sovereign states.[56] Although formally this was not a full judgment, the joint implication of these answers was that the Guaidó board had the authority to manage the central bank's funds in the Bank of England.

However, on October 5th, the Civil Division of the Court of Appeal ruled on an appeal regarding the judgment on preliminary issues introduced by the Maduro board. The Maduro board charged that the High Court had ignored concrete evidence that, even though Her Majesty's Government had recognized Guaidó formally as Head of State, it continued to maintain relations with the Maduro government in practice. The appeals court agreed that, in principle, there could be a distinction between *de iure* recognition and *de facto* recognition and that in order for its acts to be recognized as acts of state, a government would need to be recognized as *de facto*, i.e., as having actual control over the territory of the state.

The appeals court found that the recognition accorded by the British government to Guaidó had left open the possibility that it had also implicitly recognizes Maduro as *de facto* president, in which case the Maduro board would have control over the funds. The appeals court sent the case to the Commercial Court so that it would seek clarification from the Foreign Office[57] on whether it recognized Maduro as "the person who does, in fact, exercise some or all of the powers of the President of Venezuela."[58]

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[54] Long, G. (2019).
[55] Reuters staff (2020).
[56] The acts of state doctrine established that courts should not question the validity of the acts of other sovereign states in the exercise of their sovereign authority. See: Iglesias, A. (2020).
[57] More formally, the Foreign, Commonwealth and Development Office, the foreign relations arm of the British executive branch.
[58] Royal Courts of Justice (2020).

As of the time of this writing, the Foreign Office had not, to the best of our knowledge, issued that determination. Nor is it obligated to do so, in which case it is possible that it will be left to the Commercial Court to decide, based on the existing evidence, whether the British government recognizes Maduro or Guaidó as *de facto* president. The fact that Great Britain maintains formal interactions with the Maduro ambassador in London, while only interacting informally with Guaidó's envoy, and that its Caracas embassy also formally interacts with the Maduro government will certainly be offered by the Maduro board as evidence of *de facto* recognition.

It is possible for this case to take a significant amount of time to resolve. At present, the Court appears to be waiting for the Foreign Office's determination. In case it does not receive it, then it would have to make a determination on its own and hear evidence on the substance of *de facto* recognition. Once it does so, the decision can be appealed before the Court of Appeals and then before the Supreme Court. As the experience so far shows, one cannot rule out the possibility that in any of those instances, it could be once again returned to a lower court. While it is difficult to predict the timing of court decisions in the British system, it seems safe to say that this case will not be definitively settled for several months and possibly for much longer.

Even if the case is resolved, it is not altogether clear that Venezuela will have access to the funds. This in itself will depend on the British government's subsequent decisions. Like most governments in the world, the British government retains the power to impose financial sanctions and issue orders freezing assets – in Britain's case, under the Anti-Terrorism, Crime and Security Act of 2001.[59] It is conceivable that, even if the Maduro board gains the legal battle for control of the funds, the British government would decide to use other means to block access to these assets. Recall, in fact, that the initial decision to block the transfer of funds was issued prior to the British government's decision to recognize Guaidó. Even if the British government decided not to block the funds, it may not be easy in practice to find a set of intermediary institutions willing to process a funds transfer without having it blocked as a result of U.S. sanctions on the Venezuelan government.

[59] UK Government. (2016).

THE RECOGNITION ISSUE: THE PROBLEM AND ALTERNATIVE SOLUTIONS

We now explore some key nuances of government recognition in the specific contexts of IMF financing and accessing deposits in the Bank of England. While the principles outlined in this section do not necessarily automatically extend to other settings, they do provide some guidance regarding how to think more generally about using funds to which access is currently impeded.

We begin with the IMF. The IMF is part of the United Nations System and, formally, a specialized UN agency. However, it retains its independence and can decide to deal with specific governments independently of what the UN General Assembly decides. The IMF does not have a formally documented operational policy on dealing with an entity as a member's government but does have a history of consistent application of certain practices.[60]

In general, most international organizations, including the UN, avoid the use of the language of "recognition," referring instead to the choice of government "to deal with." For example, the World Bank does have a section of its Operations Manual devoted to "Dealings with De Facto Governments."[61] In the IMF, the decision of what government to deal with is taken by the Managing Director, based on the recommendations of staff. These acts are assumed to be endorsed by the Executive Board or Board of Governors, who have the competence to settle doubtful or disputed claims. [62]

IMF staff tend to try to follow the views of the international community on recognition issues, although what exactly is the meaning of "international community" and who are the relevant veto players is subject to various alternative interpretations. At times, this has meant that it has recommended not to deal with any authority as member of a country's government. This is the current situation in Venezuela, as it was in Somalia in 1992. Lacking clear guidance from the international community, staff will determine whether a majority of voting power in the Fund chooses to recognize or deal with an authority as a government in their bilateral relations. There is at least one case (Haiti 1991) where the IMF has decided to deal with an authority different from that exercising *de facto* control.

[60] International Monetary Fund (2005).
[61] World Bank Group. (2015).
[62] Gold, J. (1974).

In practice, the decision of what government to deal with is only relevant for the purposes of IMF transactions in terms of establishing the relevant interlocutory agency. Article V, section 1 of the Articles of Agreement states that:

> *"Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies."*[63]

In the case of Venezuela, the fiscal agent designated for the purposes of Article V(1) is the Central Bank of Venezuela.[64]

Dealing with an entity as a member government is clearly a necessary condition for the government to exercise rights and incur obligations to the IMF, but it is not a sufficient condition. This is because provisions in the IMF's Article of Agreements may contain other conditions that must be met for financial assistance, such as the requirement that the recipient country be able to adequately safeguard IMF resources. The IMF also typically does not penalize governments that have no control over their territory for breach of some responsibilities, such as the duty to provide information under Article VIII.

The World Bank's more detailed guidance can serve as a helpful reference regarding the possible reaction of the IMF to different scenarios associated with Venezuela. As we noted, the World Bank's policy, detailed in its Operations Manual, regards dealings with *de facto* governments, which are defined as governments that come into, or remain in, power by means not provided for in the country's constitution. Obviously, labeling a government as *de facto* requires an own interpretation of the Constitution, which by itself may entail siding with the view of one of the parts in conflict. Certainly, in the Venezuelan case, both sides claim that they are abiding by the 1999 Constitution. Nevertheless, the rules clearly state that a decision to deal with a *de facto* government "does not in any sense constitute Bank' approval' of the government, nor does refusal indicate 'disapproval,'" in keeping with the principle of not interfering in the political affairs of countries.[65]

[63] International Monetary Fund (2020d).
[64] According to Krazut, R. (2010) the Central Bank has been Venezuela's representative at the IMF since a 1960 reform to the country's Central Bank law. Per article 7, numeral 11 of the currently standing Law of the Central Bank last reformed in December 30, 2015, the bank remains in charge of "exercising the rights and responding to the obligations of the Republic in the International Monetary Fund." (Gaceta Oficial de la República Bolivariana Venezuela, 2015, p. 8).
[65] Gold, J. (1974).

The World Bank distinguishes between conditions to maintain existing operations under *de facto* governments and those to undertake new operations. The latter is logically more stringent and require ascertaining that there is a proper legal framework to permit the loan objectives to be achieved and for all parties to undertake their obligations, as well as establishing whether (i) a new loan would expose the Banks to "additional legal or political risks,"[66] (ii) whether the government is in effective control of the country and enjoys reasonable stability (iii) whether the government recognizes past obligations to the Bank (iv) the number of countries that have recognized or deal with the government and (v) the position of other international organizations.

These criteria suggest that, even if the Bank (and the IMF, were it to follow comparable criteria) decided to recognize the Maduro government and even if conditions (ii)-(v) were reasonably satisfied, the recognition of the Guaidó administration by the United States and the governments of other important economies would generate significant legal and political risks for the Bank. Were a future Venezuelan government or judiciary to recognize the decisions of the Guaidó administration at this time as valid, that could render obligations subscribed by the Maduro administration before the Bank/IMF as invalid, and the loan would surely be strongly criticized in some political circles as propping up an illegitimate regime.

There appear to be two potential strategies for Venezuela to receive financing from the IMF in the context of a political agreement.

(i) The IMF could decide to deal with one of the two governments, either solely for the purposes of this program or more generally. This could take place within the context of a political agreement in which both sides agree that one of them will represent them before the organization. For example, Guaidó could decide to express support for the decision of the IMF to deal with the government of Maduro as part of an internationally monitored agreement in which the Maduro administration undertakes certain commitments, such as supervision by an international organization and oversight by the 2015 National Assembly. In order for the agreement not to be perceived as being a concession by one part, the parts could agree to support each other's representatives for different international organizations. For example, the agreement could entail the IMF deciding to deal with the Maduro regime and the World Bank deciding to deal with the Guaidó administration. We call this the **single government solution.**

[66] Gold, J. (1974).

(ii) The parts to the country's political conflict which currently claim to legitimately occupy the presidency could jointly appoint a board of the Central Bank of Venezuela (BCV). Pursuant to Article V(i), the IMF interacts with the BCV as fiscal agent for Venezuela. Therefore, if there is no dispute as to what the legitimate board of the BCV is, then there should be no problem in the IMF deciding to deal with that BCV board which is accepted by both governments. Put differently, if the Guaidó and Maduro governments both appoint the same BCV board, then there would be no question as to the Central Bank's legitimacy to conduct business with the IMF. We call this the **single central bank solution.** [67] We discuss some legal considerations related to this solution in Appendix 2.

We note that the single government and single central bank solutions are not necessarily mutually exclusive. In fact, the single government solution in practice is likely to require the formation of a single central bank, given that the Maduro central bank has no legal capacity to manage bank accounts in the U.S. financial system (and this capacity is restrained or contested in other countries, as the Bank of England gold case illustrates). Therefore, the approaches should be seen as complements rather than substitutes.

As we explain in Appendix 2, in our assessment, the IMF's by-laws and regulations are sufficiently vague to not be inconsistent with the application of the single central bank solution in and of itself. Nevertheless, in practice, it is probable that the IMF will incline for a more conservative interpretation that will require explicit recognition of a government – and not just a central bank - in order to disburse funds. We also believe that concerns about future accountability may strongly incline the Fund to require explicit identification of the recognized government in order to disburse funds. Therefore, in practice, the most likely scenario is probably one in which both the single government and single central bank solution must be implemented to obtain IMF financing.

[67] This decision would have the unintended consequence of giving Guaidó appointees partial control over monetary and exchange rate policy, which the Maduro administration may not accept. This of course must be the subject of negotiation between the parts. However, there could be considerable space within the Venezuelan constitution for legal reforms that allow some of the responsibilities of the Central Bank to be delegated to instances, whether internal to or external to the Bank, which need not be under control of the balanced board. Bear in mind that the overall structure of the agreement would imply, as we develop further below, mechanisms of international monitoring which would ensure that if either side violates the agreement then enforcement actions would kick into place to restore operation of the agreement. These enforcement mechanisms apply both to the Maduro and the Guaidó camps and could serve to restrain interference by the Central Bank board on issues which it is restricted from deciding on as part of the agreement.

While formal recognition of a single government may be required, the substantive framework set out in this proposal would still revolve around the key institutions of the single central bank board and the program's administrative board – describes in greater detail below. In this sense, the fact that a single government formally undertakes the job of representing the country before a multilateral organization should not be confused with the idea that the government has autonomy over the use of proceeds. In our proposal, whatever government undertakes representation before a multilateral would do so in the course of implementing a political agreement that circumscribes its capacity to take substantive economic decisions related to the program. That substantive decision-making power would be exercised by the central bank and program administrative boards.

