

Venezuela



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

Venezuela has the second-largest oil reserves in the world. The country is highly dependent on petroleum revenues, which the government relies on for an estimated 45 percent of its income. The extractive industries accounted for 95 percent of exports and 20 percent of gross domestic product in 2010.

Venezuela	2000	2005	2011
Population (million)	24.31	26.58	29.28
GDP (constant 2011 international \$ billion)	149.5	164.8	316.5
GDP per capita, PPP (constant 2005 international \$)	9,564	9,924	11,258
Extractive exports (% total exports)	89%	90%	95%

SOURCES: World Bank. Extractive exports 2011 data from 2010.

Venezuela's Performance on the RGI

Venezuela received a "partial" score of 56, ranking 20th out of 58 countries. Solid performance on the Reporting Practices component contrasted with a "failing" Enabling Environment score.

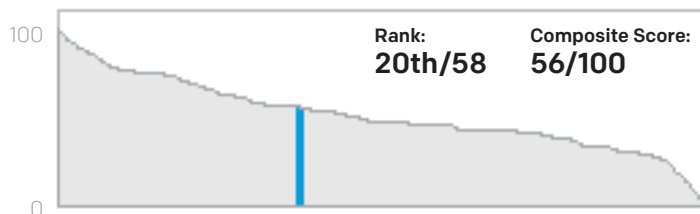
Institutional and Legal Setting

(Rank: 38th/58 Score: 57/100)

Venezuela's "partial" score of 57 reflects the lack of an independent licensing process and insufficient public disclosure policies.

The Ministry of Petroleum and Mining (MPM) grants licenses and regulates the sector. Foreign companies may participate only through joint ventures in which Petroleos de Venezuela S.A. (PDVSA), the national oil company, has at least a 60 percent share. Joint ventures are generally established by presidential decree following direct negotiations. The MPM and PDVSA are both headed by the minister of petroleum and mining.

As much as 60 percent of Venezuela's extractive revenues bypass the treasury; PDVSA carries out large social spending programs in exchange for lower taxes that are not accounted for.



Reporting Practices

(Rank: 14th/58 Score: 69/100)

The government publishes some information on licensing procedures and contracts, along with data on most key revenue indicators, leading to a "partial" score of 69.

However, licensing criteria, fiscal terms, and other critical details of the licensing process are not provided. Environmental impact assessments are published only after licenses have been granted.

Comprehensive MPM statistical reports include data on reserves, production volumes, prices, export values, investment, production costs, and disaggregated revenues, but they are not produced on a regular basis. The Central Bank publishes similar information in its annual economic report, and the federal tax authority publishes data on royalties and dividends.

Safeguards and Quality Controls

(Rank: 18th/58 Score: 67/100)

Government regulation of the petroleum industry gives priority to the political and strategic objectives of the executive branch, leading to a "partial" score of 67.

Despite a legal framework that defines fiscal terms of licenses, the MPM has wide discretion to negotiate. Contracts must be approved by the National Assembly, but this body is controlled by the executive. There is no mechanism for appealing licensing decisions.

The national audit office reviews petroleum revenues. However, it too is subject to the executive branch and recently suffered significant budget cuts, despite growing state revenues. The audit office publishes its annual report to the National Assembly, but the report does not provide a rigorous or independent evaluation of petroleum revenues.

Enabling Environment

(Rank: 45th/58 Score: 18/100)

Venezuela ranked poorly on measurements of corruption control and the rule of law, resulting in a "failing" score of 18.

State-Owned Companies

(Rank: 7th/45 Score: 87/100)

Entirely owned by the state, PDVSA is required by law to have a majority stake in all petroleum projects. The company's annual financial statements are externally audited but do not include

the accounts of subsidiaries, and there are large inconsistencies between its annual figures and those presented in reports on the company's social expenditures. Nevertheless, PDVSA reports provide more detailed and up-to-date information on Venezuela's oil industry than those of government agencies, including data on reserves, production volumes, exports, and investment. Company officials are required to disclose their financial interests in oil projects, but this is not always enforced.

Natural Resource Funds

(Rank: 9th/23 Score: 58/100)

Current law requires all windfall profits from oil prices above \$50 a barrel go directly in the National Development Fund, controlled by the president. In 2010 the fund reported a balance

of \$30 billion. While there are clear rules for deposits, expenditures are determined by the executive. The fund is audited, but only aggregated financial balances are published.

Subnational Transfers

(Rank: 12th/30 Score: 69/100)

According to Venezuela's hydrocarbon law, 25 percent of royalties and petroleum taxes must be transferred to state governments. Transfers depend on the estimated oil price, which is often underestimated, and local officials complain that only state governments controlled by the ruling party receive their full allotment. Information on transfers is available in printed form in local libraries, but is not published online.

Venezuela's Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
20	COMPOSITE SCORE	56
38	Institutional and Legal Setting	57
	Freedom of information law	33
	Comprehensive sector legislation	100
	EITI participation	0
	Independent licensing process	17
	Environmental and social impact assessments required	50
	Clarity in revenue collection	50
	Comprehensive public sector balance	67
	SOC financial reports required	100
	Fund rules defined in law	50
	Subnational transfer rules defined in law	100
14	Reporting Practices	69
	Licensing process	67
	Contracts	33
	Environmental and social impact assessments	17
	Exploration data	100
	Production volumes	67
	Production value	100
	Primary sources of revenue	78
	Secondary sources of revenue	27
	Subsidies	100
	Operating company names	33
	Comprehensive SOC reports	50
	SOC production data	95
	SOC revenue data	95
	SOC quasi fiscal activities	83
	SOC board of directors	100
	Fund rules	100

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	33
	Subnational transfer rules	100
	Comprehensive subnational transfer reports	100
	Subnational reporting of transfers	0
18	Safeguards and Quality Controls	67
	Checks on licensing process	44
	Checks on budgetary process	56
	Quality of government reports	61
	Government disclosure of conflicts of interest	100
	Quality of SOC reports	50
	SOC reports audited	100
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	100
	Quality of fund reports	33
	Fund reports audited	100
	Government follows fund rules	50
	Checks on fund spending	0
	Fund disclosure of conflicts of interest	100
	Quality of subnational transfer reports	50
	Government follows subnational transfer rules	67
45	Enabling Environment	18
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	7
	Open Budget (IBP Index)	34
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	33
	Government effectiveness (WGI)	15
	Rule of law (WGI)	1

■ Satisfactory	■ Weak
■ Partial	■ Failing