

Key Findings

OECD Review of the Corporate Governance of State-Owned Enterprises in Ukraine (2021)



In May 2021, the OECD finalised its review of the corporate governance framework of the Ukrainian state-owned enterprise (SOE) sector relative to the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines). This work was undertaken with the financial support of Norway, further to a request by the Government of Ukraine to adhere to the SOE Guidelines. The review involved discussions with all OECD members and key financial institutions.

ROADMAP FOR SOE REFORM IN UKRAINE

SOEs occupy a central role in Ukraine's economy, with over 3,300 entities operating in key sectors, including energy, transport and infrastructure. Over the last six years, Ukraine has introduced reforms aimed at improving corporate governance practices among economically important SOEs. Some of the reforms in this period have included:

- Introducing requirements to establish independent supervisory boards and to promote more robust transparency and disclosure by SOEs.
- Annual reporting on the top-100 SOEs from 2015-18 and launching the ProZvit platform in 2019 for better access and transparency of financial statements of SOEs.
- Establishing a government-led nomination committee and competitive selection procedures for independent board and CEO appointments, applicable to economically important SOEs.
- Prioritising corporate governance reforms in the top-15 SOEs.
- Implementing significant upgrades to the corporate governance of state-owned banks.

Despite gradual progress in the past, shifting priorities partly due to the Covid-19-induced crisis have led to reform stagnation and setbacks, and in some more blatant cases, to policy reversals. This has resulted in board member resignations and delayed legislative proposals. The OECD review highlights broad concerns about Ukraine's long-term political willingness and ability to pursue reforms in line with the SOE Guidelines.

The review identifies near and long-term recommendations aimed at improving Ukraine's institutional and legislative frameworks that bear on SOE corporate governance to ensure they operate efficiently, transparently and in an accountable manner.

KEY RECOMMENDATIONS

- **Address inconsistencies in the legal and regulatory frameworks bearing on SOE corporate governance and align practices with the SOE Guidelines.** Clearly separate the role of the state as owner and shareholder from that of the supervisory boards. Boards must be empowered with the authority to carry out their functions, including hiring and firing the CEO.
- **Continue corporate governance reforms in the top-15 and other large SOEs.** Develop consistent, well-structured and transparent nomination and dismissal procedures for SOE governing bodies. Upgrade financial and non-financial reporting based on internationally accepted accounting and audit standards.
- **Develop a comprehensive ownership policy with clear rationales for state ownership.** The policy should reflect long-term and whole-of-government priorities, and serve as a basis for establishing rationales for ownership and objectives for individual SOEs. The government should be held accountable for its implementation.

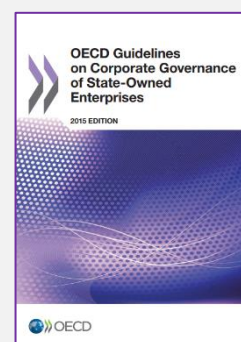


- **Strengthen the state’s role as an owner by professionalising state ownership functions, limiting undue interference, and reintroducing narrative annual aggregate reporting.** As a long-term priority, Ukraine should establish a strong, independent and professionally-staffed centralised ownership entity to ensure that ownership function is carried out on a whole-of-government basis.
- **Ensure that SOEs adhere to the principles of competitive neutrality to maintain a level playing field with private companies.** State and municipal enterprises should be required to separate commercial and non-commercial activities and accounts, and the state must develop adequate and transparent compensation for public service obligations. Recommendations also include strengthening systematic notification and enforcement of illegal state aid, abolishing rules and moratoria exempting SOEs from bankruptcy procedures, and ensuring that SOEs access finance on commercial terms.
- **Strengthen anti-corruption frameworks applicable to SOEs by promoting high standards of conduct and integrity.** Anti-corruption efforts in SOEs should focus on improved internal controls and compliance measures in line with OECD *Anti-Corruption and Integrity Guidelines for SOEs*. Moreover, strengthened and empowered anti-corruption institutions are necessary to prevent, detect and respond to corruption and integrity challenges in SOEs.

ABOUT THE OECD GUIDELINES ON CORPORATE GOVERNANCE OF SOES

The OECD Guidelines on Corporate Governance of State-Owned Enterprises are an internationally agreed benchmark to help governments manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent.

The Guidelines can serve as a roadmap for national reform by aligning practices with international standards. The OECD Working Party on State Ownership and Privatisation Practices oversees the implementation of the Guidelines and provides a setting where countries can take in the shared and national experiences of OECD and partner countries, and benefit from peer support.



UKRAINE AND THE OECD

Building on earlier OECD sectorial studies evaluating corporate governance in [Antonov](#), [Naftogaz](#) and [Ukrenergo](#), this national review was launched in June 2020 further to Ukraine’s request to become adherent to the SOE Guidelines. The review’s findings were endorsed by the **OECD Working Party on State-Ownership and Privatisation Practices**. Ukraine’s adherence request has *not yet* been deliberated by OECD members. Adherence would imply a willingness and ability to implement – over time and through a credible long term reform commitment – the standards of the SOE Guidelines and the recommendations of the Working Party developed as part of the review.

This review falls under an OECD project aimed at **Supporting Energy Sector Reform in Ukraine** (2019-2021), with the financial support of the Government of Norway. Implementation is closely cooperated with key Ukrainian stakeholders, including the Ministries of Finance, Economic Development, Trade and Agriculture, Energy and Environmental Protection, the State Property Fund, Cabinet of Ministers, and other relevant public bodies. It benefits from inputs from civil society, academia, business sector, and relevant international partners.

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