Things are somewhat simpler when we turn to the Bank of England. As we have seen, courts have indicated that it is Venezuela's *de facto* government that would be empowered to appoint the BCV board with access to the disputed funds. The rub is that the *de facto* government need not be the one with control over the territory, but rather the one that the Foreign Office recognizes as such. A single government solution would thus likely involve an agreement that the Foreign Office recognize one of the two governments as *de facto*.

However, the single central bank solution offers a straightforward way to address the management of Venezuela's gold holdings in the Bank of England, at least as long as it occurs within the context of a political agreement supported by the international community. If both Guaidó and Maduro recognize the same central bank board, the essence of the judicial question before British courts disappears: there would be no longer a dispute over the authority of each of the competing central bank boards to manage these resources. International support for the initiative would also reduce the likelihood that any government decides to block the resulting transactions or that financial institutions would be unwilling to process them.

Both the single central bank solution and the single government solution offer more general principles under which agreements of broader reach could be structured. For example, a single PDVSA-CITGO board of directors could manage the commercial relations of the Venezuelan state with U.S. oil markets, making possible the use of oil export proceeds to attend the humanitarian crisis in the context of a broader humanitarian agreement.[68]

[68] More details about how such an agreement could be structured can be found in Oil for Venezuela (2019).

OUR PROPOSAL: AN INSTITUTIONAL FRAMEWORK FOR ADDRESSING THE EMERGENCY

THE SINGLE CENTRAL BANK SOLUTION IN THE VENEZUELAN CONTEXT

Article 7 of the 2015 Venezuelan Central Bank (BCV) Law assigns to the institution the exercise of all rights and obligations of the Republic in the IMF, in accordance with relevant international agreements.[69] This implies that the BCV is entitled to represent the Republic in all its dealings with the IMF, including loan requests and repayments. Accordingly, the BCV acts as the single depositary for the IMF in Venezuela and as the fiscal agent of Venezuela before the IMF.

This does not mean that the BCV has full discretion regarding the use of loan proceeds; the BCV board is a representative of the government, but not the government. Nevertheless, it does mean that all IMF interactions with the government are carried out through the BCV, which opens up the possibility that a single central bank solution may enable the Venezuelan state to access IMF resources without deciding on the fundamental recognition issue. In the case of the Bank of England, as we have noted, the discretion to manage the funds relies solely and directly upon the BCV.

In this section, we elaborate on a variant of the single central bank solution for the Venezuelan case. The starting point for such a solution would be the appointment of a single central bank board. According to the BCV law, the nation's president appoints six board members and the president (governor) of the BCV for seven-year terms. Therefore, in principle, it would be sufficient for both Juan Guaidó and Nicolás Maduro to appoint the same persons as board members and president for the country to count with a single central bank, despite still having dual governments.

[69] Gaceta Oficial de la Republica Bolivaríana de Venezuela (2015).

There are currently two parallel central bank boards. One is composed of board members primarily appointed by Maduro according to the 2015 law whose seven-year terms are still running (we will call this the Maduro board).[70] The other is an *ad hoc* board appointed by Juan Guaidó with the authorization of the National Assembly in July of 2019 (we will call this the Guaidó board). The Guaidó board has five members, and its functions are limited to the protection of the BCV's external assets. They are appointed according to the powers that the 2015 National Assembly (AN) claimed when it approved the Statute to Govern the Transition in February of 2019. Thus, their terms are unspecified and designed to end once the political transition that the Legislature elected in 2015 tasked itself with has been achieved.

There are some legal nuances that should be considered at the time of a single central board appointment, none of which appear to be unsurmountable. First, the current terms of the Maduro-appointed BCV board members and president have yet to expire, so the Maduro government would have to secure their resignation.[71] Second, it would be preferable for Guaidó to appoint the new members as a full central bank board according to the BCV Law, rather than as an *ad hoc* board with limited responsibilities. Third, the 2015 AN and the Maduro administration actually appear to recognize as valid different versions of the BCV Law, each of which would imply different appointment procedures.[72] Fourth, the law requires that the finance minister be one of the six board members. Whoever this person is, there would arguably be an implicit recognition by both sides of her/his legitimacy as holding that position.[73]

The make-up of the BCV board would, of course, be the subject of political negotiations. It would nevertheless appear natural that there would be an equal number of representatives of both sides among the six board members, with the president and tie-breaking vote vested in a neutral figure.

[70] One of the board members, Sohail Hernández Parra, was appointed by the National Assembly (AN) in 2014 under a previous version of the law which gave the AN the authority to appoint two board members.

[71] This has not been an obstacle in the past. In July of 2018, Maduro replaced five board members and a president of the BCV whose terms had not yet expired. The outgoing board members had tendered their resignations two weeks before, presumably at the behest of the government.

[72] The 2015 version of the BCV law was approved by then-President Maduro during the lame-duck period of the 2010 National Assembly using special powers to rule by decree that he had been granted by it. Maduro's reform was directed at circumscribing AN powers under the law. The 2015 AN went on to approve a reform of the law (the 2016 Law) in March of 2016 reestablishing its power, yet that reform was ruled unconstitutional by the Supreme Court in April 2016. Although the wording of some of its resolutions has been vague in this respect, it appears as if the 2015 AN continues to recognize the 2016 law, and not the 2015 version, as the valid one. Therefore, were Guaidó to go on and appoint a BCV board, it would presumably be subject to the requirements established in the 2016 law, including AN confirmation of the president and two board members, We do not view it as problematic that the two governments consider that the boards have been appointed according to different laws, as long as both consider that the same persons have been appointed board members according to the valid law.

[73] This may or not be a concern for the Guaidó side. Since Guaidó has not appointed a full cabinet, limiting himself to appointing "commissioners" in charge of certain areas of policy, there would be no contradiction in his accepting the naming of Maduro's appointee as the cabinet's representative in the BCV board. The 2015 AN could, of course, always reform the law in order to make the appointments consistent with its interpretation. In other words, amending Article 16 of the law would be sufficient to withdraw any recognition of the government representative as finance minister. This would be subject to the same considerations elaborated on in the prior footnote: we don't see a problem for the two appointments to be made under different procedures as long as they result in the same board.

Both governments would separately approve a loan request from the IMF for up to $7.7bn (150% of quota as per the current cumulative access limit) and/or withdrawal of the $1.98bn at the Bank of England to fund an emergency plan to aid the country in meeting the external shocks of 2020, including the direct effect of the pandemic and the cost of efforts to deal with it and the decline in oil revenues. The BCV president, acting as the country's governor, would communicate this request to the IMF and provide the supporting documentation required by the institution. Under the single government solution, only one of the approvals would be of formal relevance to the IMF. Yet, both would be required as part of the implementation of the political agreement that gives rise to the request.

In the case of the Bank of England funds, which are part of the BCV's international reserves, a mechanism should be found in order to allow the government to access it for the purposes of funding a social program. Deficit financing by the BCV is in principle barred by Article 320 of the Constitution, though in practice, that has not been an impediment over the past two decades. In fact, as of the latest available data, loans to state-owned enterprises by the BCV account for 6,857% of the monetary base.

One legal figure for the use of BCV resources may thus be the creation of a special entity that is not part of the national executive and which would be enabled to receive BCV loans under a flexible interpretation of Article 320 and due to a 2009 reform of the BCV law. Although this is far from being a satisfactory solution, it does have the merit of being allowed under the current BCV law, which permits the central bank to purchase bonds issued by state-owned enterprises on the secondary market.[74]

An alternative may be to appeal to the legislation originally approved in 2005 that allows transfers of excess international reserves to the National Development Fund FONDEN.[75] A third solution may be more straightforward and transparent: the temporary suspension of the prohibition on central bank deficit financing in the context of a declaration of a State of Alarm or Economic Emergency appealing to Articles 337-339 of the Constitution.

[74] CEDICE Observatorio Económico-Legislativo (2015).
[75] See article 113 of Banco Central de Venezuela (2006).

THE ADMINISTRATIVE BOARD AND LEGISLATIVE OVERSIGHT

The BCV board, of course, would be nothing more than the intermediary in the relationship between the Executive Branch and the IMF. Once the funds are disbursed, it is up to the government to spend them. For those purposes, we recommend creating an Administrative Board that would have as its function the management and oversight of the program. We recommend that the Administrative Board be formed by an equal number of Maduro and Guaidó appointees, with one or more additional non-aligned appointees representing the tie-breaking votes.[76]

The Administrative Board would have as its functions the procurement of all goods and services to be purchased with the loan funds and other revenues of the program as well as the distribution of those goods and services in Venezuela. Some of these goods (e.g., hospital supplies) would necessarily be allocated through the public health system that is overseen by the Maduro administration. In some other cases, it may be more efficient to carry out that allocation through the private sector. For example, supplies may be sold to private sector providers, and the revenues obtained from their sales be used to fund a voucher program to ensure that all citizens have equal access to them. In the third set of cases, such as a cash transfer programs, there may not be an adequate state infrastructure for its provision, so that a new structure would have to be set up.

The use of voucher programs combined with private sector provision could go a long way towards addressing concerns with political bias and conditioning of allocations of benefits. Concern with the politicization of benefits as well as mismanagement of resources and poor allocation is an issue that opposition representatives have consistently raised.[77] There is some past evidence of political targeting of benefits, though it appears to be concentrated around electoral events.[78] The Maduro administration has stoked these fears recently when it said that members of vaccination brigades formed by the political movement We Are Venezuela would have preferential access to vaccines.[79]

[76] In contrast to the BCV appointments, there is no legal or constitutional restriction on their nationality, making it possible for these tie-breaking votes to be representatives of an international organization.
[77] Pizarro (2021).
[78] Rodríguez, Navarro (2018).
[79] AFP (2021).

Politicization of benefits is not automatically eliminated with a voucher system yet is easier to control. If goods distribution is carried out directly by the state, then local political leaders or government officials will usually have the chance and the incentive to capture supplies at the local level and distribute them among their constituencies. Suppose access to these supplies is obtained through a voucher system. In that case, politicization can be controlled through oversight and review of the list of recipients, which is much easier to centralize, particularly if the distribution of vouchers is made through debit cards linked to an individual's national ID number. External auditors could evaluate the list of recipients to ensure the absence of correlation between recipients and party affiliation that are not a result of socioeconomic conditions or other forms of means-testing.

As any other part of the Venezuelan state, the Administrative Board should be subject to legislative oversight. Since the Administrative Board would be part of the public sector, its budget should be approved by the National Assembly, and all of its activities would be subject to the potential scrutiny of the AN's Oversight Committee. This brings us to the question of how to deal with the fact that there will be two competing legislatures in Venezuela when the program is implemented.

