



Highlights from the OECD Energy Investment Policy Review of Ukraine



Norwegian Ministry of Foreign Affairs

Attracting investment in the energy sector is a key government priority for Ukraine, as the sector remains central to ensuring security and promoting sustainable growth. The Review finds that Ukraine's legislation provides adequate levels of investment protection in the energy sector and guarantees the principle of non-discrimination against foreign investment. It commends Ukraine for adopting regulations aimed at easing business operations in the energy sector and acknowledges the introduction of reforms to improve corporate governance of SOEs and transparency in public procurement.

Nevertheless, the Review highlights that Ukraine's overall investment climate remains a cause for concern for investors as illustrated by Ukraine's international rankings. In particular, a strong judiciary, which is essential for winning investors' trust not only in Ukraine's energy sector but also in the country overall, is still lacking. In the area of responsible business conduct, further efforts are needed across all energy sub-sectors to strengthen environmental, human and labour rights protections, as well as anti-corruption measures, and transparency and disclosure practices.

The key messages presented below provide actionable recommendations to help Ukraine deliver on its objectives for reforming its energy sector for ensuring energy security while transitioning to a cleaner, more competitive and more attractive energy sector.

KEY MESSAGES



Ukraine has a large endowment of gas and mid-stream infrastructure that offers substantial energy investment opportunities. The country is rich in fossil fuel resources, including coal and natural gas, and is developing low-carbon sources such as biofuels and other renewables. Yet, structural problems, such as lack of legal certainty and major financial imbalances in the energy sector, as well as the presence of vested interests, undermine Ukraine's energy potential.



To attract private investment in its energy sector, Ukraine has adopted an open regime for foreign investment. Generally, investors are accorded high standards of treatment and protection. However, Ukraine should finalise its pending reform on land, and evaluate the restriction on foreign acquisition of foreign companies to acquire agricultural land, especially if Ukraine would like to activate the biofuel industry. Ukraine maintains a comprehensive network of international treaties.



Market access and infrastructure continue to constrain private sector investment and foreign direct investment (FDI). The Review recommends Ukraine, inter alia, to improve market conditions for commercial banks to finance a higher share of energy infrastructure by adopting policies that enable competition between commercial and state-owned banks; to foster the development of green and climate financial products, such as green bonds, that comply with best environmental, social and governance standards and practices; and to strengthen the institutional capacity of the governmental agencies that participate in public-private partnerships by providing training and developing awareness-raising tools for investors.



Ukraine is at a critical juncture in terms of advancing policies that will put the country on a path to achieve sustainable development and carbon neutrality. In this context, private investments are necessary, not only to finance sustainable energy projects and provide new energy capacities, but also to achieve Ukraine's carbon neutrality objectives.



Ukraine has also achieved a great deal of progress concerning starting a business by stimulating investments in the energy sector through the introduction of tax, customs, and land use incentives, and by simplifying authorisation procedures. The Review nevertheless recommends that Ukraine could make additional strides regarding maintaining the conditions offered to investors over time and ensuring predictability and certainty of government action.



Ukraine has taken significant steps to promote investment in the energy sector but could make additional efforts to promote sustainable investment. In this regard, the Review recommends that Ukraine further align the promotion and attraction of investment with Ukraine's international commitments on decarbonisation and reduction of greenhouse gas emissions. The Review also invites Ukraine to consider establishing a one-stop-shop investment platform for renewable energy and energy efficiency projects that encompasses all the information and procedures to de-risk projects and scale up investments in the sector.



Ukraine has also taken a number of important steps and reforms to fight against corruption. Despite significant institutional and anti-corruption reforms, investors' trust in the government's combat against corruption remains low. The Review, therefore, recommends that Ukraine secures the independence of anti-corruption agencies and ensures that they are sufficiently resourced, empowered and shielded from political and other interferences in their missions.



While Ukraine has been an Adherent to the OECD Declaration on International Investment and Multinational Enterprises since 2017 and has sought to create an enabling environment for RBC, additional efforts are necessary to enhance RBC across energy sub-sectors and strengthen environmental, human and labour rights protection, anti-corruption measures, as well as transparency and disclosure practices. The Review recommends that Ukraine streamlines the RBC policy, legal and regulatory frameworks, and ensure their applicability to its energy sector.



Other recommendations issued to Ukraine include: progressively moving from feed-in-tariffs to more competitive support mechanisms in the renewable energy sector; ensuring that public procurement and privatisation processes in the whole energy sector are transparent, open and free of corruption; further pursuing the integration of Ukraine's power and gas system with the EU through synchronisation with the ENTSO-E and the ENTSO-G; addressing inconsistencies in legal and regulatory frameworks, and justice system weaknesses.

The project Supporting Energy Sector Reform in Ukraine

The OECD Energy Investment Policy Review was implemented in the framework of the OECD project Supporting Energy Sector Reform in Ukraine (2019-2021), with the financial support of the Government of Norway, under the OECD-Ukraine Memorandum of Understanding for Strengthening Co-operation with the Government of Ukraine. The project aims to help the Ukrainian authorities implement reforms in the country's energy sector and promote its efficiency for increasing its attractiveness, competitiveness and development. The Energy Investment Policy Review was carried out in close cooperation with key Ukrainian stakeholders, including the Ministry of Energy, the Ministry of Finance, the Ministry of Economy, the Cabinet of Ministers, and other relevant public bodies. It also benefitted from inputs from civil society, academia, business representatives, and relevant international partners.

For more information: <https://oe.cd/UAenergy2021>

OECD Investment Policy Reviews

OECD Investment Policy Reviews present an overview of investment trends and policies in the countries reviewed. This can include investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, developing human resources, policies to promote responsible business conduct, investment in support of green growth, and broader issues of public governance. The reviews take a comprehensive approach using the OECD Policy Framework for Investment (PFI) to assess the climate for domestic and foreign investment at sub-national, national or regional levels. They then propose actions for improving the framework conditions for investment and discuss challenges and opportunities for further reforms.

For more information: www.oecd.org/investment/countryreviews.htm

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