

Key Policy Insights

Corporate Governance of State-Owned Enterprises: In-depth Review of Ukrenergo



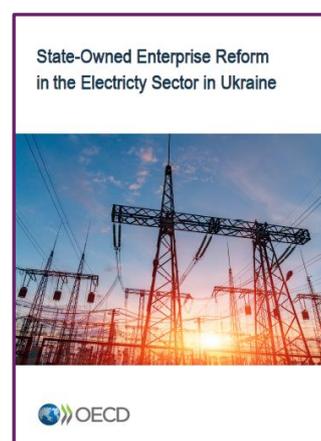
The OECD is supporting the government of Ukraine in its efforts to reform corporate governance in the electricity sector, in view of improving both its competitiveness on global markets in the future and the energy security of Ukraine which serves its citizens. Within this framework, it has undertaken an evaluation of the corporate governance of the state-owned energy company Ukrenergo, on the basis of the OECD Guidelines on Corporate Governance of State-Owned Enterprises ("SOE Guidelines") and issued recommendations for further improvement.

ROADMAP FOR SOE REFORM IN THE ELECTRICITY SECTOR

While important progress has been made in recent years – both at the company and state level – most corporate governance reforms remain nascent and fragile. To realise long-term and sustainable impact, reforms should be anchored in more robust legislative and policy frameworks, which would also help to avoid *ad hoc* changes subject to undue political interference. Furthermore, in order to be truly effective, these reforms need to be combined with improvements in the design and functioning of the newly launched electricity market. To address these challenges, the OECD Review identifies a set of 19 detailed recommendations that draw on the *OECD SOE Guidelines* as a point of departure and serve as a roadmap for reform going forward.

KEY RECOMMENDATIONS

- Strengthen the state's ability to professionally and effectively exercise its ownership rights
- Ensure that competition between SOEs and private enterprises operating in the new electricity market is conducted on a level playing field
- Define and compensate public service obligations of SOEs (including of Ukrenergo) in a transparent and accountable way
- Shield Ukrenergo and other energy SOEs from undue political interference, including by assigning the necessary authority to the Supervisory Board to carry out core strategic functions
- Ensure that the highest standards of integrity are maintained in Ukrenergo's internal procurement and purchasing policy



BACKGROUND

Building on earlier Reviews conducted by the OECD on corporate governance reform in the aviation and hydrocarbons sectors in Ukraine, the OECD carried out in 2019-2020 an in-depth review of Ukrenergo, the National Power Company responsible for operational and technological control of the Integrated Power System of Ukraine and electricity transmission to the regional distribution networks.

Since 2017, Ukrenergo has been undergoing major corporate governance reforms, including among others:

- The appointment of its first independent Supervisory Board in October 2018
- The corporatisation of the public enterprise in July 2019
- A move towards IFRS standards in corporate reporting
- The creation of a more robust system of internal controls including the establishment of compliance and internal audit units over the course of 2019

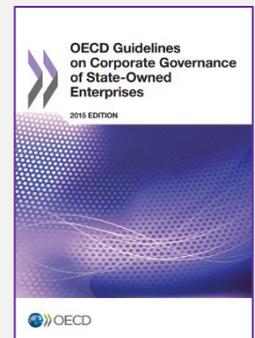
While these changes take place due in part to Ukraine's need to comply with the Energy Community's *acquis* to ensure integration with the European energy market, they also contribute towards improving Ukrenergo's corporate governance practices and aligning them closer to the standards of the SOE Guidelines.

These actions are set in the context of broader SOE reforms undertaken by the Ukrainian government in recent years. In September 2019, the Government elaborated a reform agenda to pursue and deepen these reforms notably through adopting an ambitious privatisation programme and establishing plans to form a new holding company that would aim to professionalise and centralise ownership of the top 100 SOEs, and at arm's length from policy-making. **These reforms will be the focus of the next OECD Review of Ukraine against the SOE Guidelines (to be conducted in 2020-2021), as per Ukraine's request to become adherent.**

ABOUT THE OECD GUIDELINES ON CORPORATE GOVERNANCE OF SOES

The OECD Guidelines on Corporate Governance of State-Owned Enterprises give concrete advice to countries on how to manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent.

A growing number of countries have taken steps to implement the Guidelines and refer to them in the development of regulations, corporate governance arrangements and ownership policies. The Guidelines can serve as a national reform driver by aligning practices with international standards. The OECD Working Party on State-Ownership and Privatisation Practices provides a setting where countries can take in the shared and national experiences of OECD and partner countries and benefit from peer reviews to support reforms.



UKRAINE AND THE OECD

This Review is carried out as part of the OECD project aimed at **Supporting Energy Sector Reform in Ukraine** carried out between 2019 and 2021 with the financial support of the Government of Norway. The project is implemented in close cooperation with key stakeholders from Ukraine, including the Ministry of Finance, Ministry of Economic Development, Trade and Agriculture, Ministry of Energy and Environmental Protection, State Property Fund, Cabinet of Ministers, Ukrenergo, and other relevant public bodies.

It benefits from inputs from civil society, academia, business sector, relevant international institutions, as well as national SOE policy makers and practitioners belonging to **the OECD Working Party on State Ownership and Privatisation Practices**.

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