

ECUADOR

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: US DOLLARS (USD)

POPULATION AND GEOGRAPHY

Area: 256 370 km²
Population: 16.625 million inhabitants (2017), an increase of 1.6% per year (2010 - 2015)
Density: 65 inhabitants / km²
Urban population: 63.7% of national population (2017)
Urban population growth: 1.7% (2017 vs 2016)
Capital city: Quito (11% of national population)

ECONOMIC DATA

GDP: 193 billion (current PPP international dollars), i.e. 11 612 dollars per inhabitant (2017)
Real GDP growth: 2.4% (2017 vs 2016)
Unemployment rate: 3.8% (2017)
Foreign direct investment, net inflows (FDI): 618 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.4% of GDP (2017)
HDI: 0.752 (high), rank 86 (2017)
Poverty rate: 3.2% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Ecuador is a unitary state organized as a republic with a division of powers, as provided for in the 2008 Constitution. Legislative power is vested in the National Assembly, whose members are elected for four-year terms. Executive power is held by the President, who is both head of government and head of state. Presidents are also elected for a four-year term and may be re-elected once. Judicial power is vested in the National Court, the rest of judicial courts and the traditional authorities of indigenous peoples in their territories.

Decentralization is acknowledged in the 2008 Constitution, which establishes a four-tiered decentralization system, divided into Decentralized Autonomous Governments (*Gobiernos Autónomos Descentralizados* - GAD) at the regional, provincial, municipal and parochial levels. Galapagos province is endowed with a special status, which is also the case for the autonomous metropolitan districts and indigenous and multicultural territorial jurisdictions (although no such territory has yet been created). The Constitution establishes that GADs may enjoy "political, administrative and financial autonomy" and that they will be "governed based on the principles of solidarity, subsidiarity, inter-territorial equity, inclusion and civil participation". Subnational elections are held concurrently every five years to elect GAD's local authorities. The last local elections took place in March 2019.

The 2008 Constitution also gave rise to the National Competences System (*Sistema Nacional de Competencias* - CNC) in charge of regulating the transfer of competences to the subnational levels and mediating in conflicts that such transfer may entail. The CNC facilitated the development of the National Decentralization Plan (*Plan Nacional de Descentralización* - PNDz) 2012-2015 in collaboration with local stakeholders. Following the evaluation of the PNDz, the Strategy for the Implementation of Decentralization (*Estrategia para la Implementación de la Descentralización*) 2017-2021 was elaborated. The PNDz also acknowledges the role of GADs in the elaboration and management of development plans.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities (<i>Cantones / Municipios</i>)	Provinces (<i>Provincias</i>)		
	Average municipal size: 74 279 inhabitants			
	221	24		245

OVERALL DESCRIPTION. The 2008 Constitution determines that local self-governments in Ecuador comprise rural parish councils, municipal councils, metropolitan councils, provincial councils and regional councils. Due to environmental conservation, ethno-cultural and demographic reasons, the province of Galapagos, indigenous territories and autonomous metropolitan districts have a special status (Art. 242). The Organic Code of Territorial Organization, Autonomy and Decentralization (*Código Orgánico de Organización Territorial, Autonomía y Descentralización* - COOTAD) regulates the functioning of the different levels of subnational government.

The different territories are heterogeneous. The average territorial extension at the municipal level is just over 1200 km², although it ranges from cantons that exceed 19 000 km² to less than 100 km². According to the National Statistics Institute (INEC), in 2018, the two most populous cantons are the cities of Guayaquil and Quito with about 2.6 million inhabitants each, followed by Cuenca, with 600,000 inhabitants.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The 221 municipalities constitute the municipal level and include the metropolitan district of Quito. Municipalities are governed by a municipal council. Agglomerations of municipalities whose population is equal to or greater than 7% of the national population may form metropolitan districts. Municipal councils that integrate such districts need to elaborate an autonomy status and coordinate their workings with those of the province and region within which they are located (2008 Constitution, Art. 247).

The Association of Ecuadorian Municipalities, acknowledged by the 1996 Municipal Regime Act, is the national organization of local governments for the promotion of decentralized cooperation.

