

Ukrainian state-owned enterprises before, during, and after the war



Boytsun Governance Architects

Governance Coordination Centre
Annual Event – Vilnius – 28 June 2022

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Ukrainian SOEs before the war

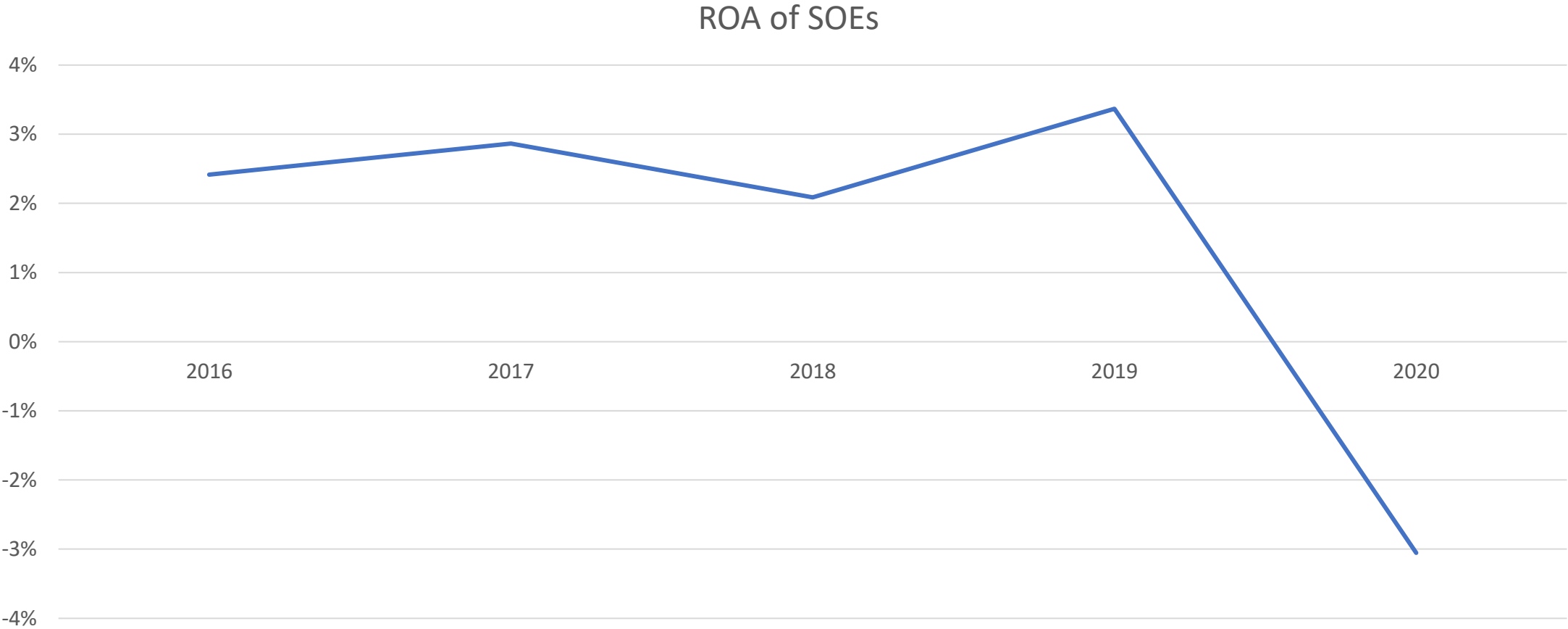
Ukrainian SOEs before the war: A snapshot

- **More than 3,500 SOEs**

- Scattered across 28 industries
- Total assets of SOEs are more than 40% of GDP
- Employ more than 700,000 employees (4% of the labour force)
- Top SOEs are infrastructure monopolies or companies with dominant market positions
 - Electricity and gas transmission system operators
 - Electricity generation
 - Railways
 - Post
- Profitability below inflation levels
- SOEs are less profitable than private companies

- **There are also more than 14,000 municipally owned enterprises (MOEs)**

Ukrainian SOEs before the war: Return on assets



Ukrainian SOEs before the war: Privatisation

- **Rationale for ownership**

- The state developed an overarching state ownership policy
 - Rationale – delivering products or services not provided by private sector
 - Weak legal power and enforceability
- Several attempts at a triage – to decide what they state should own and what it should privatise
 - No clear link between the state ownership policy and triage results
 - Weak legal power and enforceability

- **Privatisation**

- New privatisation law adopted in 2018
 - Splits privatisable assets into large-scale and small-scale objects
 - Large-scale (large SOEs) – not a success yet
 - Investment advisor mandatory
 - No valuation
 - Small-scale – a success story
 - Electronic auctions via Prozorro.Sale
 - Alcohol industry demonopolised

