

State Property Asset Management

No2

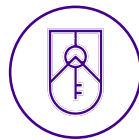
November 2024

State budget revenues from the disposal of state property



4,66 billion UAH
(\$110,000 million)

of revenues filled state coffers from the sale and management of state assets in November 2024



4,4 billion UAH
(\$104,000 million)

from privatization (SPFU)



0,26 billion UAH
(\$6.1 million)

from the management of seized assets (ARMA)

State property management strategy

State-owned enterprises will provide only 3% of budget revenues next year

In November, Ukraine's legislature, the Verkhovna Rada, of Ukraine adopted the draft Law of Ukraine "On the State Budget of Ukraine for 2025". The law stipulates that state budget revenues will reach UAH 2.05 trillion (\$46.5 billion) next year. At the same time, state-owned enterprises are expected to provide only about 3 percent of this amount – UAH 66.01 billion (\$1.6 billion).

This is not an isolated case, but a consistent trend in recent years, when thousands of state-owned enterprises bring in such small amounts of revenue to the state budget.

Year	Budget revenues (UAH billion)	Dividends (UAH billion)	Dividends to income
2019	998.28	46.3	4.6%
2020	1 076.02	66.9	6.2%
2021	1 296.85	28.5	2.2%
2022	1 787.40	46.9	2.6%
2023	1 655.56	32.1	1.9% (8 month)



Expert opinion

Oleg Polishchuk

Expert in corporate governance and state property management, and prevention of corruption and public procurement

According to the Ministry of Economy, there are just over 3,000 state-owned enterprises in Ukraine today. As of 2023, the total value of the assets of the top five amounted to approximately UAH 1.5 trillion. The relatively small dividends compared to the asset value indicate inefficient state management.

However, the problem is even deeper. Out of these 3,000, only 27 percent (854 companies) are operating, and even fewer are profitable – only 15 percent (475 companies).

Therefore, one of the key reforms in Ukraine in recent years has been the reform of state-owned companies and, in particular, the corporate governance of state-owned enterprises. A number of steps within the framework of these reforms are envisaged by the recommendations for Ukraine's membership in the Organisation for Economic Co-operation and Development (OECD) and the EU.

In addition, some changes are mandatory requirements of financial assistance programs from the EU (Ukraine Facility), the IMF (Extended Fund Facility, EFF) and the World Bank (DPL) on the principle of “reforms in exchange for money.”

Tracker of reforms in state asset management

Deadline	Status	Reform
2nd Quarter 2024	Completed	Law on corporate governance of SOEs in line with OECD guidelines
End of October 2024	Completed	Approval of state property policy (also the IMF requirement,
End of December 2024	Completed	Formation of the Supervisory Board of Ukrenergo with a majority of independent experts (IMF structural benchmark)
1st Quarter 2025	Waiting for development	Adoption of the Roadmap for SOEs' separating accounts
1st Quarter 2025	Waiting for development	Law on the ARMA reform
3rd Quarter 2025	Waiting for development	Legislation for separating accounts of SOEs
2nd Quarter 2026	Waiting for development	Appointment of supervisory boards with a majority of independent members in at least 15 key state companies
3rd Quarter 2026	Waiting for development	Corporatization of at least 15 key state companies
3rd Quarter 2027	Waiting for development	Report of an independent audit on separating activities, taking into account special obligations
4th Quarter 2027	Waiting for development	Legislation on consolidated management entities for SOEs

 Completed
  In Progress
  Waiting for development

Ukraine has met its obligations for the management of state assets for 2024 under the EU's Ukraine Facility, but the implementation of the requirement steps remain As of Dec.1, the Cabinet of Ministers of Ukraine approved the State Property Policy, as we reported in our [previous digest](#).

This step allowed Ukraine to fulfil all its obligations in the area of reforming state asset management, as required by the EU's Ukraine Facility financial support until the end of 2024.