PARISHES. Municipalities are composed of about 1 500 rural and urban parishes, which constitute the sub-municipal level of local government. Parishes are administered by parish councils composed of members (*vocales*) and chaired by the member with the highest number of votes. Executive power is entrusted to a parochial government, which together with the parish council form the parish board (*junta parroquial*).

PROVINCES. There are 23 provinces plus the province of Galapagos, which has a special status and is headed by a government council. Provinces are administered by a provincial council which is made up of a prefect elected by universal suffrage, mayors or municipal councilors representing the cantons, and representatives elected from among the heads of rural parish boards (art. 252 of the Constitution). In the Amazonian territories, there is a specific integrated planning system in order to ensure the protection of ecosystems and traditional cultures.

REGIONS. The 2008 Constitution provides for the establishment of autonomous regions, specifying that two or more provinces with territorial continuity and a common population accounting for over 5% of the national population may constitute autonomous regions. Despite this provision, no region has yet been established.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

COOTAD details the competencies and functions of the GADs in promoting development and quality of life. The competencies to be exercised by local governments are classified as exclusive, concurrent, additional and residual. The transfer process is still underway and it is stated that it must be accompanied by the transfer of resources for which the National Competences System is responsible.

Regions, provinces, metropolitan districts and cantons have some degree of legislative competences within their jurisdiction, while rural parishes have regulatory powers (art. 240 of the Constitution). All GADs have executive powers. All levels of government are primarily responsible for planning the development of their territory and formulating plans and programs consistent with their competencies, including the management of international cooperation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPAL AND PAROCHIAL LEVELS
1. General public services		Supervise the execution of public services and works; Property registers
2. Public order and safety	Coordination with national police	Coordination with national police; Creation and coordination of civil security councils; Firefighting
3. Economic affairs /transports	Promote agricultural and other productive activities; Road networks and facilities in non-urban areas	Support to community productive activities; Articulate social and solidarity economy actors; Economic feasibility coordination with provinces; Promote economic development, regulate economic business and professional activities; Public transport; Marketplaces
4. Environmental protection	Environmental management; Watershed and micro-basin management; Hydraulic dredging and river cleaning; Forestry and reforestation; Irrigation systems management	Preservation of biodiversity and the environment; Forestry and reforestation; Environmental management; Sewerage, wastewater treatment, solid waste management; Sanitation; Environmental pollution; Regulate the use of beaches; Regulate and control the exploitation of arid and stony materials
5. Housing and community amenities	Housing (management); Urban and land use planning (in coordination with other levels); Plans and programs for housing in rural areas	Land use planning; Urban development planning; Territorial planning; Management of physical infrastructure, facilities and public spaces; Construction regulations and control; Drinking water provision; Food services provision; Slaughterhouses; Cemeteries
6. Health		Facilities building and maintenance
7. Recreation, culture & religion	Cultural, arts, sports and recreational activities for the rural areas (in coordination with the parishes)	Cultural, arts, sports and recreational activities; Architectural, cultural and natural heritage
8. Education		Facilities building and maintenance
9. Social protection	Equity and inclusion; Citizen participation; Protection of children and youth	Equity and inclusion; Citizen participation; Protection of children and youth

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 24 provinces and 221 municipalities (including the metropolitan district of Quito), rural parish governments and social security funds.	SNA 2008	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Medium
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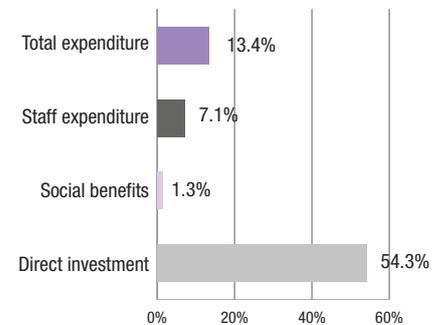
GENERAL INTRODUCTION. The main legislative framework for the organization of subnational finance is enshrined in the 2008 Constitution and COOTAD. According to COOTAD, regional, provincial and municipal councils may levy taxes and tariffs and charge fees for their services (Articles 34, 47 and 55). Subnational finance in Ecuador plays a moderate role in the country's public finances. In FY 2016, local expenditure represented 13.4% of total expenditure, while local revenues amounted to 10.2% of total public revenue. Expenditure is mainly devoted to capital investment at the local level, while revenue available to local governments is defined in COOTAD.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	630	5.6%	100%	
Incl. current expenditure	153	1.4%	24.3%	
Staff expenditure	84	0.7%	13.3%	
Intermediate consumption	30	0.3%	4.7%	
Social expenditure	19	0.2%	3.1%	
Subsidies and current transfers	10	0.1%	1.6%	
Financial charges	10	0.1%	1.7%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	476	4.2%	75.7%	
Capital transfers	63	0.6%	10.0%	
Direct investment (or GFCF)	414	3.7%	65.7%	



