

Ecuador



The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. Learn more and explore findings at www.revenuewatch.org/rgi.

Background

Ecuador's economy is highly dependent on the extractive industries, which made up 20 percent of gross domestic product in 2011 and 58 percent of exports. Recent reforms to the Hydrocarbon Law required foreign companies to renegotiate their arrangements with the government. Fourteen companies have signed new contracts; others left the country, resulting in a drop in output. Nevertheless, Ecuador remains the fifth-largest petroleum producer in Central and South America.

Ecuador	2000	2005	2011
Population (million)	12.35	13.43	14.67
GDP (constant 2011 international \$ billion)	20.3	41.8	65.9
GDP per capita, PPP (constant 2005 international \$)	5,381	6,510	7,655
Oil and gas revenue (% total government revenue)	...	24%	..
Extractive exports (% total exports)	50%	59%	58%

SOURCES: Oil and gas revenue as share of total government revenue from the Economist Intelligence Unit and the International Monetary Fund. All other data from the World Bank.

Ecuador's Performance on the RGI

Ecuador received a "partial" score of 58, ranking 18th out of 58 countries. Poor performance on the Enabling Environment component contrasted with a much higher Institutional and Legal Setting score.

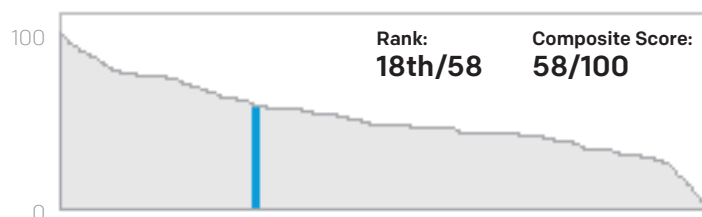
Institutional and Legal Setting

(Rank: 19th/58 Score: 70/100)

Ecuador earned a "satisfactory" score of 70. A strong legislative framework and clear revenue collection policies were balanced by gaps in the disclosure of environmental impact assessments and the lack of key budget figures.

Under the newly revised Hydrocarbon Law, extractive rights are granted through a bidding process in which the national oil companies are given priority. Foreign companies sign service contracts, giving the government the oil they produce in exchange for a fixed fee per barrel. Under this system, the government keeps windfall profits but is vulnerable to fluctuations in oil prices.

The Internal Revenues Agency collects taxes from oil companies. Other payments are collected by the Finance Ministry or



by state-owned companies. Oil revenues are deposited in the Central Bank.

The Organic Law of Transparency and Access to Public Information includes provisions specific to the extractive sector and guarantees access to industry information.

Reporting Practices

(Rank: 16th/58 Score: 64/100)

Ecuador publishes only limited data on most aspects of the extractive sector and received a "partial" score of 64.

The Hydrocarbons Secretariat provides comprehensive information before the bidding process begins and the details of winning bids, but does not publish full contracts or key fiscal terms, such as tax rates. Recent contracts can be found on the website of the Non-Renewable Resources Ministry, and past production sharing contracts are available online from Petroecuador, a national oil company.

The Finance Ministry publishes information on oil prices, export values, royalty-like payments, and company income taxes. The Non-Renewable Resources Ministry published 2009 figures on production volumes, prices, export values, investments, and operating companies. The Hydrocarbons Secretariat issues annual figures for production volumes, prices, exports, company-by-company production, and production stream values. The Central Bank publishes monthly data on oil production and exports. No agency produces information on oil reserves, subsidies, special taxes, or fees.

Safeguards and Quality Controls

(Rank: 19th/58 Score: 65/100)

Ecuador's "partial" score of 65 reflects a lack of comprehensive oversight of the extractive sector and insufficient audit requirements.

National law limits the discretion of licensing authorities, though certain provisions allow state-owned oil companies to enter into operating agreements with companies not selected through a competitive process. Licensing decisions can be appealed, but are not reviewed by the legislature.

The Comptroller General audits state accounts and reports annually to the National Assembly. However, lawmakers' scrutiny of oil revenues is not rigorous and audit reports are not publicly available.

Enabling Environment

(Rank: 36th/58 Score: 28/100)

Ecuador scored particularly poorly on measurements of the rule of law, leading to a “failing” score of 28.

State-Owned companies

(Rank: 19th/45 Score: 62/100)

Petroecuador and Petroamazonas manage all aspects of the oil industry. Petroecuador is active in both the upstream and downstream sectors, while Petroamazonas operates just one field. The government is considering merging the companies. Both publish detailed reports on operations and payments to the state as required by the Transparency and Access to Information Law. The companies are audited, but audit reports are not made public.

Subnational Transfers

(Rank: 5th/30 Score: 92/100)

Oil revenues are distributed through transfers to decentralized autonomous governments, deposits to the Ecodevelopment Fund for the Amazon region, or as “labor participation” payments for local workers. The Ecodevelopment Fund channels 1 percent of oil export revenues from the Amazon region back to local governments, which must use the money for investment. Labor participation funds must be invested in social or developmental projects.

The Finance Ministry publishes the rules for revenue transfers, but it does not include revenue-sharing formulas. The ministry provides data on the transfers, as do local governments.

Ecuador’s Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
18	COMPOSITE SCORE	58
19	Institutional and Legal Setting	70
	Freedom of information law	100
	Comprehensive sector legislation	100
	EITI participation	0
	Independent licensing process	83
	Environmental and social impact assessments required	50
	Clarity in revenue collection	100
	Comprehensive public sector balance	0
	SOC financial reports required	100
	Fund rules defined in law	..
	Subnational transfer rules defined in law	100
16	Reporting Practices	64
	Licensing process	83
	Contracts	67
	Environmental and social impact assessments	17
	Exploration data	50
	Production volumes	100
	Production value	67
	Primary sources of revenue	33
	Secondary sources of revenue	22
	Subsidies	0
	Operating company names	100
	Comprehensive SOC reports	50
	SOC production data	95
	SOC revenue data	60
	SOC quasi fiscal activities	0
	SOC board of directors	100
	Fund rules	..

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	..
	Subnational transfer rules	100
	Comprehensive subnational transfer reports	100
	Subnational reporting of transfers	100
19	Safeguards and Quality Controls	65
	Checks on licensing process	56
	Checks on budgetary process	44
	Quality of government reports	83
	Government disclosure of conflicts of interest	100
	Quality of SOC reports	67
	SOC reports audited	50
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	0
	Quality of fund reports	..
	Fund reports audited	..
	Government follows fund rules	..
	Checks on fund spending	..
	Fund disclosure of conflicts of interest	..
	Quality of subnational transfer reports	50
	Government follows subnational transfer rules	100
36	Enabling Environment	28
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	28
	Open Budget (IBP Index)	30
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	43
	Government effectiveness (WGI)	29
	Rule of law (WGI)	12

■ Satisfactory	■ Weak
■ Partial	■ Failing