One legislature is composed of an apparent[80]majority of the legislators elected in 2015 for a five-year term ending in January of 2021. We will call this the 2015 National Assembly (2015 AN). It is composed only of members of the four mainstream opposition parties. On January 23 of 2019, the 2015 AN appointed Juan Guaidó as its president, and on January 23 of that year, Guaidó claimed he was assuming the powers of the Executive Branch according to Article 233 of the Constitution given the permanent absence of an elected president. He was re-elected to that position in a disputed election on January 5 of 2020. On December 26, following the results of a popular consultation held on December 7-12 in which 6.5 million Venezuelans ratified their support for the body, this Legislature reaffirmed that its mandate, as well as Guaidó's assumption of executive powers, would continue until the country was able to hold free and fair presidential elections.[81]

[80] We say that the majority is apparent because it does not appear to count with the support of a majority of principal members. However, AN rules allow the AN president to incorporate substitute legislators in the absence of their principals even without the principal's consent. This leads to the paradox of it being theoretically possible for there to be two competing legislatures, both with a valid majority of principals and substitutes. During 2020, a group of opposition dissidents with government support tried to convene such a competing legislature under the leadership of opposition legislator Luis Parra.

[81] Prensa AN (2020).

A second legislature was elected on December 6, 2020 in an election boycotted by the mainstream opposition parties. This election, which counted with 30.5% turnout (as opposed to the 2015 71% turnout), was handily won by the government, which took 68.4% of the popular vote and claimed 243 out of 277 seats. Several non-mainstream opposition parties participated. Some of these parties had previously participated in negotiations with the Maduro government initiated in 2019 and which led to the appointment of a new electoral council and a reform of electoral rules. The 2020 AN is recognized as legitimate by the Maduro government. The previous National Constitutional Convention, elected in 2017 under a full opposition boycott and which had assumed legislative competencies on the argument that the 2015 AN was in contempt of Supreme Court decisions, came to an end with the inauguration of the 2020 AN.

We recommend that both the 2015 AN and the 2020 AN have independent powers to approve budgets and carry out oversight of the Administrative Board. As part of the initial political agreement, the Administrative Board would be tasked with preparing a multi-year budget that would be submitted to both ANs for their approval. We assume that such approval would be forthcoming as a result of the initial political agreement between the parts. For each subsequent fiscal year, the Administrative Board would suggest changes to the corresponding lines of the multi-year framework and even present a new budget altogether. However, the existence of a detailed multi-year budget would serve as a fallback option in case the two bodies do not reach an agreement on a particular fiscal year's proposals.

We also recommend that the Oversight Committees of both the 2015 AN and the 2020 AN have the authority to investigate the activities of the Administrative Board. Note that oversight of public administration is one of the Legislature functions, which can open investigations and declare the political responsibility of government officials in the case of wrongdoing. The body in charge of these investigations is the AN Oversight Committee. We see no loss and greater potential increased transparency in having the Administrative Board subject to the oversight of both legislatures.

The Administrative Board would have three primary functions: planning, procurement, and implementation. Three separate committees should be appointed from its body to be in charge of each of these functions.

The Planning Committee would be in charge of setting the program's priorities, drafting the multi-year and annual budgets, and planning for loan repayments. It's worth noting that no loan proposal is likely to get very far unless there is a concrete, feasible plan for loan repayment, so the planning committee would be tasked with interacting with other parts of public administration in order to ensure that the government is on track to producing the added revenues that would be needed for repaying the loans. The planning committee would also be the center of discussions on national priorities, such as whether the country should be devoting resources to treatment, vaccination, or enforcement of lockdowns.

The Procurement Committee would identify the program's specific needs in terms of purchases of goods and services. However, we recommend that the Administrative Board have no authority for selecting providers but that this area of procurement be carried out by an independent international agency. For example, the United Nations Development Programme (UNDP) could be in charge of identifying and hiring contractors for specific activities. At the same time, the PanAmerican Health Organization (PAHO) could be tasked with identifying the lowest-cost alternatives for drug treatments, vaccines, and medical supplies. We note that procurement is the one area that is most vulnerable to corruption and where greater international oversight is needed.

The Implementation Committee would design the specific subprograms and coordinate their implementation with the specific implementing agency or entity. Broadly speaking, there are three modalities of implementation of each subprogram: through government agencies, through the private sector (either for-profit or non-profit), or internally through a new agency created for that purpose. The Implementation Committee would have as its key task identifying which of these modalities of implementation should be adopted and, given the decision of the Administrative Board, to negotiate their implementation with the specific agency. When this entails procurement of external services, either of private sector firms or NGOs, we recommend that this be done by the independent international agency in charge of procurement.

To understand the choice of this committee, think of the decision to distribute a new vaccine. This could be done through government hospitals and assistance centers. However, it could also be carried out through private clinics and non-governmental organizations involved in the provision of health services. Furthermore, if neither of these is sufficient to reach all target populations, it may prove necessary to set up an independent vaccination service run directly by the program. Very likely, the optimal strategy will imply a combination of the three approaches. The role of the Implementation Committee is to plan on how to use each of these mechanisms in the comprehensive vaccination plan.

Lastly, there is the key issue of international oversight. We have already discussed the need to outsource key procurement activities to an independent international agency. However, there is also a broader necessary oversight of the compliance with the program and whether it is being run consistently with the objectives of the political agreement that gave rise to it. For example, one of the agreement conditions should be that there be no political discrimination of any type in the distribution of goods and services provided by the program and that the allocation mechanisms be designed to control rent-seeking behavior and deviation towards black markets. An independent body should be in charge of monitoring compliance with such provisions.

We thus recommend that an independent High-Level Committee be tasked with overseeing compliance with the program agreement. This committee should be formed by independent experts who are not aligned with any of the parts of the conflict. The committee would have the ability to suspend the program in case it determines that the parts are not complying with the agreement.

THE POLITICAL AGREEMENT

As we have already suggested, the program in question only makes sense within the context of a broader political agreement. This agreement should be subscribed by the parts of the political conflict, which we assume will continue to be headed by Nicolás Maduro and Juan Guaidó (but, more generally, would be the heads of the two governments laying competing claims to legitimacy). The agreement should have as its main purpose undertaking concrete actions to address the country's humanitarian emergency.

We recommend that the negotiation of this agreement be separated from negotiations on the country's broader political legitimacy crisis. By no means do we want to subtract importance from the desire for the country to solve its governance crisis and be able to elect its authorities through processes that are recognized by the international community as free and fair. Nevertheless, we believe that packaging the humanitarian negotiation with the political one risks muddying both. Since it is unclear that it is possible to find a negotiated solution to Venezuela's political legitimacy crisis given the zero-sum nature of its political contest, conditioning humanitarian negotiations on a political agreement risk unnecessarily stopping the possibility of concrete advances to address the pressing problems of Venezuelans. Furthermore, allowing political actors to condition humanitarian aid on political actions may make an agreement on both issues less feasible by exposing them to criticism that they are compromising human rights in order to further their political goals.

A political agreement to address the humanitarian emergency must start out by identifying the amount of funds required, the purposes to which those funds will be applied, and the source of the funds. If the source of the funds is lending or the use of existing assets, there also needs to be a plan to make the program intertemporally sustainable. If the country receives, for example, a loan through the Rapid Financing Instrument, it should be ready to repay the loan within a period of 3 ¼ to 5 years, as set out in the IMF guidelines for the use of those resources. Even if the source of funds is the use of own assets, there should be a plan to ensure that the excess financing needs are temporary and that additional funds will not be needed once current ones are depleted.

Under normal conditions, ensuring capacity to repay may entail carrying out certain macroeconomic reforms or, at the very least, maintaining macroeconomic policies consistent with intertemporal sustainability. In the case of Venezuela, where part of the shortfall of revenues is the result of the country's political crisis, the surest way to guarantee repayment capacity would be for the parts to agree to actions that reduce or offset the collateral effects of that political crisis on the economy. The easiest path in this sense would be for the agreement to allow the country to regain access to the U.S. oil market as well as other markets to which access has been impaired by U.S. sanctions.

There are two distinct things that a political agreement would need to achieve in order to regain access to U.S. oil markets. First, and most obviously, the United States would have to be willing to support the agreement through a lifting or relaxation of oil sanctions. For example, the U.S. could approve a humanitarian exception to oil sanctions that would allow U.S. persons to purchase oil from PDVSA as long as the proceeds are directed to addressing the humanitarian crisis through a mechanism such as that outlined in this proposal.[82]

Second, independently of sanctions, it would be necessary for the parts to agree on a mechanism to jointly carry out oil sales to the United States. This is because, while Maduro's PDVSA has control over oil production, it is Guaidó's *ad hoc* PDVSA board that has control over PDVSA accounts in the U.S. financial system. Simply put, the only officials who can sign contracts on behalf of PDVSA that are valid in the U.S. are Guaidó appointees. Guaidó's PDVSA board also has the legal right to attach payments for any oil sold by Maduro's PDVSA and made through the U.S. financial system.

[82] A proposal along these lines is developed in depth by Oil for Venezuela (2019).

One possible modality for the agreement would be for Guaidó's PDVSA to agree to sign oil delivery contracts as long as the payment for the oil goes to an account that will be used for repayment of the loan used to finance the program (or, more generally, to replenish the assets used to pay for the program). This would require only a limited humanitarian exception from the United States and would also allay concerns about the use of the funds.[83]

The framework described in the previous subsection (or some alternative institutional setup) should be part of the agreement. This includes certain basic conditions such as operational autonomy, non-interference by government authorities, and equal representation for both sides in the governing boards. As noted in the previous subsection, compliance with the agreement should be monitored by a panel of independent experts that has the ability to suspend the agreement if they find that one of the sides is in violation of it.

POLITICAL FEASIBILITY OF THE PROPOSED SOLUTIONS

Why would the parts agree to either of the schemes set out above? Venezuela has suffered a history of failed negotiations over the past four years – or, if we take a wider look, going back as far as 2002. Over this period, the opposition and the government have rarely been able to reach any agreements. In the few exceptions – such as the December 2016 Vatican-mediated talks or the June 2020 COVID agreement, they have broken down rapidly under back-and-forth recriminations. Why should this be any different?

Failure of Venezuela's negotiations should not come as a surprise to anyone. Negotiation theory is based on the idea of finding mutually advantageous arenas of co-operation. In zero-sum political games, such as those in which parties are fighting over the distribution of power or control and the costs of fighting for the parts are low, there is little to gain from negotiation. Both sides will insist on a negotiated solution in which they are at least as well off as in the *status quo*, but by definition of a zero-sum game, the only such solution is the *status quo* itself.[84] In the rare instances where parties come to an agreement, it may be because they have imperfect information about the actual outcomes; once they find these out, the party that lost out will rapidly try to go back to the *status quo*.

[83] Any variant of the oil-for-food mechanism is based on the idea that the use of the funds can be monitored with enough transparency so as to ensure that they will not be deviated towards corruption or non-humanitarian ends. This modality would ensure that generation of those funds would come only after – and not before or during – the monitoring. Doing so would reduce concerns about the government violating the conditions of the agreement after it has obtained the funds (as it would then be left to pay the debt with other sources of funds) but would introduce an additional risk to repayment.

[84] Or, more precisely, any equilibrium that yields expected payoffs equal to the *status quo*. See Mansour (2003).

Political negotiations can only yield stable changes from the initial condition if bargaining takes place over a positive-sum structure of payoffs, and there is a way to make the agreements enforceable. Agreements can be enforceable if it is to the advantage of players to continue complying with them or if there is a technology that can be used to enforce commitment (e.g., to punish lack of compliance).

Negotiations over electoral conditions or transfers of power are unlikely to yield advances in a zero-sum situation. In order to convert a zero-sum interaction into a positive-sum one, it would typically be necessary to give guarantees to players that they will be able to benefit by co-operating in a political agreement. In the Venezuelan case, these guarantees are hard to give because of how powerful the executive branch is. Only the president's ability to convene elections for a Constitutional Convention – established in Article XX of the Constitution – which can dissolve other branches of government implies that whoever holds the presidency has essentially unbounded power. It is very difficult for them to credibly commit not to reduce their opponent's payoff to zero after attaining power. In other words, negotiations over rules to accede to power are unlikely to yield a stable enforceable result when the stakes of power are too high.

