

# Sharing the Wealth.

## Best Practices of Resource-Rich Countries as Lessons for Ukraine



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## Summary

Extractive industry has always been one of the central ones to the economies of resource-rich countries. This sector accounts for at least 20 percent of total exports, and at least 20 percent of government revenue, in 29 low-income and lower-middle-income countries. In eight such countries, this sector accounts for more than 90 percent of total exports and 60 percent of total government revenue<sup>1</sup>. Given this, it is important to ensure transparency in the extractive sector as it is crucial for achieving accountability, good governance and sustainable economic development. The Extractive Industries Transparency Initiative (EITI) is one of the tools, which contributes to a greater transparency. Countries committing to the EITI Standard implementation shall publish reports with reconciliation of revenues paid by extractive companies and revenues received by governments. The process shall be managed by a national multi-stakeholder group of government, civil society, and companies' representatives.

Currently, the EITI Standard is being implemented in 51 countries around the world. Due to this Initiative, Ukrainian citizens have access to extractive companies' tax payments, which helps to track their activity on the ground and thus prevent corruption in the sector. It also has a positive

impact on the investment climate as transparency sector allows investors to reduce their risks and be aware of the existing rules before they decide to invest.

Despite different fiscal regimes, **many of the resource-rich countries tend to have appropriate methods of dealing with local revenue allocation**, which means a reduction of central government intervention in local budgets with allowing local authorities use royalties or other major payments in the most efficient manner for their communities. These governments share revenues assigned to each level of subnational government, authority or institution also known as vertical distribution.

For majority of them, revenues from the oil, gas and mineral sectors are still collected by the national government but transferred back to the area they originate from or adjacent areas. However, a few countries also transfer some of their natural revenues to subnational governments automatically, using a formula based on set of objective indicators - such as population, revenue generation, poverty level, or geography. It is the EITI Standard and the national reports which helped to shed light on this specific information.

For instance, in Mongolia most of the revenues from mineral and oil sector are centralized, and there are separate development funds for each city, district etc. In recent years, Local Development

<sup>1</sup> The Extractive Industries Sector. World Bank Group. <https://openknowledge.worldbank.org/bitstream/handle/10986/22541/The0extractive0s00and0policy0makers.pdf?sequence=1&isAllowed=y>

opment Fund (LDF) was established to receive mineral royalties from locality and mining license fees from relevant regions. It is the LDF, which – along with administrative unit representatives – is responsible for decision-making regarding use of these funds.

Slightly different situation is observed in Kazakhstan where revenues from the oil and gas sector are managed by the National Fund. At the same time, revenues originating from the mining industry are managed by national and municipal governments without any specific approach.

Kyrgyz Republic has also two types of budgets receiving extractive revenues, namely national and regional. However, apart from usual taxes from extractive activity, local government also receive social packages, and – in some cases – companies can provide local communities with some additional benefits such as monetary payments.

In contrast, **Ukraine is in the process of decentralizing the system of tax allocation.** Currently, local authorities receive several taxes from extractive industry, namely: 10% of corporate income tax (CIT), 25% of royalty for non-hydrocarbon minerals, 100% of land fee, 55% of environmental tax, 50% of water use levy, and personal income tax, which is distributed among different levels of regional budgets (up to 60%) and government<sup>2</sup>.

However, major fiscal flows like oil and gas production royalties (rent payments) were centralized with the State Budget being only recipient. Local councils in resource-rich regions did not see direct benefits from the extractive industries, to cover such needs as improving infrastructure and compensating environmental impact. Some even blocked approval of new licenses to explore and produce hydrocarbons, as it was the case in Poltava in 2016.

Given these facts, several steps were made towards tax decentralization. In particular, the Ukrainian Parliament adopted amendments to the Budget Code, which aim to give local communities more financial resources (5% of oil&gas royalty will be distributed to the local budgets) and ensure better economic development of the resource-rich regions. Also, another important draft law "On Disclosure of Information in Extractive Industries" is pending vote in the Verkhovna Rada, which will allow to check amounts actually paid by companies and received by local budgets, and whether local self-government authorities manage these funds properly to fulfil their obligations.

