



THE LONG JOURNEY TO IMPROVING THE CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES IN UKRAINE



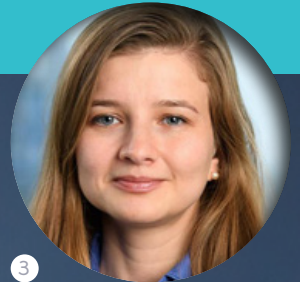
“The transformation of Naftogaz since 2015 stands as a powerful example of how crisis, when combined with concerted international pressure and internal resolve, can catalyse reform in even the most firmly entrenched state-owned enterprises.”



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This article outlines the major corporate governance journey of Ukrainian state-owned enterprise (SOE) Naftogaz, initiated by the EBRD in 2014 amid a national crisis in the country. It details the challenges, legislative changes, and the gradual shift towards transparency and accountability, as well as notable successes achieved and ongoing struggles against political interference and the impact of external factors such as the invasion by Russia and the ensuing war.



INTRODUCTION

In 2014 the EBRD started engaging with the largest state-owned company in Ukraine – Naftogaz – promoting good corporate governance as a way of obtaining much-needed investment support. That engagement led to the Ukrainian government approving a reform roadmap. In the intervening 10 years the journey has proceeded through some of the most dramatic events in Ukraine’s history. Those circumstances – albeit tragic – have been central to shaping the political commitment to this remarkable reform, which has slowly advanced in the face of myriad difficulties and detractors. In this setting, the perseverance of passionate leaders, the activism of the international community converging towards the OECD standards¹ and the progressive shaping of a corporate culture based on transparency and accountability have been the building blocks of a transformation that will be the cornerstone of the post-war and reconstruction period.

In December 2014 the EBRD agreed a €150 million sovereign loan to Ukraine to upgrade and repair part of the Ukrainian gas transmission system – the main artery via which Russian gas is transported to Europe – which accounted for 40 per cent of Europe’s total gas-storage capacity. The transmission system was managed by Naftogaz Group.² The signing of this loan agreement followed many failed attempts to engage with Naftogaz – one

Naftogaz is one of the largest companies in Ukraine, employing more than **53,700** people

of the largest and most strategic companies in Ukraine, which employs more than 53,700 people and is the country’s largest producer, importer and wholesale trader of natural gas. This new engagement with the EBRD was the result of two distinct factors: the serious financial crisis Ukraine was facing at the time and an innovative focus on corporate governance.

In 2014 Ukraine was on the verge of a financial default. In February of that year the “Revolution of Dignity” – also known as the “Maidan Revolution” – culminated in the ousting of President Yanukovych and the formation of a new interim government. Parliamentary elections in October 2014 consolidated the positions of reformist forces but also underscored the urgent need for sweeping change in the context of extreme instability. Ensuring a reliable gas supply to

¹ The G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

² It was first managed by the Naftogaz subsidiary Ukrtransgaz, before being transferred to its subsidiary GTS in 2019.

Ukrainian and European households and industries was a key priority for global stability. To this end, it was necessary to reform the gas sector and secure financing for critical investment to rehabilitate the transmission network. These were priorities for both the Ukrainian government and the EBRD. Since then, the Bank, together with the European Union (EU), the World Bank, the International Monetary Fund (IMF) and the European Investment Bank (EIB), has been actively engaged in joint policy dialogue with the Ukrainian government, seeking to provide technical and financial assistance with a view to reforming and restructuring the gas sector and modernising gas infrastructure in accordance with market-based principles and liberalisation.

This reform has centred on Naftogaz. Until 2014 Naftogaz Group was loss-making. In that year alone, it sustained losses of about US\$ 5.6 billion,³ the equivalent of 5.7 per cent of the country's GDP, prompting George Soros to describe the company as "a black hole in the budget and a major source of corruption".⁴ Indeed – as later evidenced by the findings of a corporate governance review undertaken by the EBRD – corporate dynamics were flawed, accountability was non-existent, and the activities of the company and its stakeholders were subordinate to vested interests. Without a strong and credible commitment to radical transformation, engagement with such an entity was extremely risky.