Sectoral negotiations, in contrast, may offer potential spaces for cooperation and positive-sum interactions. We define sectoral negotiations as those which are focused on finding solutions of direct value to Venezuelans over and above the instrumental use for solving other problems. We distinguish sectoral agreements from partial agreements, which are those in which the sphere of negotiation has instrumental value in addressing a more complex problem. The appointment of electoral authorities would be an example of a partial agreement: it has no direct value to members of society except for its contribution to something that does have value – the capacity to exercise the political freedom to elect government officials. A humanitarian vaccination agreement, in contrast, is a sectoral agreement in that it solves a specific problem and has value even if other agreements cannot be solved.

The fact that sectoral agreements have value for people in and of themselves implies that there are potential gains from co-operation. For example, political leaders from both factions that participate in an agreement to vaccinate the country against COVID and are seen by voters as having contributed to solving that problem will accumulate important political capital that will allow them to aspire to important roles in the future, even under diverse political scenarios. In other words, it is easier to find immediate gains from cooperation in sectoral agreements than in partial or global political agreements.

In order for the sides to find that it makes sense to enter into these sectoral agreements, they must be convinced that they would be unable to address the problems on their own. In other words, there must be genuine gains from co-operation. Maduro has no reason to seek Guaidó's help to vaccinate the country if Maduro can vaccinate the country by himself and claim all the political benefits from doing so.

Interestingly, because of the current structure of constraints over control of assets and legal representation outlined in this paper, there are many problems that Maduro and Guaidó can only solve cooperatively. Those that require mobilization of resources, be it from the IMF or from blocked funds such as the Bank of England gold, can only be reasonably solved by both. Even if Guaidó can mobilize the resources, there is not much he can do with them (at least inside the country) without cooperating with Maduro; similarly, there is little that Maduro can do regarding costly policy interventions if he can't access the funds to pay for them.

That said, it is not improbable that the sides could still end up stuck in irreconcilable differences, which in the end are reflective of the zero-sum struggle for power. Both sides are likely to ask themselves how this agreement will factor into their bid to reach or maintain their hold on power. If, for example, mobilizing resources that help address the humanitarian emergency leads to increases in Maduros' popularity, allowing him to win a future election, or simply reducing the chances that a popular or military rebellion will oust him, the opposition is likely to conclude that entering into the deal is a poor choice. This reasoning may explain the opposition-controlled National Assembly's decision to shelve the CAF/UNDP initiative to repair the country's electricity infrastructure in December of 2019, despite agreement from the government.

There are two more concrete reasons why the agreement proposed in these pages may be more feasible than conceptually similar agreements put forward in 2019 or 2020. One is that the opposition is much less certain that it will reach power under the current strategy. Recognition that it will not win the winner-0take-all contest may lead it to consider alternatives that amount to limited power-sharing that it would have refused in the past. On the other hand, Maduro still needs to solve concrete economic and humanitarian problems for which it needs the opposition. In other words, the opposition needs the government more than in the past, and the government still needs the opposition as much as in the past.

Yet perhaps a more important reason why an agreement such as this may be feasible is that it may be able to count on the support of key international actors who could converge under a multilateral approach to convince both parts to go along with the solution. It is unlikely that the opposition, which depends for its bargaining power on U.S. recognition and UA and EU sanctions, will refuse to go along with an initiative that is strongly supported by the U.S. and Europe. It is also unlikely that Maduro would refuse to go along with an initiative that is strongly supported by China and Russia. And while it may not be feasible to reach an agreement between the US, EU, China, and Russia on the design of a political transition of power in Venezuela, it may be much more feasible for such an agreement to emerge around an initiative to address the country's economic and humanitarian crisis. A UN Security Council unanimous resolution in support of a cooperative humanitarian agreement in Venezuela would be very difficult for either Maduro or Guaidó to refuse.

ADDRESSING THE PANDEMIC: DESIGN AND COST ESTIMATES

In the absence of an adequate resolution to the country's governance crisis that allows it to access its resources, an important commitment of funds will be therefore needed for the international community to help stop an acute worsening of the country's humanitarian and health crisis with direct adverse effects on the ability of the country to control the pandemic. Given the country's weak fiscal accounts, it is hard to see how the country could manage to cover the additional economic costs of handling the COVID-19 pandemic. In particular, any subsidy to households to support enforcement of quarantine orders is likely to lead to inflationary acceleration unless it is supported by hard currency that allows the country to import the goods that it won't be able to produce.

Table 5 shows cost estimates of a program for Venezuela to deal with the pandemic that has the following characteristics: (i) a subsidy to each family whose main income earners are made to stay at home during the quarantine (ii) funds to cover the health sector expenses related to the crisis[85] (iii) general budget funding to cover 25% of the losses from the decline in oil revenues relative to 2019 (iv) transfers for the Venezuelan migrant population in a situation of vulnerability. This is a rough estimate of the financial needs of the country, which would have to be filled by appealing to drawing down its existing assets or tapping international financing.

[85] Given that there's no comprehensive or official assessment of the funds necessary to properly equip Venezuela's healthcare system in response to the COVID-19 pandemic, we've estimated the amount by averaging per capita and % of GDP responses in countries of the Latin America and Caribbean region which according to the Global Health Security Index have a healthcare sector robustness and capacity "to treat the sick and protect healthcare workers" similar to that of Venezuela. Such countries are: Bahamas, Guatemala, Guyana, Honduras, Bolivia, Dominican Republic, Saint Vincent and the Grenadines. See: John Hopkins University, The Economist & NTI. (2019).

In aggregate cost numbers, the program would entail USD 1.2bn in funding for the stay-at-home subsidy program, which would transfer $50 per month to around a third of Venezuelan families in 2021 and a sixth of Venezuelan families in 2022. It would also include USD 1.6bn to fund a healthcare sector response to the pandemic,[86] USD 4.5bn to cover lost fiscal revenues due to low oil prices, USD 375mn to fund a transfers program for Venezuelans abroad, and USD 201mn to cover purchases and deployment of a vaccination program.

The total cost of the program rises to $ 8.5bn, of which $ 5.2bn would be disbursed in 2021 and $ 3.3bn in 2022. As we have seen, a total of $7.7bn is accessible for a multi-year program under the RFI and an additional $2.0bn through access to the gold deposited in the Bank of England. Therefore, the program could be funded by using 89% of the funds accessible under these two mechanisms.

Table 11: Estimated cost of COVID-19 response plan.

USD mn	2021	2022	Total two year plan cost
Stay-at-home subsidy	1.263	631	1.894
Healthcare sector emergency funds	890	668	1.558
Budget funding due to oil income decrease	2.746	1.766	4.512
Transfers to migrant population	250	125	375
Vaccine purchase and distribution*	101	101	201
Total	**5.249**	**3.291**	**8.540**

** Using the Astra Zeneca vaccine as a benchmark.*

Sources: authors' calculations

The cash transfers to migrant program is worth special mention. This is, in fact, the one program that could be implemented by the Guaidó administration without co-operation with Maduro, at least in the countries that fully recognize Guaidó. The Guaidó administration could fund such a program using resources currently in U.S. accounts, such as those belonging to joint oil ventures (see Table 10). The Maduro administration could be invited to cooperate with this initiative in the countries in which it maintains diplomatic representation, as well as by sharing national identity databases to facilitate the registration process. Resources could also be transferred to health ministries in charge of care and vaccination in host countries that have indicated budgetary shortfalls.[87]

[86] Given that there's no comprehensive or official assessment of the funds necessary to properly equip Venezuela's healthcare system in response to the COVID-19 pandemic, we've estimated the amount by averaging per capita and % of GDP responses in countries of the Latin America and Caribbean region which according to the Global Health Security Index have a healthcare sector robustness and capacity "to treat the sick and protect healthcare workers" similar to that of Venezuela. See: John Hopkins University, The Economist & NTI. (2019).

[87] For more details on this part of the proposal, see Rodriguez (2020a).

ACCESS TO THE RAPID FINANCING INSTRUMENT

As we have already noted, among the menu of options of IMF financing, the Rapid Financing Instrument (RFI) would appear to be the most adequate for Venezuela's current condition. In this section, we discuss in greater detail some of the conditions associated with RFI disbursements and how Venezuela could meet them in the context of our proposal.

The RFI, as well as the related concessional RCF, is designed to help countries facing urgent balance of payments needs. Created in 2011 as part of a revamp of financing options in response to the Global Financial Crisis, the RFI seeks to help countries respond to sudden shocks such as natural disasters.[88] Unlike other IMF instruments, RFI/RCF access does not require the country to have a full-fledged economic program nor to have strong economic fundamentals or a solid policy framework.

This is not to say that there are no conditions on RFI access. First, the country must make a commitment to "cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties."[89]

GENERAL CONDITIONS OF ACCESS

A member requesting RFI assistance must send a letter describing the general policies it plans to implement to tackle its balance of payments difficulties, "including its intention not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound these difficulties."[90] The member state shall also commit to undergoing a safeguards assessment, provide staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff.

As noted in the previous subsection, any political agreement to address the humanitarian crisis that plans to rely on access to financing must include a plan for repaying those loans. In contrast to many other countries during the current crisis, it is unclear that Venezuela's balance-of-payments difficulties are driven by external factors that will resolve on their own. While the country's economic problems have certainly been compounded by the decline in oil prices caused by the global recession, that is at best a secondary contributing factor to its economic crisis; furthermore, it is as of now unclear that we should expect much recovery in oil prices in

[88] International Monetary Fund. (2011).
[89] International Monetary Fund (2019).
[90] Op. cit.

the medium term.[91] Therefore any strategy for repayment should include a strategy for recovering oil production, which would entail restoring access to some of the oil markets lost by sanctions.[92]

Nevertheless, there is nothing in the rules for accessing the RFI that requires a certainty that these efforts at resolving balance-of-payments constraints will be successful. In fact, the key distinction between the requirement of a full-fledged economic program for access to other financing instruments and the letter of intent for the RFI is that there are no explicit policy commitments. We, therefore, believe that Venezuela could include in its letter of intent a commitment by the parts to its political conflict to cooperate on a plan to regain access to some of the oil markets lost as a consequence of sanctions.

Regarding the requirement of not introducing or intensifying exchange and trade restrictions, Venezuela has had exchange controls in place since 2003 but has significantly reduced them in recent years. In 2018, the country revamped its exchange rate system by making the currency freely convertible in principle. While there continue to be restrictions in practice to the full operation of this market, the country went from having an average black-market premium of 341,284% in the 12 months prior to the decree to 5% in the most recent 12 months. The country has also significantly facilitated US dollar transactions, transitioning from a regime in which foreign currency contracts were illegal to one in which the government sets many prices in dollars.[93] There seems to be no plan to reverse these recent policy reforms, although the Maduro government would, of course, have to clarify so in the request for financing.

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[91] At present, oil futures markets are not pointing towards a recovery in oil prices from their current levels. One year from now, WTI and Brent are expected to be at USD 45.6 and 48.4 per barrel, respectively, as opposed to USD 46.26 and 48.8 today. We expect the average price of a Venezuelan barrel of oil, which averaged USD 58.1 in 2019, to fall to USD 32.0 in 2020 and to stay nearly unchanged, at USD 32.1, in 2021.