Several recommendations can be provided in this regard:

- The government of Ukraine should contribute to the implementation further reforms in the sector. Considering constant legislation changes in Ukraine, it is important to **ensure the imple-**

<sup>2</sup> Ukraine EITI report 2014-2015.

- mentation of 5% royalty (rent payments) decentralization** starting from January 1, 2018. Also, **adoption and implementation of the Law "On Disclosure of Information in Extractive Industries"** would prevent fiscal corruption in the energy sector but also allow local communities to follow actual income and use of funds in local budgets.
- Civil society organizations along with responsible businesses should facilitate the development of **local communities' awareness so that they could have influence on the decision making process** in their region. In this way, local authorities shall not only demand more revenues for the local budgets, but also be accountable to their communities in terms of using such financial resources.
  - It is equally important to develop **cooperation with the most experienced countries in tax allocation issues**. Such interaction will allow parties to share their experience and develop new vision on taxation and management of revenues. It is highly advisable to consider using best foreign knowledge in Ukraine, as it will ensure better dialog between companies and communities.
  - Finally, it is crucial to **attract international companies with best experience in compliance with operational standards**. Apart from additional revenues to all level of budgets, it will also bring better practices of social dialogues with local communities, environmental impact management etc. In order to achieve this objective, appropriate legislation changes are required, including more transparent and competitive procedure of licenses (special permits) allocation as well as revised system of tax administration.



# Revenue allocation in different countries

Among countries which distribute extractive tax revenues to local governments are Angola, Bolivia, Brazil, Chad, China, Ghana, Indonesia, Kazakhstan, Kyrgyz Republic, Mongolia, Philippines, Uganda etc. These governments share revenues assigned to each level of subnational government, authority or institution also known as vertical distribution. Below are some cases how the revenues collected by the national government can be transferred back to the area they originate from or adjacent areas.

## Kazakhstan

Kazakhstan is an EITI member since 2013 and its extractive sector plays an important role in country's development. With its vast natural resources, including reserves of oil (30 billion barrels) and natural gas (3.9 trillion cubic meters<sup>3</sup>), Kazakhstan is also an important player on global energy market.

Different authorities are in charge of administering different tax payments. **Revenue from the oil and gas sector is managed by the National Fund of Kazakhstan.** In fact, the National Fund of Kazakhstan accumulates direct taxes paid by the oil and gas sector, which account 72.6% of total revenue of the state budget<sup>4</sup>. In particular, Nation-

al Fund is intended to conserve oil revenues and help balance national and regional budgets. **Revenue originating from the mining industry is managed by national and municipal governments.**

The reports on the expenses of the National Fund, the republican and the local budgets are published by the Ministry of Finance in the Statistical bulletin<sup>5</sup>. However, according to the Natural Resource Governance Institute (NRGI), despite the fact that government publishes information on these transfers, it does not define the details about formulas and rules for revenue sharing<sup>6</sup>.

So far, tax system in Kazakhstan has been regulated by the Tax Code, which came into force in 2008 and was complemented in 2015<sup>7</sup>. The tax rate has been changed several times since then. For instance, in 2011 mineral extraction tax was 7% but then decreased to 5% in 2014<sup>8</sup>. Among the main local taxes paid by subsoil users are: environmental emission payment (variable), tax on transport vehicles of

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<sup>5</sup> Statistical Bulletin of the MF of the RoK. [http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal\\_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym\\_budgeting/budgeting/reports\\_fldr](http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/reports_fldr)

<sup>6</sup> Ibid

<sup>7</sup> The Tax Code of the Republic Kazakhstan. [http://kgd.gov.kz/sites/default/files/npa/Kodeks/the\\_tax\\_code\\_of\\_the\\_rk\\_2015.pdf](http://kgd.gov.kz/sites/default/files/npa/Kodeks/the_tax_code_of_the_rk_2015.pdf)