In this context, "good corporate governance" was the key that unlocked such engagement: one of the main conditions of the EBRD loan was that Naftogaz comprehensively reformed its corporate governance in line with OECD standards. Given the global recognition of the OECD Principles and Guidelines, the international donor community strongly supported the reform effort.

In 2014 Naftogaz sustained losses of around **US\$ 5.6 billion**, equivalent to **5.7%** of Ukraine's GDP

A TAILORED CORPORATE GOVERNANCE REVIEW AND ACTION PLAN

In early 2015 experts from the EBRD's Legal Transition Programme (LTP) joined the Bank's team working on the project and started a comprehensive, Group-wide corporate governance review aimed at identifying the main issues of concern and securing agreement for an improved action plan.

Like many SOEs, Naftogaz operates within a highly complex and rigid regulatory environment. Its governance was shaped by a dense network of – often contradictory and overlapping – laws, regulations, resolutions and instructions, creating a framework that enabled political interference and undermined effective corporate oversight.

Consequently, the review focused not only on internal practices but also on the broader legislative and regulatory context governing the company. This was the first time the EBRD had adopted such a model, which it then successfully replicated in many other SOEs in Ukraine,⁵ as well as in other EBRD economies of operation.⁶

³ See Naftogaz (2015a).

⁴ See Soros (2014).

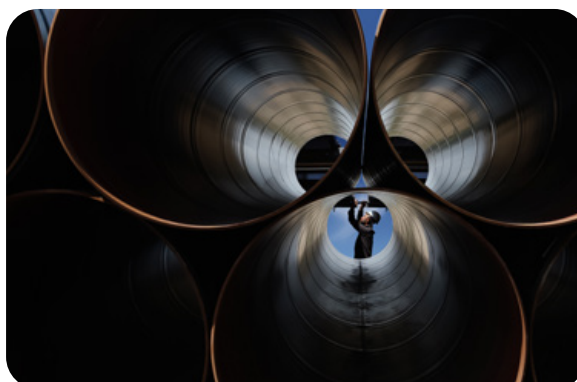
⁵ Such as UkrPoshta in 2017, Ukrenergo in 2019 and Energoatom in 2019.

⁶ Similar initiatives were adopted for Kesh in Albania in 2016, Serbian Railways in Serbia in 2022 and NEPCO in Jordan in 2019.

The review concluded in June 2015, resulting in a detailed report that outlined key governance shortcomings and the legislative changes that were required to align Naftogaz's practices with OECD standards.⁷ The key priorities were:

- to reduce state interference within the company's management
- to clarify the Group's ownership structure⁸
- to separate the ownership, regulatory and policymaking functions, which were affecting Naftogaz's commercial autonomy and raising conflicts of interest
- to develop a state ownership policy, defining the state's vision and rationale for state ownership and ensuring transparent metrics for commercial and social purposes
- to establish an independent and qualified supervisory board – which, up to that point, existed only on paper – with clear authority and responsibilities
- to empower the independent and qualified supervisory board to develop a Group strategy, anchored in a set budget, accounting for risks, and with clearly defined commercial and social goals, to be detailed as public service obligations (PSOs)
- to create an internal control framework servicing corporate objectives
- to strengthen the Group's transparency and disclosure.

More than **80**
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be amended



THREE-PHASE ACTION PLAN

For the reform to happen, a complex set of legislation – including more than 80 laws, decrees and orders – needed to be amended. To this end, the EBRD escalated its policy dialogue efforts from the company to the government level – in SOEs, the line between the two is often blurred – and secured the commitment and support of the leadership at the Ministry of Economy, Naftogaz management and the international community.

The company management embraced the proposed reform, publishing, in May 2015, its first ever annual report, entitled *Changing for the future*. This provided not only a clear picture of the financial results but also, and most importantly, the vision for reform agreed with the EBRD,⁹ including establishing an independent supervisory board, building internal control functions and processes, and

⁷ Primarily, the G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

⁸ At that time, ownership was divided between the Cabinet of Ministers as “company founders” and the Ministry of Energy as a “company shareholder”.