EXPENDITURE. In FY 2016, local government expenditures represented 5.6% of Ecuador's GDP, which can be interpreted as being a moderately high percentage given that total general government expenditure represents 41.7% of GDP. Current expenditure accounts for 24.3% of local expenditure, while capital expenditures accounts for 75.7%. Over the past 10 years, the highest level of public investment was recorded in 2013, decreased in 2014 and 2015 and then increased again in 2016 compared to 2015.

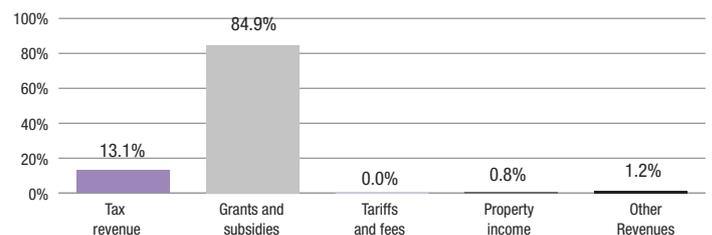
DIRECT INVESTMENT. Total direct investment at the local level accounts for 3.7% of GDP, which represents half of total direct investment of general government. Over the past ten years, local direct investment has grown steadily until 2014, when it began to slow down. In 2016, the bulk of direct investment was devoted to construction, followed by investment in equipment and machinery.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	422	3.8%	10.2%	
Tax revenue	55	0.5 %	3.3%	
Grants and subsidies	358	3.2%		
Tariffs and fees	0	0.0%		
Property income	3	0.0%		
Other revenues	5	0.0%		



OVERALL DESCRIPTION. Subnational governments revenues come from the generation of own resources, transfers from the national budget and borrowings. Own source revenue comes from taxes, fees, special improvement contributions, investment income, fines, and sale of goods, services and non-financial assets, investment recovery, raffles, sweepstakes and other sources.

The income of rural parishes comes from the administration of infrastructure and public space. Rural parishes can also receive income delegates from other levels of government or international cooperation, donations and self-managed activities. Provincial governments have the power to collect special contributions for road maintenance applied to vehicle registration.

The main source of financial income for subnational governments is central government transfers, which accounted for 84.9% of total income in FY 2016, an amount that increased compared to 2015 and represents 3.2% of GDP.

TAX REVENUE. According to OECD Statistics, locally raised taxes correspond to 3.3% of all taxes raised in the country and 13.1% of local government revenues in FY 2016. As mentioned above, regional, provincial and municipal councils may levy taxes in their jurisdiction. Rural parishes don't have the authority to collect taxes unless under the authority of other levels of government. Provincial GADs benefit from 0.001% of the *alcabalas* tax (a tax on real estate transactions), collected at the municipal level.

Municipal taxes may be levied on urban property, rural property, vehicles, license plates and patents, public shows, utilities, the transfer of urban properties and its surplus value, gambling and 1.5 per thousand on total assets.