<sup>8</sup> Article 17 of the Tax Code. [http://online.zakon.kz/Document/?doc\\_id=30366217&doc\\_id2=30863195#pos=11697;2&pos2=7085;-7](http://online.zakon.kz/Document/?doc_id=30366217&doc_id2=30863195#pos=11697;2&pos2=7085;-7)

<sup>3</sup> <https://kapital.kz/economic/48755/v-kazhastane-v-proshlom-godu-dobyto-45-3-mlrd-kubometrov-gaza.html>

<sup>4</sup> The 10th National Report On the Implementation of the EITI in the Republic Kazakhstan for 2014. [https://eiti.org/sites/default/files/documents/2014\\_kazakh](https://eiti.org/sites/default/files/documents/2014_kazakh)

## Vertical distribution of resource revenues in selected countries

Country	Resource	Revenue stream	Central government	Producing regional/provincial/state governments	Municipal/district governments		Private (e.g., landowner, traditional institutions)
					Producing	Non-producing	
Brazil	On-shore oil	Royalties	12.6%	52.5%	26.2%	8.7%	0.5-1.0%
	On-shore oil	Special participation (some fields)	50%	40%	10%	0%	0.5-1.0%
Ghana	Minerals	Royalties	91%	-	4.95%	0%	4.05%
Indonesia	Oil	All	84.5%	3.1%	6.2%	6.2%	0%
	Gas	All	69.5%	6.1%	12.2%	12.2%	0%
	Minerals	Royalties	20%	16%	32%	32%	0%
Philippines	Minerals	All	60%	8%	18% municipality; 14% barangay	0%	0%
Uganda	Petroleum	Royalties	93%	-	6%	0%	1%

Source: National Resource Governance Institute. "Sharing the Wealth: A Roadmap for Distributing Myanmar's Natural Resource Revenues"

[http://www.resourcegovernance.org/sites/default/files/nrgi\\_sharing\\_Myanmar\\_Revenue-Sharing.pdf](http://www.resourcegovernance.org/sites/default/files/nrgi_sharing_Myanmar_Revenue-Sharing.pdf)

legal entities (variable), property tax (1.5%), social tax (11%), and land tax (insignificant)<sup>9</sup>.

According to the Kazakhstan EITI report, 38.7 bln tenge (\$283 mln) were transferred towards social-economic development of the regions by subsoil users of the oil, gas, and mining sector in 2014 while companies of oil and gas sector paid 27.4 bln tenge which is almost \$151 mln (71% of total amount). Due to the EITI report **every person can be aware of revenues their local budget receives**. For instance, Kazakhstan has published

disbursement to each budget level and as follows, everyone can find the name of a company, amount of taxes paid and budget that received these revenues. E.g., Tengizchevroil, a joint venture of Chevron, Exxon-Mobil, KazMunayGas, and LukArco, in 2014 paid over \$372 million to local budgets<sup>10</sup>. In addition to information about this particular company and its payment to local budgets, data regarding other companies operating in Kazakhstan and their payments to the different budgets can be easily tracked.

<sup>9</sup> The 10th National Report On the Implementation of the EITI in the Republic Kazakhstan for 2014. [https://eiti.org/sites/default/files/documents/2014\\_kazakhstan\\_eiti\\_report.pdf](https://eiti.org/sites/default/files/documents/2014_kazakhstan_eiti_report.pdf)

<sup>10</sup> EITI Kazakhstan. Disbursement by a company. <https://eiti.org/kazakhstan>

## Kyrgyz Republic

Kyrgyz Republic has significant deposits of coal and gold that form a substantial part of the economy. According to the Kyrgyz EITI report, the mining industry contributed 8.4% of GDP in 2014<sup>11</sup>. Moreover, in 2014, mining accounted 40% of total export earnings and 17% of total government tax revenue<sup>12</sup>.

