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**MOD STATE-OWNED ENTERPRISES:
HOW TO OVERCOME CORRUPTION
AND INEFFICIENCY?**

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Author: The Independent Defence Anti-Corruption Committee/ Nezalezhny Antikorruptsiynii Komitet z pytan oborony (NAKO)

NAKO Team: Olha Asadcha, Vikoriia Vyshnivska, Emiliia Dieniezhna, Hlib Kanievsky, Svitlana Musiiaka, Olena Tregub.

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List of abbreviations

CMMD	Central Military Medical Department
AFU MHD	AFU Main Housing Directorate
MPRD	Main Property and Resources Directorate
MID	Main Intelligence Directorate
SOE	State-owned enterprise
AFU	Armed Forces of Ukraine
MoD of Ukraine	Ministry of Defence of Ukraine
a.i.	acting officer
DOO	Department of the Operations Officer

Summary

This brief covers the issues related to state-owned enterprises (hereinafter referred to as “SE”) of the Ministry of Defence (hereinafter referred to as “MoD of Ukraine” or “MoD”). The Ministry of Defence of Ukraine has 114 enterprises under its control (as of January 2020), whose financial situation is constantly deteriorating from year to year, and the vast majority of which are not involved in meeting the needs of either the Ukraine’s MoD or AFU. In addition, in recent years, the Guidelines of the Organisation for Economic Co-operation and Development (OECD) on corporate governance in state enterprises which the Ukrainian authorities have been trying to implement under the existing legislation clearly show that government agencies should be deprived of the functions of total control over state business entities. After all, it results in significant corruption risks constituting a threat to operation and development of such entities.

The objective of this analytical review is to highlight corruption risks standing in the way of implementation of the key objective of the MoD state-owned enterprises. This objective includes meeting the needs of Ukraine’s Ministry of Defence and the Armed Forces as well as providing recommendations to eliminate the identified risks.

The risks are identified not only in management and operation of SOEs but also in the process of their reorganization and liquidation.

The Ministry’s officials refuse to lose control over hundreds of state enterprises despite the failure of overwhelming majority of such enterprises to meet the needs of the Ministry and the AFU, persistent millions in losses due to operation of such enterprises, and government plans for privatization.

The processes of liquidation and reorganization of state enterprises of the Ministry of Defence of Ukraine have stretched out into years, since orders on reorganization and liquidation of MoD state-owned enterprises sometimes lack a fixed completion date for reorganization and liquidation procedures. Liquidation and reorganization committees for MoD’s enterprises are headed by the directors of these SOEs who are interested in hiding the results of their own ineffective work and decisions, while sometimes such committees do not include any representative of the managerial body.

The Ministry’s ineffective HR policy for state-owned enterprises lies in the lack of a transparent and competitive basis for selection of candidates for SOE directors as

well as in practice of appointing acting directors on a permanent basis instead of proper directors.

Recommendations to eliminate the abovementioned risks under the existing Ukrainian legislation and in the context of Ukraine's economic reality include: 1) measures to find out the real state of affairs in legal entities managed by the MoD; 2) defining the working SOEs that are necessary to ensure the statutory activities of the MoD and the AFU in the national security and defence sector; 3) transfer for privatization of the enterprises failing to meet any of the criteria, and 4) introduction of the OECD standards in enterprises that will remain under MoD's management, etc.

To prepare this review, we have used legislative acts regulating activities of the MoD state-owned enterprises, audit certificates of external and internal financial control bodies, and interviews of the Ministry's officials.

This analytical review will be helpful for the officials of Ukraine's Ministry of Defence, the Cabinet of Ministers, Members of the Parliament, managers, lawyers, financial expert, auditors, and all citizens interested in the development of Ukraine's Armed Forces.

Introduction

In today's legislative, financial and managerial reality, the Ministry of Defence of Ukraine as a government authority has not demonstrated the ability to ensure effective control over its own SOEs.

Over the past four years, net financial performance of state-owned enterprises managed by the MoD has consistently deteriorated.¹

Negative results of the financial and economic activities of MoD state-owned enterprises have led to worn-out state of fixed assets and accumulation of various types of debts to creditors and the budget. As a result, we can observe the economic inability to meet the needs of Ukraine's Armed Forces.

In 2018, the MoD drafted a long-term plan to develop its SOEs which is still valid now. However, it seems that this document fails to answer the strategic question: which enterprises out of 114 (which, as of January 2020, are under the ministry's control) are essential to meet the needs of Ukraine's MoD and AFU, and which ones are of no benefit to the defence department.

The lack of strategy to manage the state-owned enterprises, reorganization and liquidation processes which have lasted for years, and the ineffective HR policy of the MoD lead to accumulation of debts at state-owned enterprises and loss of their resources and assets.

Thus, today, the Ministry needs to review its own policy of managing the SOEs. In particular, this analytical report attempts to suggest alternative solutions to reform the Ministry's SOEs. The solutions include a series of measures to reformat the operation of the enterprises and to introduce comprehensive changes in the existing legislation to increase the efficiency of those SOEs which are able to take part in meeting the AFU's needs.

¹ Reports on the implementation of the consolidated financial plan of SOEs of the Ministry of Defence of Ukraine for 2016-2018

I. State-owned enterprises of Ukraine's Ministry of Defence: current situation and the Ministry's capacity to manage them and reform

History of the MoD state-owned enterprises and the best practice

At different periods, different SOEs of various types of activity and which used the property of Ukraine's Armed Forces operated under the MoD management. The main purpose to establish such enterprises is implementation of the MoD's orders and implementation of various tasks for the benefit of the AFU. These tasks include, for instance, military, housing and non-residential construction, maintenance and renovation of barrack accommodation, repair of armament and military equipment, provision of catering, commercial, and hotel services, etc.