Ukrainian SOEs before the war: Corporate governance reform

- **Started with Naftogaz, the largest SOE, in 2014**
- **New supervisory boards in seven SOEs in 2018**
- **Top 10 SOEs in 2019 (extended to top 15 in 2020)**
- **Results of the reform of top 15 SOEs before the war**
 - Ownership policies approved: 15/15
 - Independent supervisory boards established: 8/15
 - Corporatisation: 8/15
- **Disclosure via ProZvit portal**



Ukrainian SOEs
during the war

Ukrainian SOEs during the war: Direct losses and threats

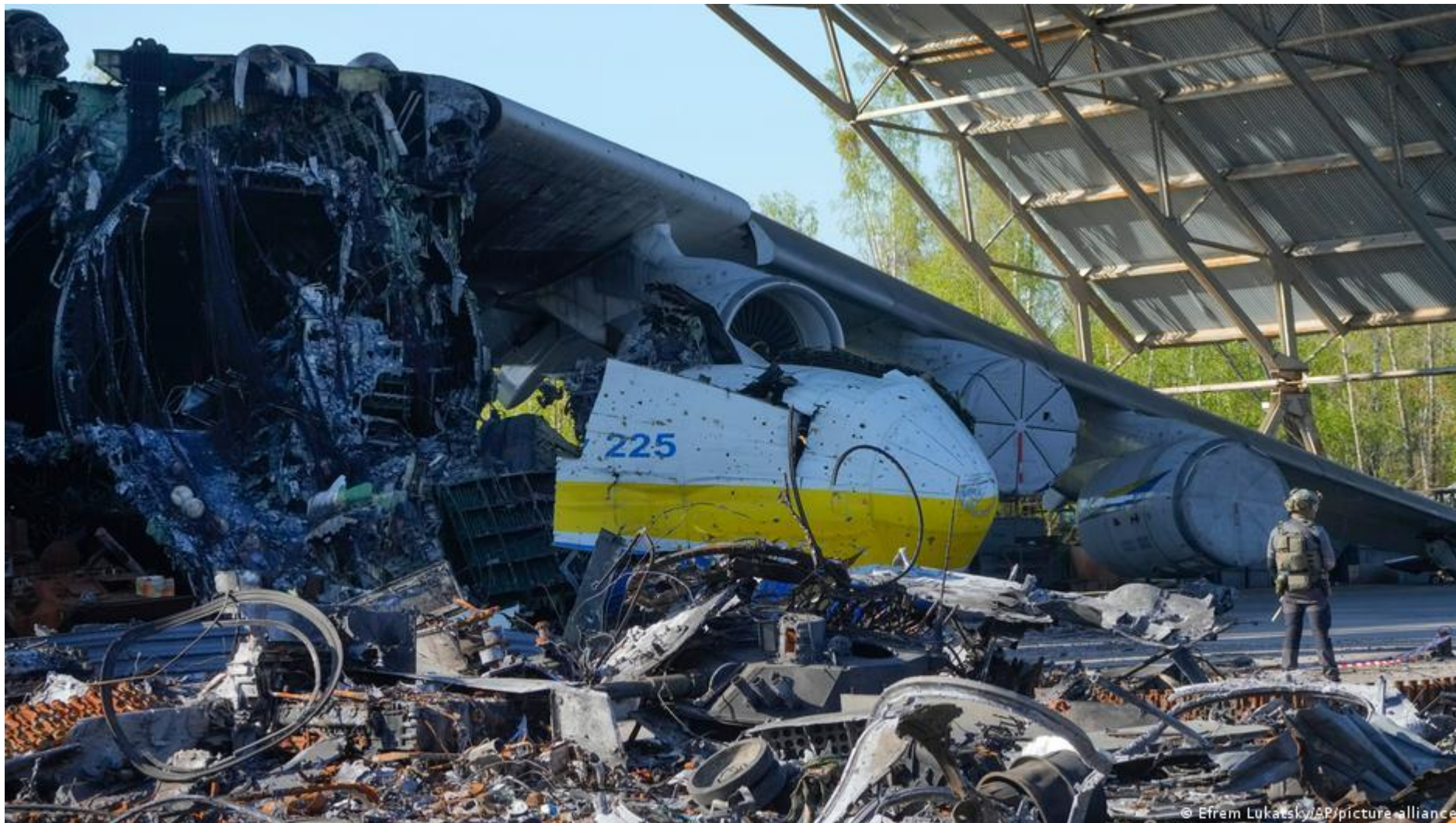
- **Physical damage to assets**

- **Airports** were the first target of the Russian missiles
 - Civil airports have not been operating since the beginning of the war
 - Direct losses due to physical damage to civil airports estimated at USD 6.8 billion
- **Ukrzaliznytsia** (national railway company) – rail infrastructure under regular attacks by Russian missiles
 - Direct losses due to physical damage to railway infrastructure estimated at USD 2.7 billion
- **Energoatom** (operates four nuclear power plants) – Zaporizhzhia Nuclear Power Plant (NPP) occupied by Russian troops
 - Zaporizhzhia NPP is Europe's largest nuclear power plant and among the 10 largest in the world
- **Gas Transmission System Operator of Ukraine** – one of the trunk gas pipelines destroyed by the Russian military
- **Seaports** – Mariupol port occupied by Russian troops
 - Direct losses due to physical damage to port infrastructure estimated at USD 0.5 billion

- **Business losses not accounted for**

- **Employees of many SOEs work in the war zone → SOEs face new challenges in providing their safety**

Ukrainian SOEs during the war: Destroyed Mriya aircraft



Ukrainian SOEs during the war: Business losses

- **Disrupted logistics chains**
 - Airports do not function
 - Seaports blocked by Russian military
 - 71% of Ukrainian exports were transported by sea, mainly agricultural products, metals, and iron ore
 - Exports are redirected via railways and roads – not enough capacity, resulting in higher costs and congestion
 - Estimated losses of agricultural producers due to blockade of ports is USD 11.9 billion
- **Expected fall in revenues due to decline in demand and increased costs of operations for many SOEs**

Ukrainian SOEs during the war: New business activities

- **SOEs get a more direct link to policymakers to timely react to emerging wartime needs of the economy**
- **Ukrzaliznytsya** – new “public service obligation” – evacuating people from active war zones
- **Ukrposhta** – expands its truck fleet to ensure the security of logistics of goods across the country
- **Naftogaz** – considers entering the retail petroleum business to help resolve severe shortage of petroleum supply across the country
- **Energoatom** – plans to export electricity to the EU (which became feasible after the electricity grid of Ukraine was successfully synchronised with the Continental European Grid)

Ukrainian SOEs during the war



Ukrainian SOEs during the war

- **What the parliament did**

