RGI

Resource Governance Index

Ukraine

WHAT IS THE RGI?

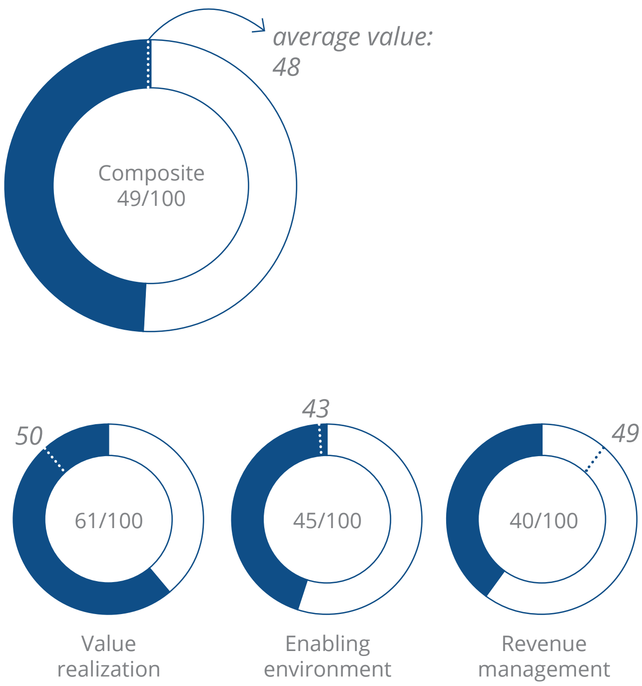
The 2017 RGI assesses how 81 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which are calculated by aggregating external data and 149 questions

Independent researchers, overseen by NRGI, in each of the 81 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2015-2016. For more information on the index and how it was constructed, review the RGI Methodology.

UKRAINE (OIL AND GAS)

Ukraine's oil and gas sector scores a weak 49 of 100 points and ranks 44th among 89 assessments in the 2017 Resource Governance Index (RGI). Satisfactory performance in the value realization component is offset by poor performance in the revenue management component. Ukraine's hydrocarbon reserves amount to 395 million barrels of oil[1] and 39 trillion cubic feet of gas.[2] In 2014, Ukraine ranked fourth in Europe by volume of gas produced.[3] Nevertheless, it is a net importer of natural gas and has historically been dependent on Russian gas. The annexation of Crimea by Russia in 2014 and the resulting tension between the two countries has prompted Ukraine to diversify its gas sources. Following a 2015 government decree, the state-owned enterprise (SOE) Naftogaz is required to sell its production to domestic refineries and is only allowed to export the surplus.

UKRAINE: RGI AND COMPONENT SCORES



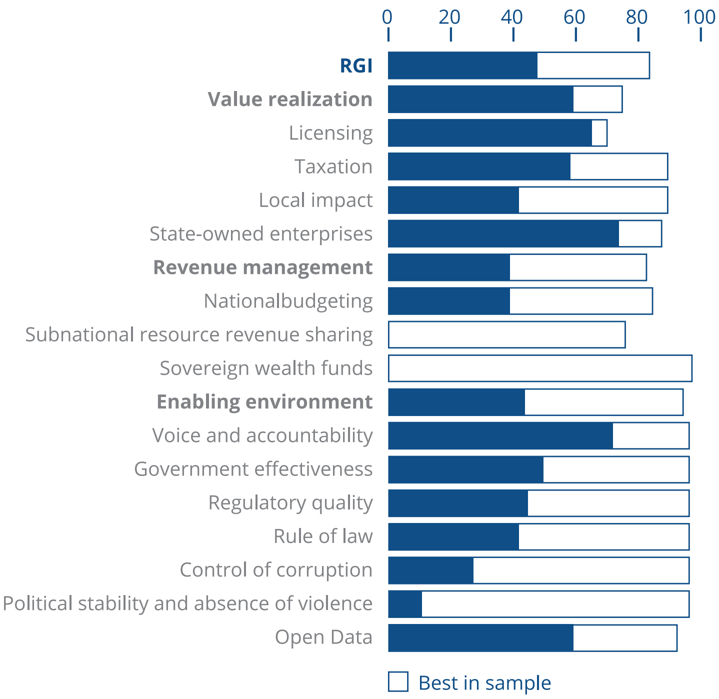
1 http://asb.opec.org/index.php/data-download
2 U.S. Energy Information Administration (EIA), Proved reserves of Natural Gas 2016, accessed 21 April 2017, https://www.eia.gov/beta/international/data/browser/#/?pa=0000000000000000004&c=ruvvvvvfvtvnvv1urvvvvfvvvvvvfvvvou20evvvvvvvvvnvvuvo&ct=0&tl_id=3002-A&vs=INTL.3-6-AFG-TCF.A&cy=2016&vo=0&v=H&start=1980.
3 "Gas Production", Naftogaz, accessed 1 June 2017, http://www.naftogaz.com/www/3/nakweben.nsf/0/2F6A8DAFC83F1A49C2257F9B0024168B?OpenDocument&Expand=1.1