Due to local governance reforms in 2012, power and independence of local governments has significantly increased. Moreover, **new natural resources revenue sharing legislation adopted in 2013 led to even more revenues in regions** hosting mining projects. In 2014, Regional Development Fund was introduced, which gave an opportunity to develop local infrastructure and support more social-economic programs<sup>13</sup>.

In order to understand tax allocation to local budgets it is necessary to look at administrative division. Kyrgyzstan is divided into *oblasts* (provinces) and each oblast is divided into *rayons* (districts) while each rayon divided into small cities (*aiyl aimaks*). There are two levels of the country's budget, namely national and aiyl aimak and, as follows, they have their

own significant expenditure responsibilities<sup>14</sup>.

The national budget receives income tax, value added tax, royalties and bonuses, excise taxes, customs fees, revenues from state property, dividends from state equity, and administrative fines. Among the taxes which are automatically transferred to the local cities, are land and property taxes, administrative fines, and revenues from the management of municipal property<sup>15</sup>. All aiyl aimaks receive 50% of income and sales taxes as a part of the normal intergovernmental transfer system. In addition to this, mining-affected aiyl aimaks receive 50% of royalties from minerals (except gold, oil and gas), 3% of mineral license fees and 7% of auction payments<sup>16</sup>.

Also, **companies operating in the resource-rich areas pay a 2% royalty tax known as 'payment for development and maintenance of local infrastructure'**. This payment is allocated between these specific aiyl aimaks (20%) and national budget (80%) for further distribution among other aiyl aimaks via the Regional Development Fund. As follows, this Fund is divided into oblast and rayon development funds and support small cities development projects. As a rule, the

<sup>11</sup> EITI Kyrgyzstan. Overview. <https://eiti.org/kyrgyz-republic>

<sup>12</sup> Kyrgyzstan EITI report 2013-2014. <https://eiti.org/document/20132014-kyrgyz-republic-eiti-report>

<sup>13</sup> National Resource Governance Institute. "Natural Resource Revenue Sharing". Kyrgyz Republic. [http://www.resourcegovernance.org/sites/default/files/documents/nrgi\\_undp\\_resource-sharing\\_web\\_0.pdf](http://www.resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf)

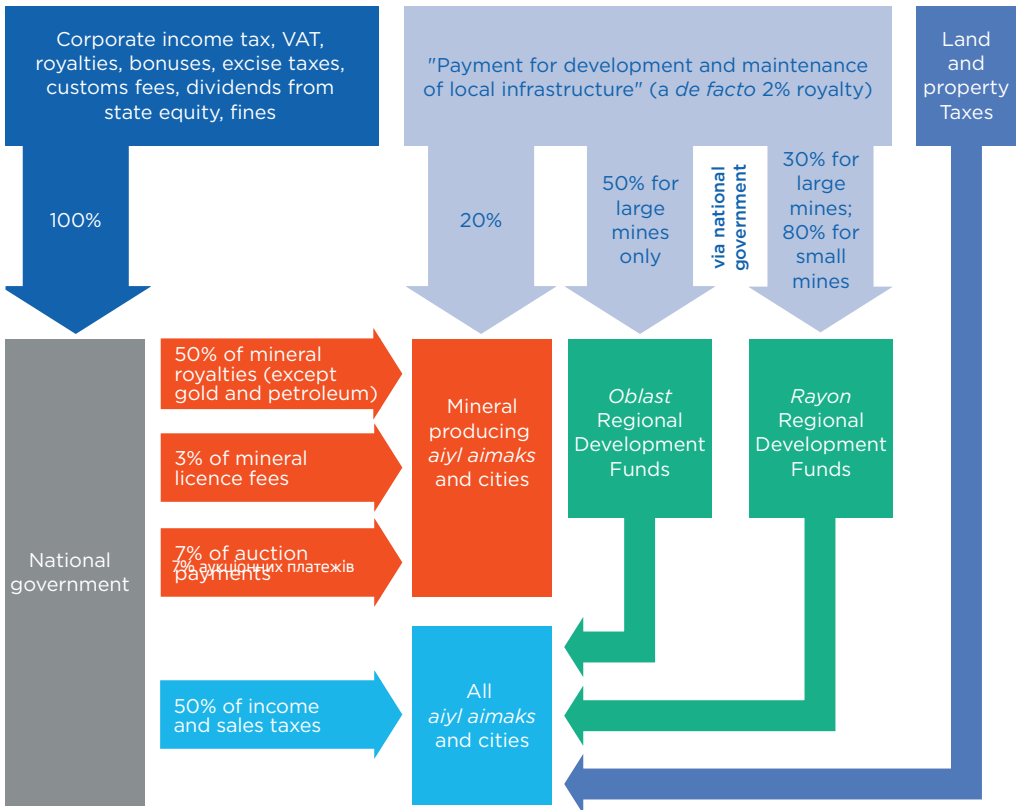
<sup>14</sup> National Resource Governance Institute. "Natural Resource Revenue Sharing". Kyrgyz Republic. [http://www.resourcegovernance.org/sites/default/files/documents/nrgi\\_undp\\_resource-sharing\\_web\\_0.pdf](http://www.resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf)