The government now faces the task of implementing the steps outlined in the State Property Policy, including updating the sorting of state-owned companies (the so-called “triage”), though it is not a separate requirement from international partners.



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Ukraine plans to introduce a new state property management policy based on OECD recommendations. This policy envisages optimizing the number of state-owned enterprises, which currently stands at over 3,000, by dividing them into three groups:

- *those that will remain under state ownership,*
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- *those to be liquidated or revamped.*

Privatization is to be bolstered by simplifying procedures and drawing foreign investors.

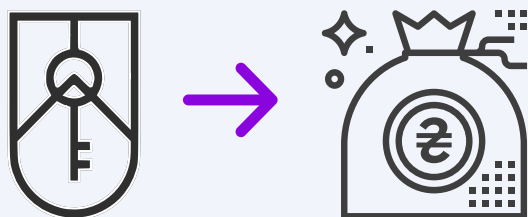
The management of state-owned companies will be based on the principles of transparency, setting long-term goals, competitive neutrality, and minimizing state intrusion. Each company will set yearly targets, which will be set out in public documents – “expectation sheets”.

In addition, the government in November had approved the procedure for assessing the efficiency of state-owned companies. In fact, this is a clear mechanism for how the state will assess whether state-owned enterprises achieve the goals set in the “expectations lists” based on their yearly reports. This step is necessary for the implementation of the State Ownership Policy and the implementation of the provisions of Law No. 3587-IX on improving corporate governance.

Special attention is paid to the dividend policy and operational independence of management. This is a very important step, as the state often interferes in the activities of state-owned companies, even if they show positive financial results.

If implemented, the State Property Policy should help to reduce the role of the state in the economy, improve the efficiency of state property management and bring processes in line with international standards. Another advantage is that the Cabinet of Ministers is committed to regularly reviewing the policy, taking into account current challenges and OECD principles.

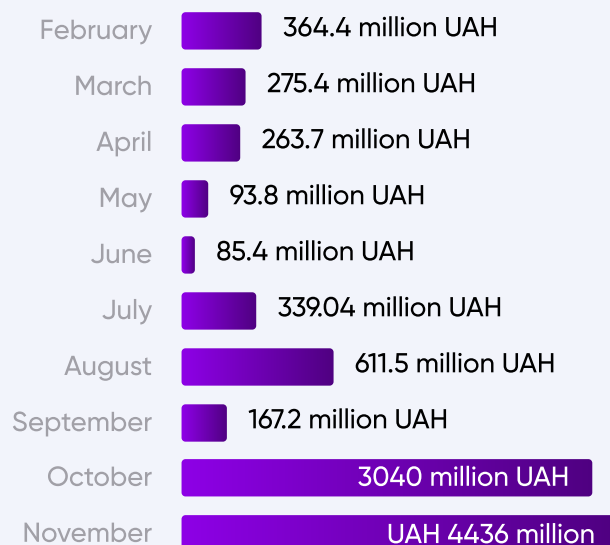
Performance of the State Property Fund of Ukraine (SPFU) in November 2024



4,4 billion UAH
(\$104 million)

The SPFU transferred to the budget in November

Dynamics of budget revenues



In November, the SPFU transferred a record amount of UAH 4.4 billion (\$104 million) to the state budget since the beginning of the year.

This figure was mainly achieved through the second large-scale privatization auction. In November, the winner of the October auction for the sale of United Mining and Chemical Company JSC paid UAH 3.94 billion (\$93.4 million) to the budget for 100 percent of the company's shares.

The winner (and the only bidder) of the auction was Cemin Ukraine LLC, controlled by NEQSOL Holding, an international group of companies that already owns one of the largest mobile operators in Ukraine, Vodafone Ukraine.

According to the European Business Association, UMCC is one of the largest miner of titanium and zirconium ores in the world. Since 2019, UMCC has been managed by the State Property Fund of Ukraine.

The remaining UAH 480 million was generated by small-scale privatization auctions.