⁹ See Naftogaz (2015a).

implementing market-based pricing for gas. In addition, Naftogaz prioritised diversifying gas supply routes, integrating with the EU gas market and improving financial performance.

Since then, Naftogaz annual reports have been important building blocks for the creation of a culture of transparency and accountability.

After months of negotiations, the reform plan was ready. Next, it was essential to secure authoritative approval, leaving no doubt about the commitment to the reform. For this reason, the discussion was escalated to Ukraine's Cabinet of Ministers, which, on 21 October 2015, approved the **Naftogaz Corporate Governance Action Plan (CGAP)**, targeting improvements in corporate governance practices and legislative amendments (which were to be implemented in accordance with a defined timetable).¹⁰

Owing to the complexity of the reform, the action plan was divided into three phases. The first phase involved immediately starting to insulate Naftogaz from political interference and allowing it to start operating as a commercial company, albeit with social objectives. This involved clarifying the ownership structure; approving a new charter; defining the role of shareholders, the supervisory board, committees, internal auditors, compliance, anti-corruption measures and risk management; and introducing a transparent policy for nominating members of the supervisory board, based on qualifications and expertise.

These actions laid the groundwork for a second phase, set to begin after one year, which would focus on legislative and regulatory reforms to align Naftogaz's governance structure with OECD standards, and the final third phase, which was expected to end in mid-2017.

Most priority measures in the first phase were implemented swiftly: in December 2015 the dichotomy between founders and owners was resolved and the company's shares were transferred to the Ministry of Economy (before subsequently being transferred to the Cabinet of Ministers in September 2016), thus clarifying the entity in charge of the ownership function. At the same time, a revised company charter and terms of reference for the supervisory and management boards were approved.¹¹

“ For the first time ever, the majority of the directors on the board of a state-owned enterprise in Ukraine were qualified and independent. ”

This paved the way for a second EBRD operation with Naftogaz in October 2015: a US\$ 300 million loan to purchase gas from its interconnections with Europe and support Ukraine in reaching its gas-storage target. Under the terms of the loan, Naftogaz was required to tender for and contract gas in line with best European practices and to comply with the agreed action plan.

The search for independent and qualified directors to serve on the supervisory board of Naftogaz began in January 2016, and a new supervisory board was appointed in April 2016.¹² For the first time ever, the majority of the directors on the board of a state-owned enterprise in Ukraine were qualified and independent. Shortly afterwards, new charters were approved and a new internal control framework was created.

¹⁰ See Naftogaz (2015b).

¹¹ See Naftogaz (2016a).

¹² Ibid.



In May 2016 Naftogaz published its 2015 annual report, entitled *Setting it Right*,¹³ which revealed that although the company had posted a net loss of about US\$ 1.6 billion, it had increased its tax contributions.

However, the report warned that “the reforms are not yet complete, with, in particular, all state-owned companies expecting a new legislative framework which will protect them from political meddling and allow them [to] work efficiently”.

A storm was looming on the horizon.

In February 2016 Aivaras Abromavicius, the Minister for Economy and one of the main promoters of the reform, had resigned. In his resignation statement, he had referred to the Naftogaz CGAP and cited¹⁴ pressure around SOE appointments. The government reshuffle that followed slowed down the reform process and led to deadlock. In April 2017 the chair of Naftogaz’s supervisory board, Yulia Kovaliv, also resigned, citing fundamental disagreements over the company’s strategic direction and a lack of consensus on implementing the corporate governance reform as originally planned. That same month, the independent board members sent a letter to the Deputy Prime Minister of Ukraine expressing serious concerns about the

situation at Naftogaz and stating: “Without material progress it would be inappropriate and untenable for us to continue as supervisory members.”¹⁵ Less than five months later, they resigned.¹⁶ It was a shock for the whole reform process – especially at a time when Ukraine was about to launch its first sovereign bond issue since restructuring its debt in 2015.¹⁷

In this context, the collective resignation of all independent directors, which was a highly significant event for the company, sent a strong message about the level of integrity expected from independent directors – something that was unprecedented in Ukraine. Indeed, independent directors play a crucial role, and if their ability to act objectively is compromised, stepping down is preferable to continuing under constrained conditions. Such a move – albeit extreme – sends a strong message to the market. In this case, the market players understood the seriousness of this signal and the call was answered by the international community.

