

# Anti-Corruption Review of the Energy Sector in Ukraine

## Highlights

[oecd.org/corruption/acn](https://oecd.org/corruption/acn)

### Overview

The report *Anti-Corruption Review of the Energy Sector in Ukraine* was developed within the framework of the OECD project “Supporting Energy Sector Reform in Ukraine”. The Government of Norway has provided financial support to this project.

The purpose of this report is help policymakers, energy sector stakeholders, anti-corruption bodies, state-owned enterprises (SOEs) and law enforcement bodies identify trends and good practices, and common problems in the energy sector and make informed decisions for a corruption free energy sector.

The report provides an overview of corruption risks, anti-corruption measures implemented by the government, and the investigation and prosecution of corruption in the energy sector. It also offers a set of recommendations to reduce corruption-related challenges and eliminate opportunities for corrupt practices in the sector.

Energy sector reform is essential for Ukraine’s economic and national security. By signing the Association Agreement with the European Union (EU) and adhering to other international commitments, including the Paris Agreement, Ukraine has made the transformation of the energy sector one of its main reform priorities. In recent years, bold strategic steps have been taken to shape a policy reform agenda, build a sound legal and institutional framework, and enhance transparency and integrity in various energy sub-sectors.

However, despite these efforts and the very real progress achieved, the evidence strongly suggests that the energy sector remains one of the areas most vulnerable to corruption and related irregularities in Ukraine. Drawing on the OECD standards and other best practices, the report has identified common corruption risks and factors contributing to corruption across key sub-sectors of the energy sector.

### Corruption Risks in the Energy Sub-Sectors

The **oil and gas sector** has long been a favourable environment for corruption. One of the key sources of corruption risk in the **gas sector** concerns price regulation conducted in the form of public service obligations (PSOs). The PSO regime has given rise to a range of embezzlement schemes and other manipulations.

The **oil sector** is a particularly lucrative target for corruption. Signs of state capture at one of the central SOEs have been particularly alarming. Notably, abuse of monopoly status and the undue influence of private interest groups on the SOE management have led to monopolisation of auctions.

In the **nuclear sector**, corruption occurs most often in public procurement. While procurement-related abuse is common in other energy sub-sectors, the corruption schemes in the nuclear industry involve a combination of different forms of abuse and means of cover-up.

Corruption in the **coal industry** is likewise primarily linked to public procurement, most often involving embezzlement fake purchases or overpayment in procurement by SOEs.

The **hydropower sub-sector** reveals only isolated episodes of corruption, mostly related to the embezzlement of funds associated with construction of hydro plants.

There are a number of corruption risks at the level of **transmission system operators**, such as a lack of a clear picture of the execution of public duties by the major SOEs in the electricity market.

The **renewable energy sector** is considered one of the most transparent sub-sectors. However, existing incentives for renewable energy production, inefficient policies, and market volatility may lead to corruption and undue influence in the industry. The combination of public support with relatively new and rapidly evolving technologies generates risks of its own.

## Key Recommendations to Prevent Corruption in the Energy Sector

- Make strategic decisions regarding the energy sector in a transparent, well-grounded and evidence-based manner, with due involvement of all relevant stakeholders, and explain rationale of national importance behind the political decisions.
- Explore further opportunities and take steps to strengthen competition in the energy sector.
- Ensure that no arbitrary political or administrative interference in the affairs of the SOEs in the energy sector is possible.
- Refrain from adopting special legislation related to emergency situations in a manner not provided by general legislation. Ensure that any exceptions, if introduced, are clearly grounded to guarantee competition, transparency and accountability.
- Ensure that all social obligations and objectives imposed on the energy sector SOEs are clearly defined in a systematic manner, their costs calculated realistically and taken into account in performance appraisal of the companies.
- Develop a clear action plan of the government for the settlement of debts in the energy sector, including the gas and electricity markets, and the coal sector.
- Ensure that the procedure for repayment of the debts in energy sector is transparent and based on clear criteria and information on the relevant decisions is made public on a regular basis.
- Ensure that public procurement is carried out in line with provisions of the Law on Public Procurement and no exceptions allowed, unless clearly grounded to ensure competition, transparency and accountability.

## Key Anti-Corruption Prevention and Punitive Measures

- Without further delay, adopt anti-corruption strategy to ensure stewardship and coherence in the reforms and to confirm Ukraine's commitment to anti-corruption.
- Conduct strategic risk assessment of the energy sector at the national level.
- Ensure proper risk assessment at the level of the state bodies involved in the energy sector.
- Ensure efficient monitoring of the implementation of the anti-corruption programmes by the state bodies in the energy sector.
- In state bodies in the energy sector, promote and encourage clear signalling from the top with respect to anti-corruption, including through regular communication from the management concerning its importance.
- Enhance capacities of the anti-corruption units in state bodies in the energy sector, including via proper staffing, adequate training, and an appropriate level of importance in the organisational structure.
- Ensure independence of the anti-corruption officers in the state bodies in the energy sector. Take steps to encourage SOEs to streamline various anti-corruption functions to ensure that their activities in this area are coherent and consistent.
- Take steps to comply with the OECD Anti-Corruption and Integrity Guidelines for SOEs and consider undergoing a Review against these Guidelines.
- Ensure that the state bodies in the energy sector proactively implement and use the available anti-corruption tools, such as management of conflict of interest, asset declarations, reporting and whistle-blower protection.
- Take steps to increase efficiency of recovery of damages from corruption in the energy sector.
- Expand the list of grounds for applying corporate liability to cover all corrupt practices in the energy sector.
- Improve management of seized assets, taking into account specificities of infrastructure assets in the energy sector.
- Take measures to ensure that energy enterprises suffering material damage can be recognised as victims and civil plaintiffs, and can file the civil lawsuits in criminal proceedings or separate civil proceedings.
- Ensure that the prosecutors of the Specialised Anti-Corruption Prosecutor's Office and the investigators of the National Anti-Corruption Bureau of Ukraine use a broad range of methods of laying out and presenting evidence in court.
- Strengthen objectivity of the expertise and allow for the choice in selection of experts with necessary level of qualification.

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein are those of the authors and do not necessarily reflect the official views of the OECD, the governments of OECD member countries, OECD Anti-Corruption Network for Eastern Europe and Central Asia member countries, Parties to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or the Norwegian Ministry of Foreign Affairs. This document and any map included herein are without prejudice to the status or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city, or area.

© OECD 2021



Norwegian Ministry  
of Foreign Affairs

The Project is implemented in the context of the OECD-Ukraine Memorandum of Understanding, and is made possible thanks to the financial support of the Government of Norway.