

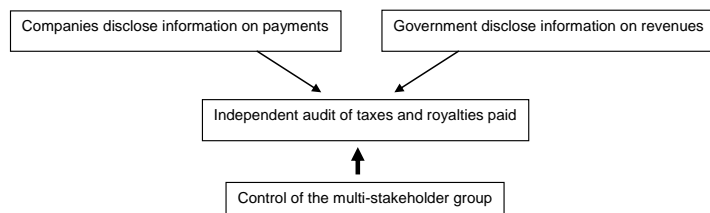


## EITI in Ukraine: opportunities and benefits



Extractive Industries Transparency Initiative (EITI) is an **independent standard** of transparency, supported at the **international level**.

EITI philosophy is disclosure of **payments** from extractive companies and governmental **revenues** from actions related to the natural resources development.



The Initiative is based on two mechanisms.

- 1. Regular disclosure of reliable data** – subjected to the independent audit – on payments of extractive companies to governments and governmental revenues.
- 2. The system of control** by stakeholders to promote public debate on allocation of time-limited revenues from the development of natural resources.

The multi-stakeholder group (MSG), which brings together representatives of government, companies, and civil society organizations, performs management and control of the EITI implementation in an individual country. Many countries have the MSG Secretariat, which provides administrative support to participants.

As of the beginning of 2012, **35 countries were implementing the EITI standard**. In total, 29 countries published EITI reports. Almost half a billion people have access to information on income from natural resources of their countries.

The UN, the EU, the G8, African Union, and OECD support EITI. Activities of the Initiative are supported and funded by, in particular, the EBRD, the European Investment Bank, the IMF, the World Bank, and the KfW Group.

NGOs participate in EITI directly through control of the implementation in their countries, and via a global coalition Publish What You Pay. At the international level, such organizations as Transparency International, Revenue Watch Institute, Open Society Institute, Global Witness, Oxfam, and others are also involved.

The Initiative is supported by several governments, including Australia, Belgium, Denmark, Canada, Finland, France, Germany, Italy, Spain, Netherlands, Norway, Sweden, Qatar, UK, USA and Japan. The governments of these states provide political, technical, and financial help to EITI. Some of them contribute to implementation of the Initiative in other countries and make significant contributions to the Multi-Donor Trust Fund of the EITI (managed by the World Bank).

EITI received support of more than **80 global investment funds**, which altogether control more than **USD 16 trillion**.

While joining the Initiative, the government should take the following 5 steps:

- to issue an unequivocal public statement of its intention to implement the EITI;
- to commit to work with civil society and companies on implementation of the EITI;
- to appoint a senior individual to lead on the implementation of the EITI;
- to establish a multi-stakeholder group to oversee the implementation of the EITI
- to agree and publish a fully costed work plan.

These steps should be united into a single "sign-up" application to be considered by the EITI Board. If a positive decision is made, **a country becomes the EITI candidate**. Starting from this point, the timing for preparation and publication of the first EITI report begins (18 months). Afterwards, the country is expected to publish such reports annually.

In addition to the five "sign-up" requirements, the government should consider the legal framework to identify any potential barriers to the Initiative implementation. In other words, the EITI should be incorporated into the legal structure, alongside with effective mechanisms of fiscal control. Thus, sometimes it is advisable to include the EITI requirements into the national legislation.

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# EITI in Ukraine: opportunities and benefits ...continued

## **Benefits for the government**

EITI implementation increases international trust, improves the investment climate, strengthens the energy security by means of more transparent, efficient, and competitive environment. The government have the opportunity to implement a standardized and internationally recognized procedure to ensure transparency in the natural resources management.

**Competitiveness.** Greater transparency of the fiscal regime, energy data and market rules speed up investments and *increase competitiveness and quality of service*. Implementation of EITI in Ukraine would give a clear signal that the government really aims effective governance and transparency in the extractive industries, especially in the gas sector.

**Credit rating.** A study conducted by the Revenue Watch Institute in March 2011, showed that transparency significantly *reduces the cost of sovereign loans* for the emerging resource-rich economies. According to the World Bank, implementation of the Initiative by Ukraine would have similar *positive impact on Ukraine's sovereign credit rating (B+/B2)* and eventually lead, among other things, to reduced cost of loans.