<sup>15</sup> Ibid

<sup>16</sup> Ibid



## Flow of Mineral Revenues to National and Aiyl Aimak Governments



Source: Natural Resource Governance Institute. «Natural Resource Revenue Sharing, Kyrgyz Republic», [http://www.resourcegovernance.org/sites/default/files/documents/nrgi\\_undp\\_resource-sharing\\_web\\_0.pdf](http://www.resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf)

purpose of this payment is to help small cities with economic and local infrastructure development. The resource-rich *aiyl aimaks* with extractive activity don't usually receive allocations from the Regional Development Fund as they are already supported by 20% of this tax<sup>17</sup>.

Information mentioned above shows that local communities receive a significant part of extractive tax payments. Municipalities affected by mining receive social packages, and - in some cases - companies can provide local communities with some additional benefits such as monetary payments<sup>18</sup>. However, it is still difficult to

<sup>17</sup> Ibid

<sup>18</sup> Kyrgyzstan EITI report 2013-2014. <https://eiti.org/doc->

follow these funds, so there is no clear understanding for what purpose they are being allocated and spent.

## Mongolia

Mongolia is considered to be a significant producer of copper, gold and coal. Extractive industries accounts 16.7% of its GDP. Having joined the EITI in 2007, Mongolia has achieved satisfactory progress and aims establishing an eReporting system as the most reliable source of information on the extractive industries<sup>19</sup>.

Most of the revenues from the mineral and oil sector are centralized. In particular, national government receives mineral royalties, corporate income taxes. **Provincial and district governments receive funds through the General Local Development Fund (GLDF)**. The GLDF receives income from reallocating part of the state budget revenues in order to support and provide sustainability of the local development. According to the Mongolia EITI report, the Fund has several revenue sources, namely:

- 5% of total VAT from goods and services (except of imports);
- 5% of mineral royalties;
- grants and donations by foreign aid to support local development;
- transfers from lower level funds to

upper level funds and 30% of the oil resources royalties<sup>20</sup>.

Apart from this, there are separate development funds for each city, district etc. Notably, local development funds receive transfers allocated from GLDF, additional revenue accumulated through tax increases and cost savings, grants and donations from foreign donors, 10% of the balance remaining after deducting royalties accumulated from legal entities implementing government-related activities and projects, 50% of the revenue from mineral resources exploration and production license fees. Moreover, local governments take part in the issuing of mineral licenses, namely they are being consulted during the licensing process.