INDEX RESULTS SUMMARY

Addressing corruption, local impact and revenue management could potentially improve resource governance in Ukraine

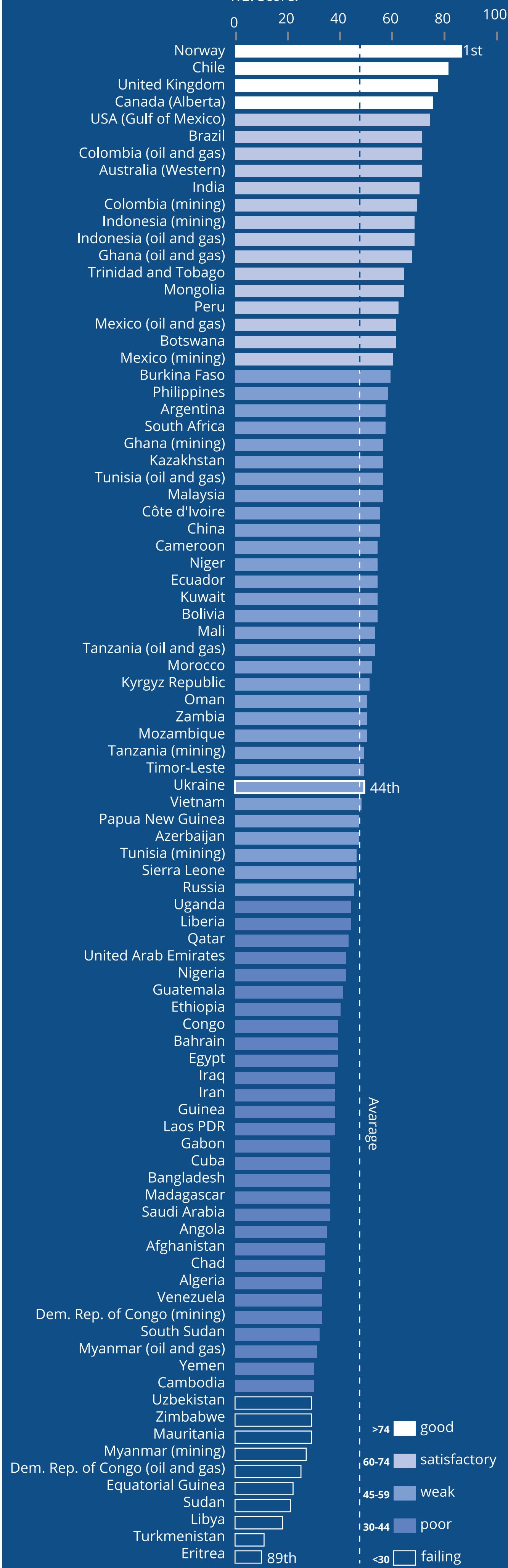
Ukraine ranks fourth among nine countries in the Eurasia region covered in the index, following Mongolia, Kazakhstan and the Kyrgyz Republic. Ukraine performs best in the value realization component, with a satisfactory score of 61 of 100 points, and worst in revenue management, with a poor score of 40 of 100 points. Ukraine's enabling environment score of 45 of 100 points is due to political instability and failing control of corruption. Ukraine's scores for subcomponents along the extractive sector decision chain range from poor in the local impact and national budgeting subcomponents to good in the SOE governance subcomponent.