- Adopted a law that the ownership entity may require members of the supervisory boards to meet at the physical location of the SOEs in Ukraine immediately in case of need
- We proposed a better law (is under consideration now)

- **What the government did**

- Abolished competitive selection of CEOs and supervisory board members for large SOEs for the duration of martial law
 - Appointments to be done by the ownership entities, and candidates to be approved by the government
 - Does not apply to seven large SOEs and state-owned banks – conditionality of international commitments
- Closed access to the SOE data (ProZvit and data.gov.ua)

Ukrainian SOEs during the war: What should be done

- **Ensure the security of employees and critical infrastructure**
- **Ensure cybersecurity**
- **Re-purpose SOE's strategy to meet the needs of the state in wartime**
- **Ensure continuity and succession of management and key staff**
- **Review decision-making procedures and distribution of powers among the SOE's governing bodies**
- **Ensure SOE's financial resilience**
- **Terminate business ties with the aggressor state**
- **Incorporate military risk as part of risk management framework, use preventive measures to protect the SOE**



Ukrainian SOEs after the war

Ukrainian SOEs after the war

- **All the limitations related to privatisation during the war should be abolished**
 - The overarching state ownership policy should be updated and made stronger, stating the rationale for state ownership of enterprises
 - Based on the ownership policy, SOEs should be triaged into groups, including those to remain state-owned and those to be privatised
 - Real privatisation should be launched

Ukrainian SOEs after the war

- **All the limitations related to corporate governance during the war should be abolished, and corporate governance reform re-launched**
 - Professionalise the ownership entities
 - Centralise state ownership
 - Complete corporate governance reform in top 15 SOEs
 - Corporatise state unitary enterprises
 - Update ownership policies to align them with the needs of peacetime
 - Establish supervisory boards with a majority of independent members
 - Re-launch and strengthen disclosure
 - Include not only financial, but also corporate governance information
 - Reform the corporate governance in the remaining SOEs

Ukrainian MOEs after the war

- **The state should reform municipally owned enterprises (MOEs)**
- **The state should set the regulation, while local authorities retain autonomy as ownership entities**
 - **Limitations and rules on establishing new MOEs**
 - Should focus on market failures
 - Should not be established when the same product or service is readily available from private companies
 - Antimonopoly Committee can be involved in the assessment
 - **Privatisation of MOEs**
 - Local authorities should privatise or liquidate MOEs that do fall within the ownership policy criteria
 - **Corporate governance of MOEs**
 - Corporate governance mechanisms should be established at MOEs that will remain in ownership of local authorities

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