**Less corruption.** Disclosure of payments and cash flows between the industry and the government by means of the EITI *limits the possibility of corruption*. Transparency International has ranked Ukraine 152 among 182 countries in terms of corruption. By implementing EITI, the government can demonstrate compliance with the effective, open and responsible corporate governance. This will increase public trust and approval of sectoral policies in the country.

**Relations with the EU in transit sphere.** Ukraine may apply EITI to demonstrate that it is *a transparent and responsible transit country*. Ukraine should not only demonstrate its reliability and competitiveness, but also show that it is fully responsible to customers on both sides (buyers and sellers of gas). Transparency of gas flow data and consolidated payments, gained with the EITI, would enhance confidence in Ukraine from the part of the European Union and Russia.

**Technical assistance to Ukraine.** Implementation of the EITI in Ukraine is one of the six components of technical assistance offered by the European Commission and the World Bank. This assistance would allow NJSC Naftogaz and international financial institutions (EBRD, EIB and World Bank) to prepare and implement necessary *investment projects on modernization of the Ukrainian*

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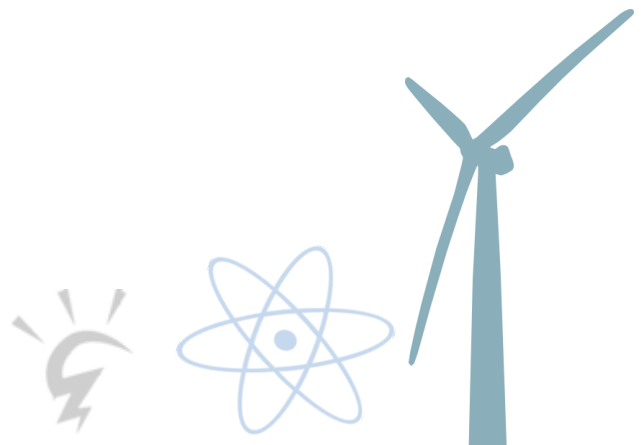
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**Regulation.** EITI helps companies to *cooperate with stakeholders and shareholders*, including local communities, promote a *more favorable regulatory environment*, which help to reduce corruption. The commitments undertaken by governments should demonstrate to the investment community the intentions of local companies to increase transparency and thus improve the business climate.

**Information.** EITI implementation helps to ensure *reliability and availability of the market data*. Companies and the state should disclose Ukraine-related data on revenues from oil, gas, and minerals. The Initiative offers a unique approach making the process particularly important in three aspects: 1) the data accuracy is subjected to additional validation by comparing payments and revenues; 2) the procedure validity is higher because of involvement of an independent auditor and participation of government, companies and civil society representatives, which jointly monitor the process; and 3) access to data is improved through EITI reports which are widely distributed.

In general, EITI benefits for companies can be described as follows:

- **Demonstration of trust on international scale.** Fundamentally, EITI is based on internationally agreed practice and successful examples of advanced countries. The extractive industries, seeking to adapt their operations to the international standards, should become participants of the EITI.
- **Compliance with business principles.** If the company announces its intention to comply with anti-corruption strategy and transparency, and builds its business principles on it, the EITI will be a step forward to the corporate social responsibility.

- **Demonstration of the industrial leadership.** EITI is considered as a global project that deals with transparency. Companies not participating in the Initiative lose their competitive position. Interested third parties would assume that a company refusing to participate in EITI has negative intentions.

## **Benefits for public companies**

State-owned enterprises are among the most important contributors to successful implementation of EITI. They often perform a wide range of functions – existing operators, investment agents, partners in joint ventures etc. Therefore, it is difficult to overestimate their participation in the project. For example, a company is "in the middle" of the disclosure process, if it receives payments or has production share as co-owner or as a state representative under the contract, and at the same time makes payments to the state budget.

In addition, like the private sector, public companies are subject to international pressure that makes them demonstrate corporate responsibility in both public and environmental issues. Moreover, if the state-owned company considers public offering on the stock market, EITI compliance will raise investors' confidence.

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