“Independent directors play a crucial role, and if they are unable to do their job, it is better that they resign, rather than carry on with business as usual.”

In Ukraine, the market players involved in this reform included members of the international community, who engaged firmly with the Cabinet of Ministers, leading, in November 2017, to the appointment of a new supervisory board, again composed of a majority of highly qualified and reputable independent directors.

¹³ See Naftogaz (2016b).

¹⁴ See Ministry of Economy of Ukraine (2016).

¹⁵ See <https://static.ukrinform.com/files/1491555223-4018.pdf> (last accessed 22 April 2025).

¹⁶ See Naftogaz (2017a).

¹⁷ See Naftogaz (2017b).

In 2016 Naftogaz recorded a net profit of more than **US\$ 1 billion** – its first in **five years**



¹⁸ For information on the EBRD's assistance with the Prozorro public procurement system, see Niewiadomska (2025).

¹⁹ The Stockholm arbitration arose from disputes over gas contracts concluded between Naftogaz and Gazprom in 2009. In 2014 Naftogaz challenged the "take-or-pay" clause and initiated arbitration over both supply and transit agreements. In 2018 the tribunal ruled largely in Naftogaz's favour, dismissing US\$ 56 billion of Gazprom claims and awarding US\$ 2.56 billion to Naftogaz in net compensation. A payment of US\$ 2.9 billion and a new five-year transmission contract followed. The ruling was a major win for Naftogaz, supporting its gradual transition and integration into the European gas market.

²⁰ Law No. 289-VIII, "On Amendments to Certain Legislative Acts of Ukraine on Protection of Investors' Rights", adopted by the Ukrainian parliament on 7 April 2015.

²¹ Law No. 1405-VIII, "On Amendments to Certain Legislative Acts of Ukraine on Managing State and Municipal Assets", adopted by the Ukrainian parliament on 2 June 2016.

²² Resolution of the Cabinet of Ministers No. 142, "On Certain Matters of Managing State Enterprises and Companies Where the State Holds Over 50% in Share Capital", dated 10 March 2017; Resolution of the Cabinet of Ministers No. 143, "On Certain Matters of Managing State-Owned Assets", dated 10 March 2017; Regulation of the Cabinet of Ministers No. 469 dated 4 July 2017, amending Resolution of the Cabinet of Ministers No. 777, "On Carrying Out Competition for Appointment of Key Officers of State-Owned Enterprises".

²³ The procedure for the Nomination Committee is detailed in Resolution of the Cabinet of Ministers No. 777 (2008). The selection of Naftogaz board members in 2016 was conducted by a special body comprising four members (not the Nomination Committee): a shareholder representative, a workforce

IN THE BLACK

In May 2017 Naftogaz published its third annual report, *In the Black*. The company posted a net profit of more than US\$ 1 billion, marking its first profit in five years and making it the largest contributor to Ukraine's state budget. For the first time, Naftogaz operated without direct financial support from the state.

The report noted key reforms, including anti-corruption initiatives, with Naftogaz being one of the first to join the Prozorro public procurement system.¹⁸ Naftogaz also invested significant effort in securing a favourable ruling from the Stockholm Arbitration Tribunal regarding the Gazprom case,¹⁹ given that an adverse ruling could negatively affect Naftogaz's financial operations and gas market reform in Ukraine. However, the unbundling of the gas transmission system operator – required under the EU's Third Energy Package – was facing delays, which prevented the establishment of a professional and efficient gas transmission system operator, crucial for gas market reform.