[92] The underlying assumption is that restoring market access will lead to some recovery in output. This is consistent with the experience of other sanctions-affected oil producers such as Iran, Libya and Iraq (see Rodríguez, 2019). There is furthermore ample evidence that lack of market access has been one direct cause of the decline in production, as Venezuela has been forced to stop producing output as its storage facilities were filled because of lack of buyers. See: Zerpa, F. (2020) and Kassai, L. (2020).

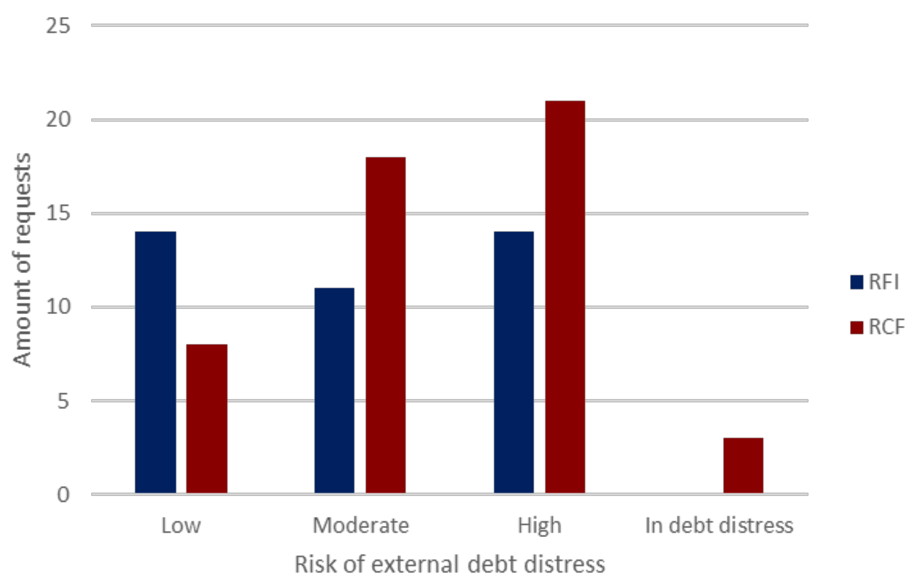
[93] Venezolana de Televisión (2020).

Table 12: Requests by instrument, before and during pandemic

12-months pre-pandemic	Number of requests
Extrended Fund Facility (EFF)	4
Extended Credit Facility (ECF)	6
Flexible Credit Line (FCL)	1
Stand-By Arrangement (SBA)	2
Standby Credit Facility (SCF)	1
8-months since the pandemic	**Number of requests**
Catastrophe Containment and Relief Trust (CCRT 1st Tranche)	28
Catastrophe Containment and Relief Trust (CCRT 2st Tranche)	29
Extended Credit Facility (ECF)	7
Extrended Fund Facility (EFF)	6
Flexible Credit Line (FCL)	4
Rapid Credit Facility (RCF)	51
Rapid Financing Instrument (RFI)	39
Stand-By Arrangement	4

Sources: IMF

Figure 5: Sustainability Assessment of countries requesting RCFs and RFIs



Source: IMF

Venezuela's Central Bank publishes financial statements regularly on its website. It publishes a monthly balance sheet statement and a bi-yearly income statement. It also publishes bi-yearly notes to its financial statements. The latest balance sheet statement is from October 2020, and the latest income statement is from the first half of 2020. The statements are published in local currency (unlike those of PDVSA, which are published in both VES and USD); historically, inferring USD values has been complex due to multiple exchange rate arrangements. This is less of a problem after the official rate converged to the black market rate. Valued at the official exchange rate, BCV had USD 44.2bn in assets (only USD 6.3 bn of which were reserve assets), USD 27.9bn in liabilities, and a net worth of USD 14.4bn.

Article 99 of the Central Bank Law requires the BCV's financial statements to be audited externally. However, these reports are confidential. We presume that Maduro's BCV has complied with this obligation and would provide these statements and the corresponding access to auditors to the IMF as part of a request. It is unclear from the publicly available data what provisions Maduro's BCV is making for its assets that may have been frozen as a result of sanctions or US recognition, nor is it clear what information, if any, it has been able to gather on those assets to which it no longer has access as a result of sanctions or Guaidó's recognition.

In August 2020, Guaidó's BCV President Ricardo Villasmil made a presentation before the AN Finance Commission detailing the achievements of the *ad hoc* board in identifying, protecting, and recovering external assets. The presentation outlined the status of BCV deposits in the US, UK, England, France, and Portugal. No financial nor management reports have been provided to the AN by the Guaidó board.

In sum, it appears as if Maduro's BCV is able to provide updated financial reports in the context of an RFI proposal, but it is likely that some work will have to be done to update these reports with information on some external assets to which Guaidó's BCV has more access.

Perhaps the more complex task associated with an RFI request would be the completion of a safeguards assessment. The safeguards assessment is a diagnostic review of a central bank's governance and control framework.[94] The assessment evaluates the quality of the external and internal audit mechanism, the bank's legal structure and autonomy, the standards for financial reporting, and the system of internal controls. Central banks provide information to the IMF on these areas, and the IMF produces a set of recommendations to address vulnerabilities. These recommendations can become part of the country's IMF program. The reports are confidential and not shared with the Executive Board.

[94] International Monetary Fund staff. (2020a).

Note that completion of the safeguards assessment is not necessary for RFI disbursement. The IMF's policy is rather that the member commits to undergoing a safeguards assessment. The timing and modality of the assessment for a member that has received RFI assistance are determined on a case-by-case basis, and completion of the assessment is only treated as a precondition for any subsequent requests.[95]

Access to the RFI would also require that the country's debt be considered sustainable by the IMF (or on track to become sustainable) and a demonstration that it is pursuing "appropriate policies to address the crisis."[96] The IMF is precluded from lending unless the member takes steps to restore sustainability over a realistic period. However, the IMF does regularly provide emergency financing to countries in debt distress as long as it is assured that countries are taking steps to restore sustainability. We discuss this issue in greater detail in the next section.

Provided with sufficient information, the IMF tends to handle RFI requests rapidly. For example, it took the IMF Executive board two days after submission – and seven days after the conclusion of informal talks - to make the decision on Ecuador's April 30 request. Note, however, that the staff report suggests there were previous informal engagements with the IMF in this case, as it details that the report was made "following talks that ended on April 24." [97] Perhaps more importantly, the IMF concluded its latest Article IV assessment of Ecuador on March 21, 2019, which found that "fiscal risks remain manageable" and that "public debt and financing needs will remain below the respective benchmarks even under standard macroeconomic shocks." [98] This diagnosis contributed to enabling the IMF to make a quick assessment of the country's ability to repay the RFI loan. A similar case of relatively rapid response was that of Panama. Following an April 7 letter of intent, the IMF Executive Board approved a USD 515mn RFI on April 15, "following talks that ended on April 7."[99]

These are not isolated examples. If we take into account all 10 RFIs requested in the region, we see that approval of the instrument took an average of 12 days from the end of informal talks, with Guatemala lasting the longest (20 days) and both Ecuador and Bolivia lasting the least (7 days). Notably, with the exception of Ecuador, all countries received funding amounting to 100% of their SDR quota –the maximum available per year. Adjusting for delays in submitting a letter of intent, RFI approval in the region lasts an average of 9 days, with

[95] International Monetary Fund Legal Department. (2019).
[96] International Monetary Fund Press. (2020a).
[97] International Monetary Fund Press. (2020b).
[98] International Monetary Fund Press. (2020b).
[99] International Monetary Fund Staff. (2020b).

Paraguay lasting the most with 13 days, and Ecuador lasting the least: 1 day. Note that, for unexplained reasons, the Dominican Republic submitted its letter four days before the end of informal talks.

However, all the countries in this comparison had concluded recent Article IV assessments. There is only one country to have been granted RFI financing during the pandemic without an Article IV report in the last two years (Bolivia). By contrast, Venezuela's last Article IV report was in 2004, 16 years ago.

ASSESSING SUSTAINABILITY

The requirement of debt sustainability is a crucial condition. Even prior to the first financial sanctions in 2017, Venezuela's debt trajectory was generally considered unsustainable and was trading at prices reflective of that concern in international markets. Venezuela first restructured its bilateral debt with China in 2015, and PDVSA carried out a bond exchange that was considered distressed by one credit rating agency in 2016, early indications of sustainability problems. In order for multilateral lending – as opposed to grants – to be an important component of a plan to address Venezuela's humanitarian crisis, lenders must be assured that they will be able to recover their loans. Therefore, Venezuela's debt stock must be deemed to be on a sustainable path or to at least have a credible plan to address sustainability.

This is not to say that sustainability is the only relevant creditor concern. Use of proceeds is important both because it may be a proxy for future capacity to pay and because creditors do not want their funds to be used improperly or inefficiently. The safeguard mechanisms set out in this proposal would be designed to significantly reduce these risks.

The standard definition of debt sustainability tells us that a given debt stock is sustainable if the government can service its debt over time in the absence of adjustment or after carrying out a reasonable adjustment.[100] If an adjustment is needed, then the current fiscal policy is unsustainable, but the debt stock may be sustainable. If no reasonable adjustment can restore fiscal sustainability, then the debt stock itself is said to be unsustainable.

Typically, sustainability is evaluated by simulating the behavior of the debt stock over different fiscal policy scenarios, given the interest rate, the economy's growth rates and other debt parameters. A key variable of interest is the primary surplus that is necessary for the debt stock to be sustainable. Every debt stock will have an associated primary surplus that would make it sustainable, yet some primary surpluses may be too high to be deemed realistic.

[100] Zettelmeyer, J., Sturzenegger, F. (2006).

Let g denote the growth rate of real GDP, r the interest rate, and d the net debt (government assets – liabilities) as a percent of GDP. Then the primary budget surplus as a fraction of GDP, pb, that stabilizes the debt level at d is given by:

$$pb = d(r - g)/(1 + g)$$

Note that the primary surplus will have the same sign as the debt level as long as r>g. If the government is a net debtor, then it must generate primary surpluses in order to pay back that debt. [101]

Applying this framework to Venezuela in its current condition raises several questions. The first one is what is r. Here it is possible to make two extreme arguments: that r is zero and that r is infinity.

The argument that r is infinity (or, more concretely, an arbitrarily high number) is premised on the idea that under current conditions, it is simply too costly for a reasonable creditor to lend to Venezuela. Were the country to obtain any financing, the cost of repayment would be prohibitively high, and the primary surplus necessary to repay it would be unreasonably large. Therefore, the only sustainable debt stock level is $d=0$.

The argument that r is zero is premised on the observation that the country is not currently making any interest payments, nor is there any reason why it would be expected to make any interest payments as long as the current equilibrium, including the sanctions regime, is sustained. Given that creditors are barred from lending to Venezuela as a result of U.S. financial sanctions and that Venezuela is barred from exporting to jurisdictions where creditors could attempt to attach its exports, the country cannot suffer any additional punishment from defaulting. This country is much more like a country that has effectively repudiated its debt rather than a country that has just defaulted on it. And, given that it has no need to service its current stock of debt, the country's current debt level is irrelevant.