UKRAINE: SUBCOMPONENT SCORES



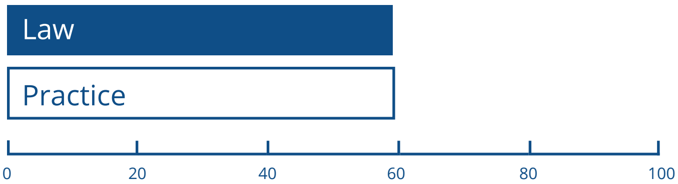
Ukraine scores satisfactorily and ranks second in the index in the licensing subcomponent. It operates an online license registry, and 2016 amendments to the procedures for granting licenses for the use of subsoil resources and the auction process created a basis for competitive and transparent licensing. It is one of few countries in the world that has a law requiring companies to publicly disclose their beneficial owners.

UKRAINE: RGI SCORE AND RANK



The government is working on reforms to improve transparency in the extractive industry. The parliament is in the process of reviewing a proposed Law on Ensuring Transparency in Extractive Industries, which includes proposed disclosure requirements related to contracts and beneficial ownership. Ukrainian authorities are also researching verification mechanisms for beneficial ownership and asset disclosures of high-level public officials as part of International Monetary Fund financial support.

UKRAINE: LEGAL FRAMEWORK AND IMPLEMENTATION SCORES



Ukraine and Botswana are the only countries in the index where average performance between indicators measuring laws and regulations, and those measuring practices and disclosures, is equal. However, in local impact, where Ukraine scores a poor 43 of 100 points, compliance and disclosure lag behind requirements set out in the Subsoil Code. The law requires preparation of environmental impact assessments but does not require that the government or companies to publicly disclose them. This means that the public cannot assess the environmental impact of the extractive sector. Overall, information about environmental issues is sparse.

Ukraine's track record in budget openness varies. The country discloses annual budgets and expenditures, earning full scores on budget openness indicators in the RGI, but its score of 46 of 100 places it in the mid-range of countries measured in the separate Open Budget Index. Ukraine will start implementing a recently passed law on subnational resource revenue sharing from January 2018, and enshrining strong transparency and accountability mechanisms will be a key for success. Ukraine should improve oversight of the revenue collection and sharing process, as it is one of the only countries in the index that does not require or conduct audits of the tax authority.

STATE-OWNED ENTERPRISE GOVERNANCE

Naftogaz ranks in the top 10 SOEs but should improve reporting on gas subsidies and sales

Ukraine's Naftogaz ranks in the top 10 of all SOEs assessed and is the best performing SOE in the Eurasia region with a score of 76 of 100 points. It performs satisfactorily in indicators measuring operational and financial reporting. The existence of commodity sales rules is a result of a requirement to prioritize domestic energy producers before exporting gas, but the company's reports do not include detailed information on the sales to these producers. Similarly, Naftogaz achieves its worst indicator score in SOE non-commercial activities, in which it engages by subsidizing household gas prices without disclosing the cost of these subsidies. In addition, in the downstream of the value chain, Naftogaz has been involved in a procurement corruption scandal.[4] The delay in reforming Naftogaz and the resignation of independent members from its supervisory board will shake international confidence in the intentions of Ukrainian authorities to reform the country's key SOEs, and will also complicate the possibility of accessing finance.

4 https://www.resourcegovernance.org/sites/default/files/documents/corruption-risks-in-the-award-of-extractive-sector-licenses-and-contracts.pdf

Name of state-owned enterprise	State ownership level	Revenue (USD)	Score (/100)	Rank (/74 SOEs)	Rank (/52 oil and gas SOEs)
Naftogaz	100%	6596 million (2014)	76	7	4

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