



Launch of the OECD Review of the Corporate Governance of State-Owned Enterprises in Ukraine
24 June 2021 | Virtual Roundtable Discussion

DSG Kono Opening Remarks

Your Excellencies Prime Minister, Ambassadors, Ministers, ladies and gentlemen,

It is my honour and pleasure to open the Roundtable discussion of the *OECD Review of the Corporate Governance of SOEs in Ukraine*.

Your Excellency Prime Minister Shmyhal, over the past year, you have affirmed your government's commitment to improve the governance of public sector enterprises and work towards OECD standards of corporate governance. The OECD welcomes your commitment and is pleased to be able to support your government in this endeavour, notably through the review we are launching today.

This review addresses one of the main priorities of the OECD's partnership with Ukraine, enshrined in our Memorandum of Understanding, and marks an important milestone in our 30-year cooperation.

I also believe that it is very timely, as some of its recommendations can support Ukraine's post-Covid economic recovery.

The review we are launching today is part of a wider project on "Supporting energy sector reform in Ukraine" which was launched in 2019. I would like to thank the Government of Norway for its generous support for this important project. Let me also thank the Government of Ukraine, as well as many other stakeholders in the country, for your valuable insights and fruitful cooperation.

The purpose of the review is to evaluate the Ukrainian state-owned enterprise sector relative to the OECD Guidelines on Corporate Governance of SOEs. The Guidelines are the leading international standard for SOE governance, and can be used as a diagnostic tool to identify priority areas for reform to align public policies for the governance of SOEs with best international practices.

Importantly, the review was undertaken as part of Ukraine's request to adhere to the Guidelines, and, though no decision has yet been taken by OECD Council, I hope that the exercise and its recommendations will support Ukraine in getting closer to the OECD in this important area.

SOE Reform and OECD instruments

The governance of SOEs is of prime importance when the SOE sector accounts for a sizeable share of the economy, as is the case in Ukraine. This is especially true when SOEs are the main providers of key public services, including public utilities - meaning that their

operations have an impact on the everyday life of citizens and the competitiveness of the economy.

SOE reform also has profound implications for the investment attractiveness and competitiveness of the country. An SOE sector that is professionally managed, transparent, and accountable, is essential to maintaining an open trade and investment environment.

Improving the governance of SOEs, particularly in the energy sector, will also help strengthen public finances, energy security and supply, as well as support a more inclusive and sustainable economy. The latter carries particular importance in the wake of the current COVID-19 crisis, and the need for a resilient recovery.

The *Guidelines on Corporate Governance of State-Owned Enterprises* can help the government of Ukraine achieve these goals. While each country has a unique reform path, the outcomes are what matters: we want governments as professional owners, and SOEs that operate efficiently, transparently and responsibly in accordance with sound corporate governance principles in a level playing field with private sector competitors.

Ukraine has made important progress

Since 2014, Ukraine has embarked on an ambitious reform of its SOE sector, including the gradual corporatisation of SOEs, the establishment of independent boards in its top 8 SOEs as well as requirements of transparency and disclosure, and the introduction

of mandatory independent external audits for economically important SOEs – to name just a few.

However, challenges remain...

Despite this important progress, challenges remain. The present and former Chairs of the OECD Working Party on State-Ownership and Privatisation Practices and my colleagues from the Directorate for Financial and Enterprise Affairs will present the Review and its Recommendations shortly. However, let me emphasise three key points:

Corporate governance reforms are nascent and fragile

First, the reform progress Ukraine has made, though considerable, remains nascent and fragile. Many reforms should be entrenched in robust legislative and policy frameworks, to reduce the risk of *ad hoc* changes and unwarranted political intervention, and to resolve inconsistencies in legal frameworks. While legislative and other reforms are necessary, ensuring effective and consistent implementation in the long-term will make the reforms both credible and successful.

Champion for SOE reform

Second, the government needs to establish a professionalised ownership entity that either centralises or co-ordinates ownership, at arm's length from policy-making and regulation, to shield SOEs

from unwarranted and *ad hoc* interventions; i.e. we need a champion for reform. Weak SOE governance is a recipe for rent-seeking, inefficiency, and corruption, imposing huge costs on the state, on private-sector firms, and, ultimately, on ordinary citizens.

Tackle corruption and vested interests, undue interference in SOEs

Third, more must be done to shield SOEs from undue political interference. They must be sheltered from the rent-seeking agendas of private and public actors outside the company.

To address these concerns, SOEs must follow high standards of transparency and disclosure, and be subject to international reporting and accounting standards; and to independent external audit.

Moreover, reforms must be accompanied by better regulation, a stronger competition policy framework, strong anti-corruption institutions and enforcement, and greater opening of markets to competition. I am pleased that the OECD and Ukraine are currently working together in these important areas.

Prime Minister, Ambassadors, Ministers, Ladies and Gentlemen:

Ukraine has made strong commitments to align corporate governance of state-owned enterprises with the OECD Guidelines, but important challenges persist.

It is crucial that more progress is made to support an inclusive, resilient and sustainable recovery in the post-COVID world. Done properly, further SOE reform will translate into better SOE performance, better services for citizens, and a better business and investment environment for all.

Please be assured that the OECD stands ready to continue supporting you in those efforts. While I regret I cannot join you in person, I wish you a truly successful discussion.

Thank you. Dyakuyu.