These extreme arguments capture the complexity of Venezuela's debt situation. Normally, an IMF debt sustainability analysis would deal with a country in this situation by estimating the debt stock level that would be consistent with a reasonable primary surplus at a given "exit yield." The latter is the interest rate level that the country is expected to face once the market deems its debt levels sustainable. This calculation would show a level of debt that the country should target in its negotiations with creditors. Once the government concludes a debt restructuring process that allows it to bring debt down to this sustainable level, then the IMF can

[101] The condition r>g ensures that the government cannot run a "Ponzi game" on the rest of the world, by continuously borrowing in order to service a growing stock of debt. It is assumed that no creditor would be willing to lend to a country or household under such conditions, so this is treated as an unrealistic case.

feel assured that it will not be lending into an unsustainable situation and that it can expect its loans to be repaid.

For RFI/CFR requests, however, a restructuring prior to the loan agreement is not typically considered necessary. Indeed, some countries are granted access to this type of loans while being under debt distress (see Figure 5). What is required is that the government signal its intention to implement policies that will restore debt sustainability.

Under the current sanctions regime, Venezuela is legally barred from restructuring its U.S. law debt. This is because almost all varieties of debt restructuring require the issuance of new debt instruments, something that Venezuela is forbidden from doing by the financial sanctions imposed in August of 2017.[102] It is also because only the Guaidó government, which does not have effective control over the government's revenue stream, can modify existing debt agreements or issue new ones.

In this context, it is unclear what "policies to restore debt sustainability" would mean. Certainly, the country can signal its willingness to restructure its debt once sanctions are lifted.[103] But it would make little sense for the IMF to require that a government do something that it is legally barred from doing, and arguably even more so when the restrictions impeding it from doing so have been imposed by another member state.

On the other hand, the IMF's concerns about sustainability of debt are directly related to the assessment of a country's capacity to repay debt with the IMF. If a country is not currently planning to repay its debt to private creditors and those plans are not likely to change under the continuation of the sanctions regime, it is not clear why the level of that debt should be a concern to assess its capacity to repay the IMF.[104]

Perhaps even more importantly, the IMF is understandably sensitive to criticisms that its money is used to bail out private creditors.[105] If the IMF lends into an unsustainable situation, then its funds will be used to service the debt with existing creditors. This can allow creditors to escape the necessary restructuring, whose costs would be shifted to the IMF and ultimately to taxpayers. Yet clearly, this need not be a concern if the country is not paying and has no plans to repay its debt to private creditors.

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[102] See E.O. 13808 of August 24 2017. E.O. 13884 of August 2019 also bar any transactions with the Venezuelan government, while PDVSA's inclusion in the list of Specially Designated Nationals on January 28 further bars any transactions with PDVSA.

[103] On November 2017, the Maduro government created a debt restructuring commission and called investors to meetings in Caracas. On September 2020 it presented a conditional offer to modify statute of limitations clauses on some of its bonds. Neither initiative had relevant levels of investor participation due to concern with sanctions restrictions.

[104] Under normal conditions, lack of willingness to pay private creditors could be read as a more general signal of willingness to pay other obligations, but it is unclear that this argument can be applied to Venezuela where the restrictions on payment are induced by policies of third countries.

[105] See, for example: Schneider, H. (2011).

What would put us closer to a standard IMF scenario would be one in which the political agreement between the parts entails a commitment to attempt to restructure Venezuela's debts. If the agreement has broad international support, then we may assume that the United States will lift the financial sanctions or otherwise modify its sanctions regime to enable restructuring negotiations to proceed. Such a restructuring would require cooperation between the parts, as only Guaidó can issue new U.S. law debt while only Maduro can credibly commit resources towards its repayment.

The rest of this section proceeds on the assumption of such an agreement. For obvious reasons, we will present only a sketch of the basic sustainability analysis to highlight some of the directions that we would expect the fuller IMF analysis to proceed. We focus on assessing the debt ratios that would come out of a statistic sustainability analysis using equation (1)

We assume a post-restructuring economic growth rate that would converge to 4.4% in the medium term. Growth will likely be much higher at the outset, but sustainability assessment is focused on finding longer-term steady-state solutions. Venezuela has had negative per capita growth for the past four decades, so any attempt to infer this number from historical extrapolation is likely ill-conceived. Our 4.4% estimate is based on the observation that this is approximately the average decline in total factor productivity (TFP) observed over the last four decades.[106] We would expect economic reforms to revert this productivity decline and thus see a scenario in which the economy regains productivity at roughly the rate at which it has lost it over the next two decades as reasonable. In that scenario, as soon as the economy has converged to its new steady state, per-capita growth should converge to TFP growth.

We also assume an exit yield of 10%, which is similar to that of recent post-restructuring emerging market yields. We assume that given the country's development shortfall and humanitarian emergency, only a low primary balance of 2% of GDP would be sustainable. Using equation (1), this would lead us to a sustainable debt stock of only 36.6% of GDP.

[106] More precisely, we estimate an average decline of 4.2% over the past two decades, which would require two decades growing at 4.4% to be reverted.

Table 13: External Debt

	2014		2015		2016		2017		2018		2019		2020	
	USDmn	% of GDP	USDmn	% of GDP	USDmn	% of GDP	USDmn	% of GDP	USDmn	% of GDP	USDmn	% of GDP	USDmn	% of GDP
Bonds and promissory notes	50,666	28.0%	47,941	39%	46,897	41%	49,578	46%	51,717	73%	52,471	102%	49,680	102%
Sovereign bonds	24,378	13.5%	23,211	19%	21,492	19%	20,898	20%	23,227	33%	22,821	45%	22,637	47%
PDVSA bonds	25,866	14.3%	24,036	20%	23,637	21%	25,749	24%	25,570	36%	26,591	52%	23,984	49%
PDVSA Promissory notes	-	0.0%	257	0%	1,340	1%	2,523	2%	2,523	4%	2,523	5%	2,523	5%
Other	422	0.2%	437	0%	427	0%	408	0%	397	1%	536	1%	536	1%
PDI on foreign holdings of bonds and promissory not	-	0.0%	-	0%	-	0%	1,069	1%	8,871	13%	13,305	26%	16,917	35%
Loans	40,386	22.4%	46,497	38%	45,456	40%	40,875	38%	34,642	49%	30,926	60%	30,715	63%
Other external liabilities	37,776	20.9%	46,695	38%	48,041	42%	50,841	48%	56,713	80%	65,954	129%	67,268	138%
of which: ICSID	11,611	6.4%	11,980	10%	12,338	11%	12,526	12%	11,752	17%	20,452	40%	21,218	44%
Public sector external debt	**128,828**	**71.3%**	**141,133**	**116%**	**140,394**	**122%**	**142,363**	**133%**	**151,943**	**214%**	**162,656**	**317%**	**164,581**	**339%**
Private sector	18,550	10.3%	21,823	18%	21,803	19%	21,199	20%	19,889	28%	19,218	38%	18,571	38%
Total external debt	**147,378**	**81.6%**	**162,956**	**134%**	**162,197**	**141%**	**163,562**	**153%**	**171,832**	**242%**	**181,875**	**355%**	**183,151**	**377%**
Resident holdings of bonds	20,536	11.4%	19,055	16%	23,129	20%	17,609	17%	14,768	21%	14,014	27%	16,804	35%
PDI on resident holdings of bonds	-	0.0%	-	0%	-	0%	416	0%	1,578	2%	3,118	6%	4,714	10%
Public sector external debt, including resident holdir	**149,364**	**82.7%**	**160,188**	**131%**	**163,523**	**142%**	**160,388**	**150%**	**168,289**	**237%**	**179,788**	**351%**	**186,100**	**383%**
Total external debt, including resident holdings	**167,914**	**93.0%**	**182,011**	**149%**	**185,326**	**161%**	**181,587**	**170%**	**188,178**	**265%**	**199,006**	**388%**	**204,670**	**421%**
GDP	180,648		121,936		115,010		106,706		70,930		51,232		48,610	
Total bonds and promissory notes outstanding	71,202	39.4%	66,996	55%	70,026	61%	67,187	63%	66,485	94%	66,485	130%	66,485	137%

Sources: authors' calculations

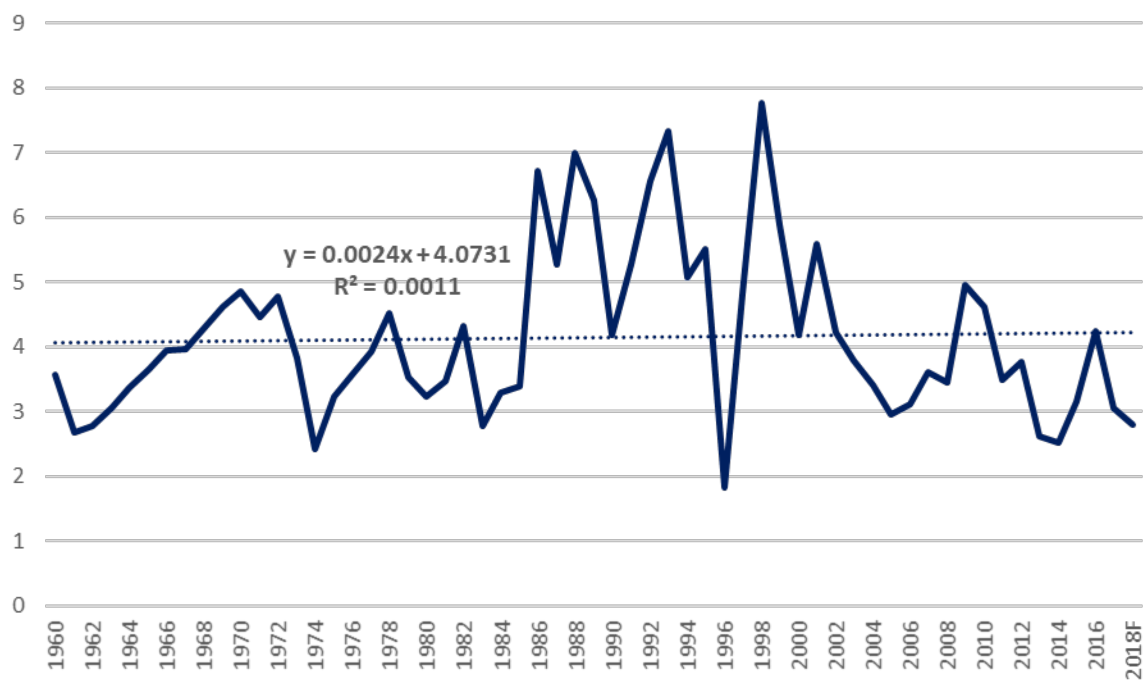
Historically, Venezuelan growth has been driven by oil export revenues. The channels are quite straightforward: since the economy is (for all relevant purposes) completely specialized in oil, then oil revenues traditionally account for nearly all export revenues. Theoretically, this leads us to expect a linear relationship between oil exports and GDP, which holds in the data. As **Table 8** shows, the ratio of GDP measured in US dollars to exports, also measured in current dollars, oscillates around a stable average of around 4.1; in other words, GDP tends to converge to approximately four times oil exports. While there is substantial volatility in the ratio – driven by periods of real exchange rate misalignments – the stability of the ratio over the long term suggests that the essential driver of long-run growth in Venezuela is oil export revenue growth.