On the regulatory side, intense engagement between the EBRD and Ukrainian authorities led to significant progress. In April 2015 the law on joint stock companies was amended,²⁰ introducing the concept of independent directors and requiring boards of public companies and SOEs to have at least two such directors. In June 2016 the bar was raised by another law, under which more than half of all directors sitting on SOE boards had to be independent.²¹ These laws were followed by a number of Cabinet of Ministers acts²² setting out the rules for selecting independent supervisory board members, including a dedicated state-level Nomination Committee.²³ The establishment of this Committee marked another important milestone in the reform process, adding transparency to the selection

representative and two independent members. In 2017 Resolution of the Cabinet of Ministers No. 232 expanded the Committee's composition to include three representatives of independent international financial institutions (IFIs). The Nomination Committee was not involved in the 2017 selection process. The current Nomination Committee structure was established in 2018. Prior to March 2018 the Committee had 18 members, with no international representatives. In March 2018 the composition changed to include four state representatives and four representatives of independent IFIs. Since then, the ratio of state representatives to representatives of independent IFIs has fluctuated between 3:4 and 4:4.

of members of the boards of strategic SOEs. Representatives of the international community – including the EBRD – sit on the Committee as observers to help safeguard the integrity and credibility of the process. Based on the Committee’s proposals, the state entity owning the company appoints board members.

While all of these measures enabled the establishment of qualified SOE boards, a consensus had not yet been reached on a core issue: the lack of clarity regarding boards’ statutory authority in making strategic decisions, which allowed the state to continue to interfere in company operations. To curb this unhealthy practice, in January 2018 a new law came into effect that prohibited the general meeting of shareholders from deciding on matters reserved for the supervisory board. Shareholders bypassing the supervisory board – and its independent directors – on key strategic decisions had historically been a major problem in Ukraine, resulting in the state meddling directly in company matters.²⁴

However, the new law, while a major step forward, was not enough to ensure healthy corporate dynamics. The bulk of the proposed reform was enshrined in draft Law No. 6428 – developed with support from the EBRD and international partners – which was still under discussion in the Ukrainian parliament. The draft law aimed to implement key CGAP recommendations, notably empowering supervisory boards to approve SOE strategies and budgets, and to appoint and dismiss management. This authority is essential for boards to strategically guide management and hold it accountable. Unfortunately, given the significant shift in authority proposed, the draft law met strong resistance. Despite

endorsement by the Parliamentary Committee on Economic Policy, it failed to secure enough votes in its first reading in March 2018 and was subsequently deprioritised.



In mid-2018 Naftogaz published its fourth annual report, entitled *Historical Victory and the Beginning of Transformation*.²⁵ The report highlighted the victory over Gazprom in the Stockholm arbitration (see footnote 19). Financially, in 2017 Naftogaz reported a net profit of roughly US\$ 1.4 billion, which reflected part of the compensation that Gazprom had been ordered to pay under the arbitration results.

On the other hand, the report also outlined the slow progress that was being made on the corporate governance reforms that were needed to bring Naftogaz up to the required standards. Indeed, the lukewarm regulatory progress – with draft Law No. 6428 now abandoned – had caused the pace of reform to slow down.

During this period, the international community reshaped its approach, targeting renewed dialogue with the government.

Among other things, a new assistance structure (the Ukraine Reforms Architecture)²⁶ was created by the EBRD and the EU to support the government’s reform agenda. More than 200 local experts were embedded in ministries and agencies to fill capacity gaps, facilitate the uptake of technical assistance, and strengthen coordination between the Ukrainian civil service and international donors. This helped reinvigorate the reform process in the corridors of government.

²⁴ Law No. 2210-VIII, “On Amendments to Certain Legislative Acts of Ukraine on Simplification of Doing Business and Investment Attraction by Securities Issuers”, adopted by the Ukrainian parliament on 16 November 2017. The law also introduced new independence requirements for supervisory board members, extended the scope of the activities of the supervisory board committees and introduced the corporate practice concept of a succession plan, which was completely new for Ukraine.

²⁵ See Naftogaz (2018).

²⁶ See <https://www.ebrd.com/home/work-with-us/projects/tcpsd/668.html> (last accessed 28 May 2025).

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²⁷ See Naftogaz (2019).

²⁸ This is a widely adopted framework for effective risk management and internal control. It divides responsibilities among operational management (first line), risk and compliance functions (second line) and internal audit (third line). This structure ensures that risks are identified, managed and independently reviewed to strengthen accountability and oversight across an organisation.