GRANTS AND SUBSIDIES. In FY 2016, transfers from the central government were the largest source of revenue for local governments, accounting for 84.9% of the total revenue collected. COOTAD distinguishes three categories of grants:

Grants from permanent and non-permanent national revenues. Article 192 of COOTAD provides that local governments may receive 21% of permanent national revenues and 10% of non-permanent revenues. Of this amount, 27% is transferred to provincial councils, 67% to municipal councils and metropolitan districts and 6% to parish councils, in accordance to the competencies transferred to each local government. These resources are distributed to each GAD on the basis of a model of territorial equity in the provision of public goods and services. This model classifies the amount to be transferred into two parts:

- Amount A, corresponding to the transfers that by law were assigned to the GAD in 2010;
- Amount B, allocated on the basis of a distribution formula that includes seven criteria: population size; density of population; unmet basic needs, prioritized and depending on the population living in the territory of each GAD; achievements in improving standards of living; fiscal discipline; administrative discipline; and compliance with the objectives and targets of the National Development Plan and the GAD development plan. These criteria are weighted to determine the amount to be allocated to each territory. During the period 2014-2017, a progressive weighting was established to reduce the annual weight assigned to "unmet basic needs" and increase the variables "improvement of living standards" and "fiscal discipline". Amount B has increased significantly over the last years.

Grants intended to finance the exercise of new competences. Local governments may also receive funds in order to carry out new responsibilities in the fields of irrigation and drainage (competence transferred to provincial GAD); transit, road transport and road safety (transferred to municipal and metropolitan GAD); and international cooperation (transferred to all GAD).

Transfers as compensation for the exploitation of natural resources. Finally, subnational governments receive transfers as compensation for the exploitation of natural resources in the GAD territories in accordance with Act no 10 of 2003 on the Amazonian Regional Eco-development Fund and Act no 47 of 1989 on allocations to the provinces for sale of INECEL energy.

OTHER REVENUES. Local governments can raise revenue from the sale of goods and services and contributions for extraordinary development actions, fees and fines. They may also earn income from participating in the exploitation of natural resources and from financial funds. Local governments may obtain revenues from tariffs for water provision, waste management, administrative services and the issuance of planning licenses among other services.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. Article 286 of the Constitution provides that public finances must be managed in a sustainable, responsible and transparent manner at all levels of government. In addition, the Code of Organic Planning and Public Finance (COPF) adopted in 2010 stipulates that permanent expenditure must be financed exclusively from permanent revenue (art. 81).

DEBT. No data available. GADs may contract debt in order to finance infrastructure investment programs and projects that generate sufficient returns in the medium and long term to repay the debt. Rural parochial GADs may be financed with funds from the State Bank in accordance with its founding law (COOTAD, art. 211). Capital expenses cannot only be financed by debt except in cases provided for in the Constitution (health, education and justice). GADs can only incur debt up to a ratio of 200% of the debt to local revenues. In addition, financial charges from debt service may not exceed 25% of local revenues for the fiscal year. The Ministry of Finance analyses debt sustainability based on payment capacity. In the case where debt can be contracted, the process remains under the responsibility of the Under-Secretary of Public Finance who will authorize the issuance of bonds or provide the sovereign guarantee.



World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: Ministerio de Economía y Finanzas // Instituto Nacional de Estadísticas y Censos (INEC)

Other sources of information: Cassou, J. et al (2016) Descentralización, finanzas subnacionales y equalización fiscal en Ecuador. Banco Interamericano de Desarrollo // CNC (2016) Estrategia de Implementación de la Descentralización 2016-2017. Ecuador: Quito // Secretaría Nacional de Planificación y Desarrollo (2014) Modelo de Equidad Territorial en la Provisión de Bienes y Servicios Públicos. Análisis de las transferencias a los gobiernos autónomos descentralizados en el período 2011 – 2013 // Galarza, C. (2013) Descentralización y autonomía fiscal en el Ecuador: bases teóricas y tensiones jurídicas en Revista Foro // Nagua, J. S. (2013) El estado de la descentralización fiscal en el Ecuador. Foro Revista de Derecho // Chávez, Vallejo, G. & Montaña J. (2011) Desarrollo y Proyectos de Inversión Pública, 3. Finanzas Públicas para Gobiernos Autónomos Descentralizados in Constitución para servidores públicos, Quito: Editorial Instituto de Altos Estudios Nacionales Planificación.