



Juan Freire urged authorities to cut off the cash flowing into the El Chaparral neighborhood. Instead, it kept pouring in.

Caracas has funneled \$7.9 billion to “communes” since 2006. Who gets the money and how it is spent is a mystery

# Billions unaccounted for in Venezuela’s big giveaway program

STORY BY BRIAN ELLSWORTH  
PHOTOS BY CARLOS GARCIA RAWLINS

## VENEZUELA BILLIONS UNACCOUNTED FOR IN VENEZUELA'S BIG GIVEAWAY PROGRAM

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The neighborhood of El Chaparral began receiving cash from the Venezuelan government in 2005. The windfall came courtesy of the late socialist leader Hugo Chavez's plan to fight poverty by transferring billions of dollars in oil revenue to communities around the country.

Within a year, auto mechanic Juan Freire was urging authorities to cut off El Chaparral and its sister community of Los Pinos, with a combined population of 250. The money wasn't going to the needy, he says, and it wasn't sowing growth. Instead, Freire alleges, leaders of the community council in this mountain suburb were using some of the cash for personal expenses and to build houses for family members. He and neighbors filed complaints with nearly a dozen state agencies seeking a halt to the transfers.

Yet the money kept rolling in: In 2008, the council received close to \$1 million – equal to about \$4,000 a resident.

“When we filed complaints, the responses would always be something like, ‘We’ll send some recommendations,’” said Freire, 57. “They never gave us answers.”

The unsupervised spending in El Chaparral is symptomatic of a vast community aid effort with lax financial controls. A network of more than 70,000 community groups has received the equivalent of at least \$7.9 billion since 2006 from the federal agency that provides much of the financing for the program, Reuters calculates, based on official government reports.

The money is part of a broad government effort called the “communal state” that steers funds to communities, primarily through an outfit called the Autonomous National Fund for Community Councils, or Safonacc. But exactly how much money passes through this system, who gets it and how it's used are largely a mystery.

The communal revenue-sharing program was championed by the late Chavez. The charismatic former military officer



**SUCCESS STORY:** At the Jose Felix Ribas Commune in Caracas, Aura Aguilera helped manage a \$150,000 program to build a community textiles business.

“The commune is the epicenter of solidarity, of truly human life, of socialism.”

**Nicolas Maduro**

President of Venezuela

wanted small neighborhood groups to form “communes” that would define civic life and anchor a citizen-driven socialist democracy. In one of his last speeches before dying of cancer in 2013, Chavez tasked his hand-picked successor, Nicolas Maduro, with advancing the plan.

“I entrust this to you as I would my life,” he told Maduro, a former bus driver who narrowly won election last year.

The most common of such organizations are the community councils, which number about 40,000, according to a 2013 Communes Ministry study. The study also identified another 30,000 such organizations, including networks of community councils.

Maduro has been beset by three months of violent opposition protests that have left dozens dead. He shows no sign of stepping down – and has vowed to advance Chavez's community financing plan. He

has described the communes as the embodiment of Chavez's movement to reduce inequality through generous spending of oil revenue. Many communities have successfully founded community centers, repaired roads and opened small businesses.

“Without the communes, this would all end. The commune is the epicenter of solidarity, of truly human life, of socialism,” Maduro said in November.

### HIDDEN ACCOUNTS

But the Venezuelan government doesn't publish an official accounting of how the community-support funds are spent. The Finance Ministry didn't respond to questions about the financing of community groups for this article. Safonacc is overseen by the Communes and Social Movements Ministry, which promotes “participative social development.” An official at the ministry said she wasn't authorized to provide any information.

Some officials have raised red flags about the spending. The comptroller of Venezuela in its 2011 annual report singled out Safonacc for scrutiny. That report concluded Safonacc has no centralized system



to track outlays or follow up on projects.

The comptroller's office said it does not keep a tally of total transfers to community groups; it only tracks the finances of the councils it audits. In spite of the irregularities it identified at Safonacc, the office said in an email, the complaints "do not allow objections with respect to the relevance of the existence of these social and community groups. On the contrary, (the complaints) illustrate the need to cooperate in the development and consolidation" of the community councils.