²⁹ In 2019 an OECD report emphasised the need for the Ukrainian government to take steps to complete corporate governance reforms at Naftogaz. Key among these was the need to grant the supervisory board full authority over core functions, such as hiring and dismissing the CEO, approving strategy, and endorsing financial and investment plans. The report also recommended assigning appropriate operational autonomy to the executive board and the CEO, including removing the requirement for government approval of business transactions when robust internal controls were in place. For more effective governance, Naftogaz also needed to control assets held by its wholly owned subsidiaries. See OECD (2019).

³⁰ See Naftogaz (2020).

³¹ See Naftogaz (2021).

In 2018 Naftogaz's net profit fell to US\$ 400 million.²⁷ That year, the company also completed the implementation of a new internal control system based on "three lines of defence"²⁸ – a first for Ukrainian SOEs and a key requirement of the action plan. The system was independently certified in 2018, a condition for transitioning from a state-controlled system to a corporate-controlled one under board supervision. However, the discussion on this transition stalled, giving the state the opportunity to increase its demands as regards its share of Naftogaz profits from 50 per cent in 2017 to 75 per cent in 2018 and 95 per cent in 2019, undermining the company's ability to fund necessary investments and increasing its reliance on external funding.²⁹

In April 2018, in accordance with Naftogaz's remuneration policy, the supervisory board voted to pay a bonus to the company's management amounting to 1 per cent of the US\$ 2.56 billion awarded to Naftogaz following its victory in the arbitration case against Gazprom. The then-CEO, Andriy Kobolev, received US\$ 22 million, which was criticised as excessive and triggered reactions and legal investigations. In early 2020 the National Anti-Corruption Bureau launched a pre-trial investigation into the bonus, while the Cabinet of Ministers introduced a cap on the remuneration of the CEOs of SOEs. In the meantime,³⁰ Naftogaz completed the unbundling of its gas transmission system operator and received the outstanding portion of the compensation awarded by the Stockholm Arbitration Tribunal, resulting in a US\$ 2.9 billion payment and a new five-year transmission contract.

While the world was facing major disruption due to the Covid-19 pandemic, in Ukraine the liberalisation of the retail gas market enabled consumers to choose their suppliers, leading to Naftogaz acquiring more than 900,000 new customers by year-end.³¹ The company also resolved longstanding debts, including compensation for PSOs from the period 2015-19.



In April 2021 the government contested Naftogaz's financial statements and rated the performance of its supervisory board as "unsatisfactory", leading to the dismissal of the board. Then, in the "absence" of the board, the Cabinet of Ministers "exercised the authorities of the board"³² and dismissed the CEO – despite having supported a four-year extension to his term just a month earlier. The Cabinet then appointed the acting Ukrainian Minister for Energy, Yuriy Vitrenko – a former Naftogaz executive – as the new CEO of Naftogaz.³³ Finally, the Cabinet reinstated Naftogaz's supervisory board in its previous composition the day after dismissing it.

At this point, all members of the supervisory board tendered their resignations, with the result that, from September 2021 until January 2023, Naftogaz had no supervisory board. In its absence, its powers were exercised by the general meeting of the company (that is to say, the Cabinet of Ministers).³⁴

This governance crisis triggered reaction within the international community once more. The EBRD and other IFIs walked out on the Nomination Committee and sent numerous

letters to the government, pushing for a more ambitious version of draft Law No. 6428 – now called Law No. 3587, "On the Improvement of SOE Corporate Governance" – to be adopted on its first reading by the Ukrainian parliament. EU macrofinancial assistance was also tied to this milestone. As a result, the government committed to having the draft law adopted in parliament – which it was, on its first reading in July 2021, thanks in part to the unprecedented involvement of IFIs and the EU.

This was a moment of alignment when the government yielded to reform demands – but the draft law soon entered yet another dormant phase.

In the meantime, the situation in Ukraine was rapidly deteriorating. On 22 February 2022 Russia launched a full-scale invasion, subjecting Ukraine's state infrastructure to constant bombardment. The international community remained by the Ukrainian government's side, supporting the country's defence and, at the same time, strengthening calls for the acceleration of reform. The EBRD, for its part, announced an initial €2 billion package of resilience measures to help Ukraine.