This implies that it is reasonable to assume that US dollar GDP will converge to a level of 4.1 times the level of new export revenues that can be achieved with the sanctions exemptions or loosening described in the previous section. We assume that this will lead to an increase of 800 thousand barrels per day in oil production, which is near the midpoint for the range of current estimates of the effect of sanctions. This would lead to oil exports of USD 18.5bn at current oil prices and a total GDP of USD 75.7bn. If we assume that oil prices will converge to the average of the past five years (USD 49.7/bl), then it would yield oil exports of USD 28.7bn and a GDP of USD 117.5bn.

Putting these numbers together gives us a maximum sustainable debt stock of between USD 27.7 bn (at an oil price of $32) and USD 43.1bn (at an oil price of $50). Given that the current public sector external debt stock stands at USD 165bn, in order to assume IMF debt of 150% of quota (USD 7.7bn), the country would have to secure an aggregate haircut on its debt of 78-88%. We note that current market values of the country's bonds, which trade at around 10% of their face value, indicate that this scenario is likely priced in.

We note that such a restructuring would only be viable in the context of a political agreement. A substantial fraction of the debt of the Venezuelan government and PDVSA – including all of its outstanding bonds – is governor by New York law. This means that only the legitimate government, as recognized by the Secretary of State, can enter into legally binding agreements to restructure these obligations. Even if the Maduro government tried to circumvent this restriction by repurchasing existing bonds and exchanging them for bonds issued under the law of another jurisdiction, the new debt would run the risk of being repudiated by a future government on the argument that it was not issued by a legitimate government and furthermore lacked National Assembly authorization.

Figure 6: Ratio of USD GDP to oil exports



Sources: author's calculations

CONCLUDING COMMENTS

This paper has outlined a policy proposal to allow Venezuela to finance a response to the external and internal shocks that have buffeted its economy and deepened its humanitarian crisis. These include the direct effects of the COVID-19 pandemic, the cost of the associated policy response, and the decline in oil revenues caused by falling oil prices and output.

We have made the case that it is possible to fund an appropriate response through a sectoral agreement that addresses some of the institutional bottlenecks which have impeded access to financing until now. We have focused on two sources of financing: a request from the IMF's Rapid Financing Instrument and access to disputed funds of the BCV in the Bank of England. A sectoral agreement is, of course, no substitute for a full-fledged political accord. Nevertheless, it is our view that it is in the interest of Venezuelans to find ways to address their most pressing issues without having their solutions conditioned on resolving what has to date proven to be an intractable political stalemate.

Nevertheless, there is a concrete way in which initiatives such as we have outlined in this paper could serve as building blocks for a fuller political accord. Venezuela's political crisis has deep roots in the zero-sum nature of its winner-take-all political institutions. Combined with a high level of political polarization, these institutions incentivize high levels of risk-taking by political actors, who are willing to do all that is within their reach to stay in or come to power.[107]

The failure of all attempts at dialogue in Venezuela over the past five years must be seen in the context of this zero-sum political game. It is well known that negotiations cannot produce stable agreements in zero-sum contests because any deviation from the status quo entails making one side worse off. In other words, in order to find a negotiated solution to Venezuela's political crisis, it is first necessary to transform the nature of its political contest from a zero-sum contest to a positive-sum one.

[107] Rodríguez, F. (2020).

Put differently, for the sides to reach stable agreements, there must be gains from cooperation. While many key actors understand this fact and some are willing to attempt to transform the political contest by pushing for political reforms that reward cooperation, the lack of basic trust between the sides makes any overarching agreement for a wholesale reform of political institutions – for example, to increase the separation of powers and thus reduce the costs of admitting electoral defeat – extremely difficult in practice. Even if there is a negotiated solution which both sides find preferable because it provides sufficient guarantees to ensure peaceful co-existence, the perception that there is a high risk that the other actors do not abide by the agreement becomes a stumbling bloc.

In this context, there is much to say in favor of partial political agreements that help resolve concrete societal problems through co-operation. These agreements are akin to small gradual institutional transformations that create moderate gains from partial cooperation by the sides. By solving concrete problems faced by Venezuelans through cooperation between the parts, the agreements serve to model cooperation and begin to build trust. They can thus become the building blocks that make possible a gradual transformation of political incentives and can break ground for finding the more comprehensive cooperative solutions needed to find a way out of Venezuela's catastrophic stalemate.

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APPENDIX 1: SELECTED MACROECONOMIC INDICATORS AND FORECASTS

Variable	2012	2013	2014	2015	2016	2017	2018	2019 (E)	2020 (F)	2021 (F)
General indicators										
Nominal GDP (US$ bn)	351.8	224.6	180.6	121.9	115.0	106.7	70.9	51.2	48.6	43.7
GDP per capita (US$)	11,920	7,500	6,025	4,010	3,813	3,600	2,454	1,842	1,739	1,586
Unemployment rate (%)	7.8	7.5	7.0	6.8	7.3	7.2	6.9	8.5	9.0	8.5
Population (millions)	29.5	29.9	30.0	30.4	30.2	29.6	28.9	27.8	28.0	27.6
Output and aggregate demand components										
Real GDP growth (% yoy)	5.6%	1.3%	-3.9%	-6.2%	-17.0%	-15.7%	-19.6%	-35.0%	-25.0%	-10.0%
Domestic demand growth (% yoy)	12.3%	-1.9%	-8.8%	-11.8%	-26.3%	-21.1%	-15.6%	-35.4%	-20.0%	-8.2%
Real investment growth (% yoy)	23.3%	-9.0%	-16.9%	-20.4%	-45.1%	-45.3%	-39.9%	-57.7%	-41.4%	-16.0%
Real consumption growth (% yoy)	6.9%	4.4%	-2.5%	-7.7%	-18.3%	-14.1%	-16.4%	-35.1%	-20.3%	-8.3%
Real private consumption growth (% yoy)	7.0%	4.7%	-3.4%	-8.9%	-19.4%	-16.2%	-18.6%	-34.2%	-20.2%	-8.4%
Real government consumption growth (% yoy)	6.3%	3.3%	0.6%	-3.2%	-14.7%	-7.2%	-9.7%	-37.5%	-20.7%	-8.2%
Real export growth (% yoy)	1.6%	-6.2%	-4.7%	-0.9%	-11.7%	0.0%	-10.8%	-43.2%	-50.2%	-20.9%
Real import growth (% yoy)	24.4%	-9.7%	-18.5%	-23.1%	-50.1%	-34.7%	0.3%	-37.2%	-19.5%	-5.3%
Prices, wages and exchange rates										
CPI inflation (Official Series, % yoy, eop)	20%	56%	69%	181%	274%	863%	130,060%	9,585%	6,500%	6,500%
CPI inflation (Official Series, % yoy, avg)	21%	41%	62%	122%	255%	438%	65,374%	19,906%	6,500%	6,500%
CPI inflation (National Assembly, % yoy, eop)						2,586%	1,698,514%	7,374%	5,297%	5,182%
CPI inflation (National Assembly, % yoy, avg)							1,004,910%	17,365%	4,015%	7,882%
CPI inflation (CENDA, % yoy, eop)	19%	53%	86%	322%	522%	1,812%	170,181%	7,607%	7,466%	7,466%
CPI inflation (CENDA, % yoy, avg)	22%	33%	71%	201%	518%	758%	109,690%	16,855%	5,504%	7,466%
Minimum wages (% yoy)	27%	36%	68%	132%	454%	403%	102,418%	6,545%	4,031%	139,033%
Transaction-weighted average exchange rate (vs USD, avg) (1)	4.6	10.0	16.8	65.9	244.2	1,883	58	13,059	476,484	5,007,848
Transaction-weighted average exchange rate (vs USD, eop) (1)	5.1	17.0	32.1	70.5	528.1	9,382	173	47,781	1,761,995	2,451,524,712
Nominal exchange rate 1 (vs USD, eop) (1)	4.3	6.3	6.3	6.3	10.0	10	637	45,875	1,743,641	2,553,671,575
Nominal exchange rate 2 (vs USD, eop) (1)	5.3	11.3	50.0	199.7	670.0	3,341.0	-	-	-	-
Nominal exchange rate 3 - Parallel (vs USD, eop) (1)	16.4	64.1	173.1	833.3	3,164.7	111,413	738	51,833	1,835,411	2,553,671,575
Bilateral real exchange rate (% yoy, -depr, +appr)	12.3%	-28.5%	-0.3%	-29.0%	-1.0%	22.3%	-58.7%	-57.8%	77.3%	515.7%
Monetary and credit indicators										
Monetary base growth (% yoy)	55.3%	65.8%	70.4%	111.2%	236.0%	1,737%	43,950%	5,221%	2,881%	2,705%
Broad money growth (% yoy)	61.0%	69.7%	64.0%	100.7%	159.6%	1,119%	63,257%	3,431%	4,027%	3,899%
Central bank policy rate (%, eop)	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	30.5%
Commercial bank lending rate (%, eop)	16.3%	16.0%	18.9%	20.1%	21.9%	20.8%	23.3%	26.1%	27.4%	30.1%
External accounts										
Current account balance (% of GDP)	0.7%	2.0%	2.6%	-13.2%	-3.4%	8.2%	12.1%	10.2%	-4.1%	-5.4%
Current account balance (US$ bn)	2.6	4.6	4.8	-16.1	-3.9	8.7	8.6	5.2	-2.0	-2.4
Trade balance (US$ bn)	31.9	31.6	27.4	3.9	11.0	22.0	20.9	10.7	0.6	-1.0
Exports, f.o.b. (US$ bn)	97.9	88.8	74.7	37.2	27.4	34.0	33.7	18.7	6.7	8.5
Main export - Oil	93.6	85.6	71.7	35.1	25.9	31.5	29.8	16.3	5.3	6.3
Imports, f.o.b. (US$ bn)	66.0	57.2	47.3	33.3	16.4	12.0	12.8	8.0	6.1	9.4
Exports of services	2.2	2.2	1.9	1.6	1.3	1.0	0.8	0.4	0.2	0.2
Imports of services	19.4	19.3	16.9	13.8	9.4	7.3	7.3	4.6	1.7	2.1
Service balance (US$ bn)	-17.2	-17.0	-15.0	-12.2	-8.2	-6.3	-6.5	-4.1	-1.6	-1.9
Unilateral transfers (US$ bn)	-1.0	-1.2	-0.2	-0.2	0.2	0.6	2.0	4.0	4.0	3.0
Income balance (US$ bn)	-11.1	-8.7	-7.4	-7.7	-6.9	-7.6	-8.0	-5.6	-3.3	-4.9
Foreign direct investment (US$ bn)	0.9	2.0	-1.0	0.4	2.9	-0.5	-0.6	-0.9	-0.4	-0.2
International reserves (US$ bn, eop)	29.9	21.5	22.1	16.4	11.0	9.5	9.2	6.4	6.0	5.2
Price of main export commodity - oil (US$ per barrel)	103.1	101.1	87.6	44.9	35.5	46.7	63.1	58.1	32.0	43.6
Fiscal accounts										
Central gov. expenditures (% of GDP)	33.5%	33.9%	35.6%	33.9%	32.2%	45.1%	43.5%	19.9%	18.7%	18.1%
Central gov. revenues (% of GDP)	28.0%	31.8%	34.8%	35.6%	39.5%	34.7%	32.1%	10.0%	13.9%	14.7%
Central gov. primary budget balance (% of GDP)	-2.4%	1.4%	2.0%	3.3%	8.0%	-8.6%	-11.3%	-9.9%	-4.2%	-3.3%
Central gov. budget balance (% of GDP)	-5.6%	-2.1%	-0.9%	1.7%	7.3%	-10.5%	-11.4%	-9.9%	-4.8%	-3.5%
Restricted public sector expenditures (% of GDP) (2)	47.7%	49.8%	52.1%	44.0%	47.9%	40.1%	48.2%	23.3%	23.4%	23.0%
Restricted public sector revenues (% of GDP) (2)	30.7%	34.6%	43.0%	29.8%	24.1%	35.9%	36.3%	14.5%	19.5%	19.4%
Restricted public sector primary budget balance (% of GDP) (2)	-13.1%	-11.0%	-5.2%	-11.9%	-22.4%	15.8%	-10.2%	-8.3%	-1.8%	-3.1%
Restricted public sector budget balance (% of GDP) (2)	-17.0%	-15.3%	-9.0%	-14.1%	-23.7%	-4.2%	-11.9%	-8.9%	-3.9%	-3.6%
Debt Indicators										
Gross external debt (% of GDP)	37.2%	58.9%	75.2%	113.9%	132.4%	146.0%	219.2%	313.4%	339.9%	387.0%
Public sector (% of GDP)	32.2%	49.9%	64.9%	98.6%	116.5%	129.2%	193.9%	278.4%	303.0%	346.0%
Private sector (% of GDP)	5.0%	9.0%	10.3%	15.3%	15.9%	16.8%	25.3%	35.0%	36.9%	41.0%
Central government debt (% of GDP)	28.5%	39.7%	43.5%	45.0%	44.3%	44.0%	73.0%	107.1%	119.3%	140.1%
Domestic (% of GDP)	15.6%	19.8%	19.5%	10.1%	3.6%	0.5%	2.3%	2.5%	2.6%	10.4%
External (% of GDP)	12.9%	19.9%	24.0%	34.9%	40.7%	43.5%	70.7%	104.6%	116.7%	129.7%
External debt amortizations (US$ bn)	7.3	10.3	11.7	12.1	8.6	7.4	7.3	7.9	7.3	6.4
External debt interest payments (US$ bn)	6.5	6.8	6.6	6.3	6.9	7.1	5.8	5.2	5.0	4.7
External debt service (% of XGS)	13.8%	18.7%	23.9%	47.4%	54.0%	41.5%	38.0%	68.2%	178.8%	127.8%
Savings - Investment Balance										
Savings (% of GDP)	19.7%	13.0%	3.2%	3.2%	7.0%	10.0%	11.0%	8.0%	9.0%	8.0%
Investment (% of GDP)	20.3%	22.2%	21.6%	14.4%	8.0%	3.3%	0.6%	6.1%	6.9%	7.5%