Political rivals say the government is using the system to finance its base while bypassing opposition mayors. They note that the Interterritorial Compensation Fund, which uses federal funds to help poor regions close the gap with wealthier ones, has for three years given more to the community groups than to the country's 337 municipal governments. The ICF funds Safonacc and also directly finances community groups. It has set aside \$1.38 billion under the 2014 budget for community groups and \$1.29 billion for municipalities.

"The communal state lacks the fiscal controls that would apply to state and municipal governments, meaning there is no way to guarantee the appropriate use of resources," said Jose Vicente Haro, a professor of constitutional law at the Universidad Catolica Andres Bello in Caracas. "At the same time, there is a clear tendency toward using these groups to reduce the resources available to opposition politicians, which violates constitutional principles."

The Reuters calculation of \$7.9 billion in payments to the community groups is based on figures in the Communes Ministry's annual reports to congress and information posted on the Safonacc website. Some of the data on the Safonacc site was taken down after Reuters began inquiring about the spending.

The Communes Ministry issued a statement in January reporting that Safonacc only transferred the equivalent of some



President Maduro is sticking with the communes program, started by his mentor, the late Hugo Chavez.

\$733 million to community groups between 2009 and 2013. That statement appeared to contradict the ministry's own annual reports to the Venezuelan congress showing it has transferred more than that in a single year. The ministry didn't respond to requests for clarification.

## 'CONCRETE UTOPIA'

Chavez for decades dreamed of creating a nationwide network of self-governing community groups. His vision was laid out in the plans for a revolutionary society he and military comrades hoped to create through a 1992 coup.

"Popular democracy will be born of communities, and its beneficent wisdom will spread throughout the social fabric of the nation," he wrote in the early 1990s, in one of a series of texts calling for the creation of a "concrete utopia."

Chavez's 1992 putsch failed but made him famous, and he catapulted into the presidency in 1999. A decade-long oil boom followed, financing lavish spending that guaranteed electoral support for his brand of socialism. During his 14-year rule, World Bank data show, the poverty rate fell by nearly half – to 25.4 percent of the populace in 2012, from 48.7 percent

when he took over.

Oil revenue is the mainstay of the Venezuelan economy and a key component of the federal budget.

State oil company PDVSA last year paid a combined total of close to \$44 billion in taxes, social spending and contributions to a national development fund known as Fonden, according to preliminary figures published in the oil ministry's 2013 annual report.

But tracking where and how the oil money is spent has grown more difficult over the years with the rise of opaque state-run funds that don't disclose their finances. Among them is the behemoth \$100 billion Fonden. The secretive state fund in some years accounts for half all investment in Venezuela. As Reuters detailed in a 2012 [article](#), Fonden is not subject to congressional oversight and provides no detailed description of its outlays.

A similar pattern has played out with the community councils, originally created in 2006.

Some localities appear to use the money as intended. At the Jose Felix Ribas Commune, which comprises 24 community councils in the Caracas slum of Antimano, neighbors transformed an abandoned lot filled with junked cars. It is now a three-story community center with an internet cafe, a textile workshop and a study center for neighborhood kids.

"You see, this can be done," said 34-year-old Aura Aguilera, who works full time on community development. Since 2006, she says, she has helped manage some \$150,000 to build the textiles business.

Authorities have made some efforts to fight waste and fraud.

The state prosecutor's office in 2011 said 1,500 people were under investigation for abusing community council resources. Prosecutors in September 2013 announced the arrest of three people. One was an employee of a federal agency that funds community groups, accused of making off with some \$110,000 earmarked for boats to be



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WINDFALL: The mountain suburb of El Chaparral received \$1 million in 2008 – equal to \$40,000 per resident. At right, a man walks past an unfinished culture center.

used by fisherman. The comptroller's office has offered management training to more than 80,000 people, and has published audits showing irregularities. Reuters learned of the problems in El Chaparral through a comptroller's annual report.

### 'SOCIAL AUDITING'

Officials at the comptroller's office say they have no way of auditing each council. Instead, they say, irregularities can be detected through "social auditing" – in which citizens denounce fraud. In many cases, though, residents say they don't have enough information to convince authorities to open an investigation.

