



## OECD Publication Launch Event

### State-Owned Enterprise Reform in the Electricity Sector in Ukraine

Co-organised by the OECD and the Government of Ukraine

22 June 2020, 10.00-12.30 Paris time/11.00-13.30 Kyiv time

Zoom Virtual Event

Keynote Address (10-10:30 am (Paris time)):

- H.E. Mr Denys Shmyhal, Prime Minister of Ukraine
- H.E. Mr Masamichi Kono, Deputy Secretary-General, OECD
- H.E. Mr Ole T. Horpestad, Ambassador of Norway to Ukraine

### Opening Remarks by H.E. Mr Masamichi Kono

Prime Minister, Ambassadors, Ministers, ladies and gentlemen,

I am delighted to be here to launch the OECD Review of *State-owned Enterprise Reform in the Electricity Sector in Ukraine* and kick off Ukraine's adherence Review against the OECD SOE Guidelines.

The OECD and Ukraine have had a longstanding relationship, working together since 1991 to improve governance and stimulate economic development. In 2014, we signed a Memorandum of Understanding (MoU) and developed a joint Action Plan to identify the priority areas for OECD work with Ukraine. This work has helped build capacity, strengthen institutions, and support reforms in many areas of public policy, including investment, competition and corporate governance.

Today, the OECD is supporting Ukraine's energy sector reform thanks to the generous contribution of the Government of Norway. Let me take this opportunity to thank Ambassador Horpestad and the Ministry of Foreign Affairs for their generous support. This review that we

are launching today analyses the reform of state-owned enterprises (SOEs) in Ukraine's electricity sector, and provides a case study of Ukrenergo, its transmission system operator. Throughout the assessment, we have worked closely with the Ministry for Development of the Economy, Trade and Agriculture, the Secretariat of the Cabinet of Ministers and Ukrenergo itself, as well as many other stakeholders in Ukraine. We thank them all for their valuable insights and support.

## **SOE Reform and OECD instruments**

In the wake of this unprecedented global health and economic crisis, SOE reform is more critical than ever to support competitiveness and inclusive growth, while underpinning a fairer and more sustainable recovery. Ensuring that SOEs operate in a sound competitive and regulatory environment is essential to maintaining an open trade and investment environment. Moreover, improving the governance of the SOE sector will help strengthen public finances, as well as energy security and supply.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises are a blueprint for SOEs to operate efficiently, transparently and responsibly. While we recognise that each country has a unique reform path, and there is no single model for state ownership, the Guidelines have helped countries embark on comprehensive reforms, rather than *ad-hoc* measures. Moreover, they serve as a guidepost for professionalisation of ownership practices, ensuring that SOEs operate according to sound corporate governance principles and compete in the marketplace on a level playing field.

## **Ukraine has made important progress**

Since 2014, Ukraine has embarked on a laudable reform of its SOE sector, including the gradual corporatisation of SOEs, the establishment of independent boards in its top ten SOEs, new requirements of transparency and disclosure, and the introduction of mandatory independent external audits for economically important SOEs – to name just a few. Ukrenergo is among the companies undergoing such reforms.

In parallel, Ukraine has undertaken an ambitious reform of its energy sector, aiming to liberalise energy markets and ensure European integration. This is a crucial element of Ukraine's reform as European requirements set out clear expectations for the role and corporate governance of

SOEs. We will no doubt hear about the steps Ukraine has taken to launch a new electricity market, and the implications this has had for SOEs and other market actors in terms of both market design and corporate governance.

## **However, challenges remain...**

Despite this important progress, several challenges remain. The Chair 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 we have seen, though considerable, remains fragile. Many reforms should be entrenched in robust legislative and policy frameworks, to reduce the risk of *ad hoc* changes and resolve inconsistencies in legal frameworks.

### ***Champion for SOE reform***

*Secondly*, 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.

### ***Tackle inefficiencies, corruption and vested interests in the energy markets***

*Thirdly*, more can be done to ensure that the design and structure of the electricity market achieves the intentions of the reform. There is a risk of abuse of market power; public service obligations for SOEs; unclear solutions toward debt settlement for SOEs; the adequacy of tariffs; and the risk of corruption and rent-seeking. To address these concerns, Ukraine needs better regulation, a stronger competition policy framework, strong anti-corruption institutions and greater opening of the market to competition.

Prime Minister, Ambassadors, Ministers, Ladies and Gentlemen:

Ukraine has made great progress in improving corporate governance of energy-sector SOEs, but important challenges persist. It is crucial, now more than ever, to build on this momentum to support an inclusive, resilient and sustainable recovery in the post-COVID world. Well-designed state interventions today will shape better lives tomorrow.

Rest assured that the OECD stands ready to support you in these efforts. Thank you.