In mid-2022 Naftogaz published its eighth annual report, entitled *Resilience, Victory, Recovery*.³⁵ At the time of writing, this was the last annual report published by the company, given that SOEs have been exempt from information disclosure rules while the country remains under martial law.³⁶ Interestingly, in this 2021 report the company placed emphasis on reflecting on its recent governance crisis and said it had commissioned a leading

³² At that time, a general meeting of the shareholders of a private joint stock company was allowed to exercise all board powers in the absence of the board. This provision was repealed with the adoption of the new Law on Joint Stock Companies, effective since 2023.

³³ According to Naftogaz's charter, the general meeting of shareholders is authorised to appoint and dismiss the CEO based solely on proposals from the supervisory board, which holds exclusive competence for such decisions.

³⁴ Notably, similar governance concerns have emerged elsewhere in the SOE sector; in 2024 several independent board members at Ukrenergo also resigned, citing political interference.

³⁵ See Naftogaz (2022).

³⁶ After the end of martial law, SOEs will have 90 days to disclose annual and interim information (including financial statements) for the period 2021-24.

international firm to conduct an independent corporate governance review. Financially, Naftogaz returned to profitability after losses in 2020 and saw growth in domestic gas production.

Aside from necessary limitations, the war did not hinder reform in Ukraine – on the contrary, it accelerated it. Given Ukraine’s urgent financial needs, the international community was called on to help, in exchange for progress on the long-awaited reforms.

In January 2023 a new Law on Joint Stock Companies came into effect, introducing governance improvements such as: electronic voting at shareholder meetings; a clear framework on the liability of company officials and fiduciary duties; a defined legal status for and requirements of the corporate secretary – now mandatory for public interest enterprises; and abolition of the outdated and useless revision commission. In addition, it addressed various inconsistencies, including as regards the number of independent members required on SOE boards (with the majority of members needing to be independent). In the same month, six members were appointed to Naftogaz’s supervisory board, following pressure from the G7 Ambassadors’ Support Group,³⁷ meaning that the company had a board for the first time since September 2021. Despite a freeze on competitive selection of supervisory board members applying to nearly all SOEs during martial law, Naftogaz’s selection went through a competitive process at the Nomination Committee.

Reform momentum remained strong, and donor support – notably via the EU-Ukraine Plan and the IMF Programme – revived the agenda previously championed by draft Law No. 6428. In February 2024 Law No. 3587, “On the Improvement of SOE Corporate Governance” was adopted – a culmination of years of EBRD-led policy dialogue and technical assistance.

Following intense negotiations between IFIs and the government of Ukraine, and as foreseen in the CGAP, the new law now grants the supervisory board exclusive authority to appoint or dismiss the CEO and approve strategic and financial plans – with Ministry of Finance involvement in key parameters – while also establishing additional criteria for the structural and financial independence of board members. The law also reinforces the concept of fiduciary duties of supervisory board members and requires SOEs to establish an internal audit function. Furthermore, it defines grounds for the early dismissal of board members to prevent arbitrary actions by the state, introduces enhanced disclosure requirements and provides for consolidated dividend payments across company groups.³⁸

Overall, 2024 proved to be a highly productive year for reform of the corporate governance of SOEs in Ukraine and represented one of the final milestones in the implementation of the CGAP. Law No. 3587 also triggered the adoption of a number of secondary legislative acts, including frameworks for establishing and reporting on key financial indicators for the largest SOEs, the evaluation of supervisory board performance and a new State Ownership Policy (SOP) approved in December 2024.

THE NEW STATE OWNERSHIP POLICY

The adoption of the SOP was a key requirement in both the OECD Guidelines and the CGAP. The SOP establishes the rationale for state ownership and sets out “triage” criteria for retaining SOEs in state ownership, to optimise the state asset portfolio by privatising or liquidating non-strategic enterprises. Importantly, it outlines principles for formulating and compensating for PSOs, defines mandatory criteria for the creation of supervisory boards, and provides a framework for setting objectives and KPIs – including the introduction of “letters of expectations” as a new instrument for the state to transparently communicate its ambitions. Furthermore, the SOP sets clear guidelines for the remuneration of CEOs and supervisory board members in line with comparable private-sector levels.