According to the EITI report, in 2015, revenue distributed to the local development funds was MNT 105.9 billion (\$53 mln) and included local 25% VAT that accounts 70.4% of this sum, 5% mineral resource exploration license fees (18.2%), reallocation of revenues collected from aimags and cities (5.9%), and 30% special VAT on oil exploration which contributed 5.5%<sup>21</sup>.

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<sup>19</sup> EITI counties. Mongolia <https://eiti.org/mongolia>

<sup>20</sup> Mongolia EITI report 2015. [https://eiti.org/sites/default/files/documents/2017.01\\_-\\_mongolia\\_eiti\\_report\\_2015\\_english.pdf](https://eiti.org/sites/default/files/documents/2017.01_-_mongolia_eiti_report_2015_english.pdf)

<sup>21</sup> Ibid

However, this system has several weaknesses. In particular, the current allocation system based on population size led to significantly higher level of allocation to the capital city, which also considered to be the wealthiest region<sup>22</sup>.

Mongolia also has **Human Development Fund which aims to create savings and incremental permanent reserves from extractive sector**. The Human Development Fund has the following reserves sources:

- 1) dividends from and sale of government shares in legal entities holding production licenses of mineral deposits;
- 2) 65% of mineral resources' royalties from legal entities extracting and producing mineral resources;
- 3) net profit from the HDF's investments<sup>23</sup>.

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<sup>22</sup> National Resource Governance Institute. "Natural Resource Revenue Sharing". Kyrgyz Republic. [http://www.resourcegovernance.org/sites/default/files/documents/nrgi\\_undp\\_resource-sharing\\_web\\_0.pdf](http://www.resourcegovernance.org/sites/default/files/documents/nrgi_undp_resource-sharing_web_0.pdf)

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<sup>23</sup> Mongolia EITI report 2015. [https://eiti.org/sites/default/files/documents/2017.01\\_-\\_mongolia\\_eiti\\_report\\_2015\\_english.pdf](https://eiti.org/sites/default/files/documents/2017.01_-_mongolia_eiti_report_2015_english.pdf)

Ukraine became an EITI Candidate in 2013 in order to ensure more transparency in energy sector. It was a significant step for Ukraine considering its variety of natural resources and high potential in further exploration of oil and gas. According to the Ukraine EITI report, in 2014, 47% and 92% of Ukraine's needs in gas and oil (respectively) were satisfied with domestically extracted resources<sup>24</sup>. Moreover, according to Geoinform, over 20,000 deposits and manifestations containing 117 types of minerals have been identified in Ukraine, of its approximately half are of commercial value and registered in the State Registry of Mineral Reserves<sup>25</sup>.

Big variety of natural resources requires an appropriate method of tax allocation. So far, **tax and non-tax payments made by extractive companies have no clearly defined destination and fall into general fund of the Consolidated budget or to local budgets**. The exception in this case are transfers to the Pension Fund, which is used to finance the cost of pensions and social security expenditures. According to the official procedure, the State budget revenues, such as payments for subsoil use for the extraction of gas and gas condensate, rent for transit by natural gas pipelines as well as duty collected as a surcharge to the existing natural gas tariff for consumers need to be trans-

ferred to the local budgets for providing subsidies to the households<sup>26</sup>.

Eventually, **the funds return to the resource-rich regions; however, it is hard to say whether they correlate to the amount of revenues paid by the companies active in the certain regions**. Simply speaking, there is no accordance between the payment transferred by a particular company to the national budget and amount of money which, eventually, has been received by the local budget of the relevant region. According to the EITI report, there is another significant drawback of the information received from State Fiscal Service (SFS). In particular, the criteria for distribution of payments among the regions is a company's incorporation, not its actual location.

Speaking about fiscal regime, **revenues of local budgets have significantly increased following the reform of fiscal decentralization**. In 2014-2015, major taxes for extractive industries were VAT, CIT, and production royalty. According to the Tax Code, the revenues from CIT were transferred only to State budget in 2014, whereas in 2015, after decentralization, regional budgets received 10% of CIT<sup>27</sup>. However, oil and gas production royalty was always paid to the

<sup>24</sup> Ukraine EITI report 2014-2015.