(1) Exchange rate data shown in the VES denomination from 2018 onwards to improve readability. 1 VES = 100,000 VEF

(2) Restricted public sector includes central government plus PDVSA

APPENDIX 2: LEGAL CONSIDERATIONS ON THE SINGLE CENTRAL BANK SOLUTION

Our revision of the rules regulations, and other governing documents of the International Monetary Fund did not yield any indication that the Executive Board would be limited or prevented from dealing or interacting with a single central bank authority duly appointed as part of a political agreement between the two sides claiming to legitimately control the executive branch and jointly communicated by these sides as the only agency allowed to interact with the Fund in representation of the Bolivarian Republic of Venezuela. Having said that, the Executive Board has substantive discretionary powers in its decision-making process and the discretionary use of this power is likely to represent the policy preferences of key member states. We assume henceforth that the single central bank solution would count with the political support of a sufficiently large part of the international community so that there would be a willingness on the side of the Executive Board to advance on such a solution. What we find is that, were that willingness to exist, there would be no legal or regulatory obstacles to the Executive Board adopting such a solution.

There are two substantive legal issues: (i) decisions to deal with agency representing Venezuela in its interactions with the IMF; and (ii) decisions on requests by Venezuela to use IMF funds. We deal with these two issues separately.

Decisions to deal with agency representing Venezuela

Pursuant to Article V, Section 1[108] of the Articles of Agreement, members of the Fund only deal with it "*through its Treasury, central bank, stabilization fund, or other similar fiscal agency.*" In the case of Venezuela, this institution has been the Central Bank since 1946, when the country fully joined the IMF[109].

[108] Article V :
Operations and Transactions of the Fund
Section 1. *Agencies dealing with the Fund*
Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.
[109] IMF, List of Members. Available at: IMF (2020e).

Pursuant to the Rules and Regulations of the IMF[110] , member states may change the agency that represents them. That change requires a notification to the Fund[111]. The Rules and Regulations do not include additional requirements nor mention any procedure for approval of such change. It is implicit that only official authorities deal with the Fund and that their communications will be considered as valid.

Even though the Executive Board has not made a decision on recognition of any Venezuelan authorities, in April 2019, IMF Managing Director Christine Lagarde stated that the Fund "[…] *can only be guided by the membership. So it is not a question of us deciding. It has to be a large majority of the membership actually recognizing, diplomatically, the authorities that they regard as legitimate. And as soon as that happens, then we move, following our membership*"[112].

In our interpretation, recognition of the agency representing Venezuela falls on the Executive Board, which is in charge of conducting "*conducting the business of the Fund*"[113] and decided by the Executive Directors, whose vote is tied to the number of votes they were elected with.[114]

However, the competence to recognize the agency representing a country is not explicitly established. An alternative interpretation would assign that responsibility to the Board of Governors. This is because all conflicts that might arise from the lack of existence of provisions on the matter are decided by the Board of Governors.[115] In the Board of Governors, each Member has voting rights allotted based on its "*basic votes and its quota-based votes*"[116] and decisions are taken by majority vote.

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[110] IMF (2019a)
[111] Rules and Regulations of the International Monetary Fund (*Adopted September 25, 1946, amended September 18, 1969)*
G-1. Each member shall designate a fiscal agency in accordance with Article V, Section 1, and may change the agency after notifying the Fund.
[112] IMF (2019b)
[113] Article XII - Organization and Management, Section 1.
[114]Article XII - Organization and Management
Section 3. *Executive Board*
[…] (*h*) A quorum for any meeting of the Executive Board shall be a majority of the Executive Directors having not less than one-half of the total voting power.
(*i*) Each Executive Director shall be entitled to cast the number of votes which counted towards his election.

[115] Article XII -Organization and Management
Section 2. Board of Governors
[…] (a) All powers under this Agreement not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors. The Board of Governors shall consist of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made. No Alternate may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as Chairman.
[116] The Articles of Agreement allocate voting rights in the following manner:
Article XII -Organization and Management
[..] Section 5. *Voting*
(*a*) The total votes of each member shall be equal to the sum of its
basic votes and its quota-based votes.
(i) The basic votes of each member shall be the number of votes that results from the equal distribution among all he members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes.
(ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thou- sand special drawing rights.

(i) Decisions on IMF funds disbursements

The use of funds of the IMF is regulated in Article V, Section 3. Respecting the use of the IMF's resources through Credit Tranche Policies and Facilities[117], those rules have been further developed by decisions of the Executive Board, and in the cases of the RFI's[118], SBA's[119] , and EFF's[120], all of those decisions require Executive Board approval after completion of the safeguards assessment.

(*b*) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (*a*) above adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(*b*) and (*f*) up to the date when the vote is taken, provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(*c*) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

[117] Article V :
Section 3. *Conditions governing use of the Fund's general resources*
[...] (*a*) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.
(*b*) A member shall be entitled to purchase the currencies of other members from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions:

(i) the member's use of the general resources of the Fund would be in accordance with the provisions of this Agree- ment and the policies adopted under them;
(ii) the member represents that it has a need to make the purchase because of its balance of payments or its reserve position or developments in its reserves;

(iii) the proposed purchase would be a reserve tranche pur- chase, or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota;

(iv) the Fund has not previously declared under Section 5 of this Article, Article VI, Section 1, or Article XXVI, Sec- tion 2(*a*) that the member desiring to purchase is ineligible to use the general resources of the Fund.

(*c*) The Fund shall examine a request for a purchase to determine whether the proposed purchase would be consistent with the provisions of this Agreement and the policies adopted under them, provided that requests for reserve tranche purchases shall not be subject to challenge.

[118] Executive Directors *Decision No. 15015-(11/112) of November 21, 2011, as amended by Decision Nos. 15595-(14/46) of May 21, 2014, 15820 (15/66) of July 1, 2015,* 15821 (15/66), July 1, 2015, and 16183-(17/35) of May 5, 2017; Available at: IMF (2019c).
[119] Executive Directors Decision No. 12865-(02/102) of September 25, 2002, as amended by Decision No. 14283-(09/29) of March 24, 2009; Available at: IMF (2019c).
[120] Executive Directors Decision No. 4377-(74/114) of September 13, 1974, as amended by Decision Nos. 6339-(79/179) of December 3, 1979; 6830-(81/65) of April 22, 1981, effective May 1, 1981; 8885-(88/89) of June 6, 1988; 10182-(92/132) of November 3, 1992; 10186-(92/132) of November 3, 1992; 12343-(00/117) of November 28, 2000; 14287-(09/29) of March 24, 2009, effective April 1, 2009, and 15113-(12-24), March 14, 2012; Available at: IMF (2019d)

In any case, the revision falls upon the Executive Directors, whose vote is tied to the number of votes that they were elected with. Therefore, even if the Executive Board decided not to make a formal decision on the recognition of the single central bank authority (say, because this decision was assigned to the Board of Governors), it would eventually have to deal with the single central bank authority and interact with it in order to decide on any allocation of the Fund's resources.

Once such authority makes a request for resources under the RFI, a representation of need by a member for a purchase, or a request for an extended arrangement, the Executive Board would have to decide on allowing the member to participate or duly inform the member (in this case the requesting agency) and allow the participation of a duly appointed representative of the member.[121] In the case that the single central bank authority was allowed to interact with the IMF and recognized by such, there are several other provisions that could become a significant burden, including the safeguards assessment[122][123]. Such reports are later shared, reviewed, and commented on by the member state's central bank, which in this case would be the single central bank authority, but also would have to be reviewed by the member state's own authorities. The parts to the country's conflict would thus also have to appoint a separate agency to represent the member state in these interactions with the Fund. We propose that that agency be the Administrative Board discussed beforehand. The recognition of this board as a representative of the member state would again fall on the Executive Board, which is in charge of deciding on the financing request.

[121] IMF By-Laws:
Section 19. Representation of Members at Meetings of Fund Organs
1. Representation of Members
(a) Each member may, in accordance with the regulations provided in this Section, send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration. A member may waive its rights under this provision. The Executive Board shall determine whether a matter under consideration particularly affects a member, which determination shall be final.
(b) Whenever a member desires to present its views at the meeting of the Executive Board at which a request the member has made is to be considered, it shall so notify the Fund when it makes the request and shall designate a representative for this purpose who shall be available at the seat of the Fund. Failure to give notice or to designate an available representative shall constitute a waiver of the member's right to present its views at the meeting.
(c) Whenever the Executive Board is to consider a matter which has been determined particularly to affect a member, the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Board with respect to such matter, nor any question particularly affecting such member submitted to the Board of Governors, until the member has either waived its rights under paragraph (a) of this Section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Board, of which the member has had reasonable notice.
[122] Article V - Operations and Transactions of the Fund
[...] Section 3. *Conditions governing use of the Fund's general resources*
(*a*) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.
[123] IMF, *Protecting IMF Resources - Safeguards Assessments of Central Banks*. March 25, 2020. Available at: IMF (2020f)