Victor Gonzalez, an auditor, in 2010 joined the board of his neighborhood council in the poor Caracas neighborhood of La Pastora. Through contacts in a Caracas municipal government, he says, he discovered the group had received 330,000 bolivars, equivalent to \$153,000 at the time it was disbursed, to repair a retaining wall in the neighborhood. The previous board left no documentation.

Gonzalez, a staunch follower of Chavez, says the prior board spent the entire amount but only covered the wall with a thin layer of cement rather than fixing the structural problems. "Can you see 330,000

bolivars in that?" he asked, pointing out the wall, adorned with slogans celebrating the communes. "I can't."

The comptroller's office said it had received a complaint about the situation but dismissed it for lack of proper documentation.

"Of course I didn't have the documents – the board didn't leave anything behind," Gonzalez said when informed of the comptroller's response. "What was I going to do?"

The previous members of that council were unavailable for comment. The municipal government did not respond to an email seeking comment.

In the rural slum of Saman Mocho, outside the city of Valencia, resident Jesus Diaz says he was pushed from the council board in 2007. He was ousted through a recall referendum in a hastily convened assembly that did not reach quorum. Neighbors complained he was slowing a home construction program. He confirms there was a delay. But he says it was because he refused to transfer funds to a contractor's personal account, which would have been illegal, rather than

to the construction company itself.

Saman Mocho's council in 2006 and 2007 received transfers totaling \$1.3 million to build 40 houses. But by 2008, Diaz says, the contractor ran out of money after partially building only 10 homes. Residents later completed those houses with their own money. The national comptroller told Reuters the case was being handled by a local office of the comptroller and that it was "in the evaluation stage."

Before the comptroller completed the investigation, Saman Mocho was approved for more funding. A government housing program gave the council another \$465,000 in 2011 to build 30 homes, including one for Diaz's daughter. This time, Diaz says, the project was successful. "It's a demonstration that the people can build homes, it's marvelous," said Diaz.

### EL CHAPARRAL

In El Chaparral, the community in 2005 built some 20 houses through a pilot of the communal-funding program. In time, complaints arose. The community directors withdrew money meant for development projects and distributed it among relatives, allegedly for safekeeping, said Freire, the auto mechanic. He said the community often did not know what projects the council



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IN CARACAS: Some communes have used the money more effectively than others. Children play at the Jose Ribas Commune in the capital city.

leaders had proposed and how much the group had received in financing.

He and several neighbors filed complaints against three women who controlled the council's finances. In 2007 a community assembly voted to recall the trio from the board. The deposed leaders disputed the vote and won the support of Communes Ministry officials, who annulled the recall, according to Freire. He said he attended one meeting in which council leaders were seeking help from Communes Ministry officials to obtain \$100,000 to buy heavy construction equipment, a purchase the community did not know about and would not have benefited from.

Ana Mercedes Salazar, one of the three council members, denied wrongdoing. "No, no, absolutely not. At Chaparral-Los Pinos all the projects that received funds were carried out," said Salazar. She says the council completed all of its projects by the book.

The comptroller's office disagreed. In its 2011 annual report, it found that the council

failed to document expenditures, made out checks to a member of the council's board, and made expenditures unrelated to council projects. The comptroller found no evidence the Communes Ministry had inspected the projects it financed.

Salazar said she had not seen the report, which does not name her.

Asked what actions it took after its investigation, the comptroller said it drew up recommendations for the Communes Ministry, Safonacc and the local community council.

El Chaparral residents say they see few signs of the several million dollars the community received. The council bought a house to be used for meetings, but it was in "terrible condition" and acquired at an inflated purchase price, according to an official complaint filed by a neighbor. On a recent visit, a hand-written sign on the door said a meeting scheduled to be held there had been moved because the house was too small to fit everyone.

Freire says micro enterprises were financed with \$140,000, including an auto workshop, several catering businesses and a small cinder block factory. They are nowhere to be found, he says.

Five hundred avocado trees, purchased to create an orchard, were left to wilt and die, according to another neighbor. A planned medicinal garden is now a fenced-in patch of weeds, strewn with trash.

Freire says the community councils system was no match for residents who know how to game it.

"Projects that are not supervised never work out," he said. "Some people see this and take advantage of it for personal enrichment."

*Edited by Michael Williams*

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