<sup>25</sup> Ibid

<sup>26</sup> Resolution of the CMU No 20 dated 20.01.2005 «On approval of the Procedure for transferring certain subventions from the state budget to local budgets for benefits, subsidies and compensation»

<sup>27</sup> Section III of the Tax Code of Ukraine. <http://zakon5.rada.gov.ua/laws/show/2755-17>

State budget as well as transportation royalty and VAT. In case of producing minerals other than hydrocarbons the allocation of production royalty is different. In particular, in 2014, regional budgets received 50% of royalty for non-hydrocarbon minerals while this share dropped to 25% in 2015<sup>28</sup>. At the same time, local budgets receive 100% share of non-production royalty (storage), land fee (100%), environmental tax (55%), and water use levy (50%)<sup>29</sup>.

Another tax that distributed among regional budgets is a personal income tax (PIT). In 2014, 25% of PIT was allocated to municipalities and 25% to regional budgets while another half to district budgets. In 2015, the situation significantly changed to benefit state budget as it received 25% of PIT. Nevertheless, 60% and 15% were transferred to local and regional budgets respectively<sup>30</sup>.

According to the SFS, the Consolidated budget received more than 50 billion UAH from extractive industry in 2014, whereas in 2015 this figure increased to 85 billion UAH<sup>31</sup>. For instance, Poltava region paid 7 billion UAH in 2014 which is the highest amount among all Ukrainian regions, whereas in 2015 this figure increased to 16 billion UAH<sup>32</sup>. Such difference can be explained by higher rent payments.

For example, royalty for oil extracted from deposits located at depths up to 5000 m increased from 39% in 2014 to 45% in 2015, whereas royalty for gas extracted at the same depths was 29% in 2014 and then doubled to 55% in 2015. Starting from 2016, the royalties returned to previous levels.

Because of the lack of official data, the UAEITI Independent Administrator conducted its own assessment of the regional distribution of tax revenues. According to this information, about 77% of the revenues received from extractive industries in 2014-2015 were distributed among Ukrainian regions. For instance, Poltava region received more than 8.65 billion UAH in 2014, whereas this figure increased up to 20 billion UAH in 2015. Similar numbers accounted Kharkiv region: 6.64 billion UAH in 2014 and 19.29 billion UAH in 2015. Also, large amounts of funds are received by Dnipropetrovsk region with heavy concentration of mining assets. In 2014 it received over 11 billion UAH, in 2015 – 15 billion UAH<sup>33</sup>.

Some **local councils in resource-rich regions were not able to track direct benefits from the extractive industries**, to cover such needs as improving infrastructure and compensating environmental impact. Some even blocked approval of new licenses to explore and produce hydrocarbons. For instance, the Poltava regional authorities took such radical approach for approval of new licenses to pro-

<sup>28</sup> Ukraine EITI report 2014-2015.

<sup>29</sup> Ibid

<sup>30</sup> Ibid

<sup>31</sup> Ukraine EITI report 2014-2015.

<sup>32</sup> Ibid

<sup>33</sup> Ibid

duce gas. Moreover, in 2016, the Poltava Regional Council did not approve hydraulic fracturing operation which should have been carried out for Ukr-gazvydobuvannya<sup>34</sup>. The issue is currently being studied by regional commissions on environment and natural resource management.