³⁷ See X (last accessed 22 April 2025).

³⁸ In May 2024, however, the provision regarding consolidated dividend payments was diluted through subsequent tax law amendments, requiring Naftogaz’s subsidiary Ukrnafta to pay dividends directly to the state.

Naturally, policies are not an end in themselves: implementation is key. The newly adopted SOP sets out an ambitious agenda for the Ukrainian authorities to follow in the near future, which is referred to in Ukraine's international commitments. Among the key priorities are the creation of a centralised ownership function, the development of a detailed framework for PSOs and the establishment of a comprehensive performance assessment system.

And so to current challenges. One of the most critical next steps will be the establishment of a strong corporate governance culture at all levels of the SOE sector. In support of this goal, the EBRD launched an extensive training programme aimed at raising awareness and enhancing capacity among newly appointed supervisory board members, ownership entities and corporate secretaries of SOEs.

LESSONS LEARNED

The transformation of Naftogaz since 2015 stands as a powerful example of how crisis, when combined with concerted international pressure and internal resolve, can catalyse reform in even the most firmly entrenched SOEs. Ukraine's energy sector, once a source of massive fiscal losses and systemic corruption, was reshaped by a rare concurrence of geopolitical urgency, financial necessity and a unified international community converging on OECD standards.

Central to the success of Naftogaz's transformation was undoubtedly the action plan for reform, which targeted both company practices and the legislative framework. In SOEs, dynamics flow smoothly only when they are expressly permitted by law – unlike in private companies, which operate unless explicitly prohibited from doing so. This cautious stance underscored the necessity of a comprehensive and enabling regulatory framework. In this setting, the critical enabler was the decade-long effort to strengthen the

legal and regulatory framework for corporate governance in Ukraine. The introduction of legislation aligned with OECD standards³⁹ – including the depoliticisation of supervisory boards, the adoption of transparency requirements, and clearer separation between ownership and management functions – laid the institutional foundations for sustainable reform. These legal changes enabled greater accountability and protected the company from undue political interference, helping shift Naftogaz from a liability to a self-sustaining and strategically independent enterprise.

Equally important was the role of the EBRD and its passionate people in creating and leading the “coalition of change”. The Bank was more than just a financial backer; it acted as a convener of reform-minded stakeholders, ensuring coordination among international donors (notably as regards financing conditionalities), advising on corporate governance frameworks and advocating consistently for best practices in line with OECD guidance. Its credibility and technical expertise helped maintain reform momentum, particularly during periods of domestic political resistance or backsliding.

Naftogaz's reform journey has not been without significant challenges. Achievements remain fragile and undue political interference is always in the background, ready to materialise when structural weaknesses – such as blurred lines between ownership, supervisory and executive roles – offer the chance. While the adoption of OECD standards provides a strong foundation, ensuring that these changes translate into consistent, long-term impact and a shift in the corporate governance culture requires continued guidance, vigilance, strong national leadership, capacity building and performance-based oversight to avoid regression and achieve further progress.

Here, perseverance is key.

While the Naftogaz case may appear exceptional, its core lessons are transferable. Reform of SOEs is possible elsewhere, but typically under specific conditions and with a small window of opportunity: a shared crisis

³⁹ The G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

or strategic incentive, where credible and coordinated international support can engage with strong domestic reform champions. These elements create the incentive, the pressure and the protection needed to implement and defend difficult changes, shielding reformers from (often strong) internal resistance and political interference.

Ultimately, the story of Naftogaz highlights the fact that lasting reform is dependent not only on policy and legal frameworks but also

on timing, pressure and the presence of determined coalitions capable of translating external demands into durable institutional change. Replicability lies not in copying policies wholesale but in adapting the core enablers that made reform possible. For policymakers, the key question is not what to reform, but how to cultivate or make the most of the conditions that make meaningful and lasting change achievable.



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