Other key performance indicators of the SPFU as of November 2024:

- 35 items have been privatized
- Seven large-scale privatization sites and 1,387 small-scale privatization objects are at the disposal of the SPFU as of Oct. 31 2024.
- 28 assets were recovered as state revenue as a result of sanctions imposed on traitors and citizens of Russia. In November, corporate rights, vehicles, houses and land plots belonging to Russian oligarch Alisher Usmanov and singer Taisiya Povaliy were confiscated. The SPFU plans to sell these assets in the third quarter of 2025.

Assets of another sanctioned Russian oligarch sold as part of a major privatization

In November, the SPFU held its third large-scale privatization auction since the beginning of the year, selling Aeroc, one of the largest aerated concrete producers. The plant belonged to sanctioned Russian oligarch Andrey Molchanov and was confiscated in 2022.

The plant was sold on the online Prozorro auction platform. The company was sold for UAH 1.89 billion (\$44.8 million), almost twice the starting price.

The winner bidder among three was an enterprise belonging to Gennadiy Butkevych's ATB group of companies.

Like all the funds received from the sale of sanctioned assets, the proceeds from the sale of Aerok will go to the Fund for the Liquidation of the Consequences of Armed Aggression.



Expert opinion

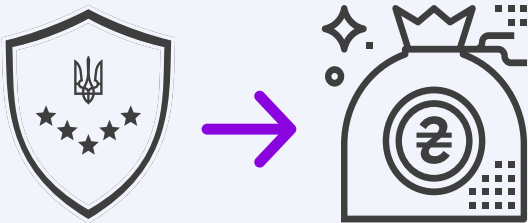
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The large-scale privatization, which started in September 2024 with the sale of the four-star Ukraina Hotel, is being conducted in a transparent manner, which exemplifies a positive example of good governance and policy implementation.

However, the pace of large-scale privatization lags behind the SPFU program presented in July. Two more sites out of the top five planned for this year have not yet been put up for auction. These include the Ocean Plaza shopping mall and Demurinsky mining and processing plant.

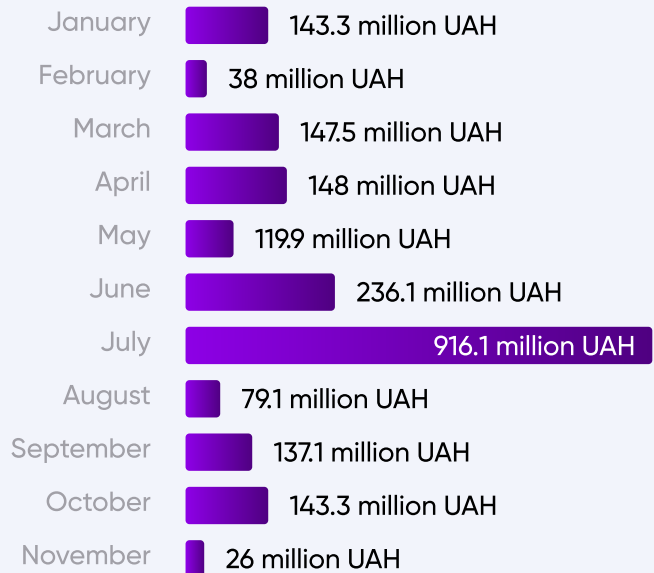
Performance of the Asset Recovery and Management Agency (ARMA) in November 2024



0,026 billion UAH
(\$616,000)

ARMA transferred to the state budget in November

Dynamics of budget revenues



In November, the state budget received UAH 24.1 million from the management of seized assets. Another UAH 1.9 million came from the sale of seized property by the government-run Agency. In particular, UAH 1.02 million was generated by the sale of 79 seized paintings and icons belonging to Viktor Medvedchuk at online auctions.