These developments required actions to improve fiscal regime in terms of managing revenues from oil and gas sector. On 20 December 2016, the Ukrainian Parliament adopted a new law "On Amendments to the Budget Code of Ukraine (on organizing incomes and use of funds from royalty payments for the subsoil use to produce oil, natural gas, and gas condensate)" as part of the 2017 State Budget legislation package. The law will come into force in 2018 and will aim to provide assigning 5% of royalty to local budgets. Simply speaking, **state budget will receive 95% of the revenues and the remaining 5% will be distributed among local governments**<sup>35</sup>. According to the law, 2% of the royalty will be sent to regional budget, 2% to district budgets and 1% to the budgets of local self-government agencies where the fields are located. The exception was made for the budgets of cities of republican and regional importance and budgets

<sup>34</sup> Interfax Ukraine. "Полтавська облрада не підтримала проведення «Укргазвидобування» ГРП" (Poltava State Administration did not approve Ukr-gazvydobuvannya's hydraulic fracturing), <http://ua.interfax.com.ua/news/general/347785.html>

<sup>35</sup> DiXi Group. "Битва за ренту. Що відбулося у бюджетну ніч?" (Battle for rent. What happened in the night when the State Budget of Ukraine 2017 was adopted) <http://dixigroup.org/comments/bitva-za-rentu-shcho-vidbulosya-u-byudzhetnu-nich/>

of united communities that will receive 3%.

It will provide more financial opportunities for local communities and, as a result, lead to better economic development of the resource-rich regions. Moreover, it will create grounds for better communication between parties as trust between companies, local governments and communities is required for proper administration of these funds.

Considering such changes, there is a need of proper administration of these taxes as well as better public awareness on their existence. It can be achieved through **adoption of another important Law "On Disclosure of Information in Extractive Industries"**. It aims to make extractive companies to disclose project-level information about taxes and other duties they pay to the budgets of different levels. Such information will be disclosed in annual reports to be published by companies and reconciled with the information about the budget revenues under the EITI standard. Moreover, the draft Law also provides for project-by-project reporting for all material payments. Once it is adopted, such large Ukrainian companies as Naftogaz of Ukraine NJSC and DTEK will report on all their operations, including foreign ones. Therefore, Naftogaz's report will show the company's taxes paid in Egypt, and DTEK's — in Russia. <sup>36</sup>.

<sup>36</sup> DiXi Group. "Sustainable Legal Framework to Regulate Transparency in Extractive Industries as a Basis for Establishing a Dialogue and Raising Investments". <http://dixigroup.org/eng/comments/stala-zakonod->

However, it will be local communities whose territories are used for extractive purposes that will benefit most. Their representatives will be able to check amounts actually received by local budgets, and whether companies and local self-governing authorities managing the budget funds fulfil their obligations in good faith.

In the long run, business is no less interested in building dialogue with the public based on trust<sup>37</sup>. Notably, the EITI is supported by such global energy giants as Eni, ExxonMobil, Shell, Statoil, Total and others. Some of them already publish detailed reports on all their projects not only in developed countries, but all over the world, – under the mandatory reporting rules<sup>38</sup>. Enhanced reporting by Ukrainian extractive companies will help the government understand the situation in the industry and conditions of doing business. In particular, this will guarantee that the market information – production, taxes – is true and accessible<sup>39</sup>.

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<sup>37</sup> Ibid

<sup>38</sup> DiXi Group. "Прозорий видобуток - незворотні зміни енергетичного сектору України" (Transparent Production – Irreversible Changes in Ukraine's Energy Sector"). <http://dixigroup.org/publications/prozoriy-vidobutok---nezvorotni-zmini-energetichnogo-sektoru-ukraini/>

<sup>39</sup> DiXi Group. "The Draft Law on Disclosure of Information in Extractive Industries Is Another Chance to Bring Transparency to the Energy Sector". <http://dixigroup.org/eng/comments/zakonoprojekt-pro-rozkritttya-informacii-u-vidobutku---shche-odna-mozhlivist-zrobiti-energetichnu-galuz-prozoryu/>

## Useful links and contacts

Official EITI website ([eiti.org](http://eiti.org))

Official Ukrainian EITI website ([eiti.org.ua](http://eiti.org.ua))

Facebook page (<https://www.facebook.com/EITI.UA>)

UAEITI Secretariat in Ukraine ([pr.eiti.ua@gmail.com](mailto:pr.eiti.ua@gmail.com))

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