Other key performance indicators of ARMA

- UAH 2 billion invested by ARMA in so-called war bonds in November, bringing the total amount of these government bonds under ARMA's management to UAH 7.74 billion.
- 13 seized assets for which ARMA has announced tenders for the search for managers
- 10 court decisions on the transfer of seized assets into management



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Ukraine is preparing to reform the ARMA as part of its commitments to the EU under the Ukraine Facility programme. The new law, which is due to enter into force by the end of the first quarter of 2025, should introduce transparent selection of the agency's head, independent external performance evaluation, and clear, transparent rules for the management and sale of seized assets.

The reform also meets the EU's requirements for strengthening the legal framework and improving asset management, as outlined in Ukraine's Progress Report under the EU's 2023 Enlargement Package.

We expect that the national legislature will adopt the law on time, in the first quarter of the new year. Moreover, the need for the law and reform of the Agency is not only due to the demands of international partners.

Vivid examples of this problem are the cases of prosecutors blocking the transfer of seized state property to the management of the winners of tenders or the inability to sell Medvedchuk's seized yacht in Croatia due to the lack of necessary decisions of the Prosecutor General's Office, which we wrote about in previous digests

The new composition of the Supervisory Board of Ukrenergo has been appointed

The Cabinet of Ministers of Ukraine has approved all seven members of the Supervisory Board of NPC Ukrenergo. The renewed composition of the Supervisory Board includes four independent expert members with international experience and three state representatives. The G7 ambassadors publicly welcomed the decision to form the Supervisory Board of NPC Ukrenergo, Ukraine's state-run energy operator.

On Dec. 12, the Supervisory Board held its first meeting, at which independent member Jeppe Kofod was elected chairman and state representative Anatoliy Guley was elected as the deputy chairman. In addition, the Supervisory Board members established and appointed the heads of the Audit, Nomination and Remuneration, Investment and Strategy Committees.

In early September, the previous Supervisory Board dismissed the chairman of Ukrenergo Volodymyr Kudrytskyi following a decision of the Supreme Commander-in-Chief's Staff. Then two independent members of Ukrenergo's Supervisory Board resigned, citing "political motives for Kudrytskyi's dismissal" and political influence on the work of the supervisory body as the reasons.



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Ukrenergo became the first high-profile case where independent members of the supervisory board resigned due to political influence. It is important to note that in the next review of the IMF program, the Washington-based fund added a structural beacon that required the Ukrainian government to appoint a supervisory board with a majority of independent members.

Given that the deadline for compliance was by the end of December 2024, the government fully formed the Supervisory Board in three months. This positively reflects the impact of international partners' commitments.

However, we have cases where there are no such international requirements, and the process of forming a supervisory board lasts for months (for example, in the case of Energoatom, the state-run nuclear energy regulator).

The Cabinet of Ministers may unblock the work of the Supervisory Board of Energoatom

At the end of November, the Cabinet of Ministers of Ukraine adopted a decree that streamlines the terms of contracts for members of Energoatom's supervisory board, both independent and state representatives. The interim chairman of the company's board, Petro Kotin, was given the authority to sign these contracts.

At the same time, the government has amended Energoatom's financial plan for 2024, likely to increase the compensation of independent supervisory board members, upon which the latter insisted.

These steps are intended to resolve the problem at the regulator, where the newly created supervisory board has not been functioning for several months due to the lack of agreement on contracts with independent members.



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Despite the approval of the composition of the Supervisory Board in June 2024, its work is de facto blocked.

The first meeting, which started on July 17, has been going on for more than four months now, as the supervisory board members suspended it until the contracts were signed. The government only approved the terms of these agreements at the end of December, but their signing remains in doubt as it is impossible to assess all the details due to the closed nature of the process.

Formally, the supervisory board exists, but in fact it is not functioning, which casts doubt on the real achievements of corporate governance reform

Instead of implementing effective governance, the situation at Energoatom demonstrates delays and lack of transparency.

It is worth mentioning that the corporatization of Energoatom is one of the key reforms that Ukraine has committed to implement under the terms of the loan agreement with the EBRD.

Although this agreement was signed back in 2013 and ratified in 2014, this particular reform has not been implemented.

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