Derivative tasks that the existing MoD state-owned enterprises have to perform, just as any other enterprises, are the efficient use of the property of the owner, i.e. the state, and money making.

However, over the last years, the goals and objectives of state-owned enterprises have not been achieved, and this will be explained further in the review.

Currently, numerous business entities are managed by an executive body. This practice was inherited from the period of the USSR's state-planned economy where there were no open market and private enterprises.

In November 1991, the newly established Cabinet of Ministers of Ukraine for the first time officially brought state defence enterprises under the MoD's control. The government decided that Ukraine's MoD should perform the functions of managing state property assigned to the military authorities, associations, formations, units, institutions, enterprises, and organizations subordinate to it. The exception was made for the functions falling within the competence of the State Property Fund of Ukraine.²

Despite three decades of independence, Ukraine's Ministry of Defence has not been able to move away from using its state-owned enterprises, and even shops and hotels remain under its control. This is regardless of the fact that for a long time so far, there have been more successful alternatives on the private market which can and do replace state-owned enterprises in provisioning the AFU.

² Resolution of the Cabinet of Ministers of Ukraine "Issues of the Ministry of Defence of Ukraine" No. 321 dated 20 November 1991

The total cost of the state enterprises transferred to the Ministry of Defence has not yet been precisely established. According to the Accounting Chamber, a large number of enterprises of various types operated in the defence sector in different periods. For business use and operation control, these enterprises were provided with state property worth more than UAH 100,000,000 and registered with the AFU. At the same time, the auditors admit that the above figure is irrelevant, since the ministry has no system to register the property of state-owned enterprises.³

In 2020, the North Atlantic Treaty Alliance decided to grant Ukraine the status of an enhanced opportunities partner. It brings Ukraine a step closer to full participation in NATO and at the same time requires Ukraine to align the enterprise management system of the Ministry of Defence with practice of NATO countries.

International experience shows that ministries of NATO and EU member states form policies and develop a public procurement system to receive reliable private sector contractors, rather than run hotels, construction, renovation or other enterprises.

In addition, the policy of Ukraine's Ministry of Defence on managing its own enterprises contradicts the course of the Ukrainian authorities trying to implement the international practice set out in OECD Principles of Corporate Governance.

In particular, we refer to the following principles:

1. The state's ownership right to a state enterprise is exercised to satisfy the public interest. The state's ownership policy should be clearly defined, transparent and accountable. This policy should be critically reviewed at regular intervals.
2. The state acts as an informed and proactive owner. In particular, it is recommended to simplify and standardize the form of SOE business organization, to ensure autonomy of the state enterprise, professionalism and independence of the supervisory boards, accountability and lack of discretionary powers of the body owning a state enterprise.
3. Clear expression of the state's expectations about the operation of a state-owned enterprise, the state's recognition of the SOE obligations to stakeholders, and full accountability of a SOE to the state, stakeholders and the public.
4. High quality accounting, information disclosure, compliance with legal requirements, and auditing standards.

³ Report on the results of the audit to assess the management of state property and assets assigned to state enterprises of the Ministry of Defence of Ukraine and the use by such enterprises of funds received to fulfill orders of the Ministry of Defense of Ukraine, approved by the decision of the Accounting Chamber No. 4-1 dated 26 February 2019 https://rp.gov.ua/upload-files/Activity/Collegium/2019/4-1_2019/zvit_4-1_2019.pdf

5. The supervisory board of a state enterprise has clearly defined powers, competence, impartiality and integrity.

In order to show the level of disparity between the process of managing the MoD state-owned enterprises and the OECD principles, we just mention the lack of comprehensive and open financial statements on a website of any such enterprise.

Types of the MoD's state-owned enterprises by type of activity

The number of MoD state-owned enterprises is constantly changing and being updated due to liquidation and reorganization of enterprises.

According to the order of the Minister of Defence “On Functional Control over State Property” No. 8 dated 21 January 2020, the total number of MoD's SOEs is 114 enterprises. These SOEs are managed by four different structural units of the Ministry of Defence:⁴

1. The MoD's Main Property and Resources Directorate functionally manages 103 enterprises;
2. AFU Main Housing Directorate – 6 enterprises;
3. The MoD's Main Intelligence Directorate – 3 enterprises;
4. Central Military Medical Department – 2 enterprises.

15 of the above enterprises are now located within the temporarily occupied territories of the Autonomous Republic of Crimea, and Donetsk and Luhansk regions. For example, both health centers of the Central Military Medical Department are located in the Autonomous Republic of Crimea.

According to the MPRD's latest information, out of their 103 subordinate enterprises, 23 enterprises are being liquidated; 10 enterprises are bankrupt; 9 enterprises are being reorganized by either merging with other SOEs or spinning off from other SEs. In addition, 7 SOEs were reorganized in 2019.

⁴ Order of the Minister of Defence “On the Functional Control Over of State Property Under the MoD's Control” No. 8 dated 21 January 2020 <https://bit.ly/3jiJhWG>

For example, the following SOEs are bankrupt:

- Bila Tserkva Military Auction SOE
- Central Specialized Construction Department (self-financing) SE
- Lviv Construction Department SE
- 70th Department of the Operations Officer SOE
- Zaporizhzhia Regional Centre for Social Adaptation of Released Soldiers and Combatants “Polygon” SOE
- Cherkasy Building-and-Erection Department SOE
- Dniprrembudservis SOE
- 971st Department of the Operations Officer SOE
- Kyiv Plant “Remdyzel” SOE
- Odesa Automotive Equipment Maintenance Plant SE

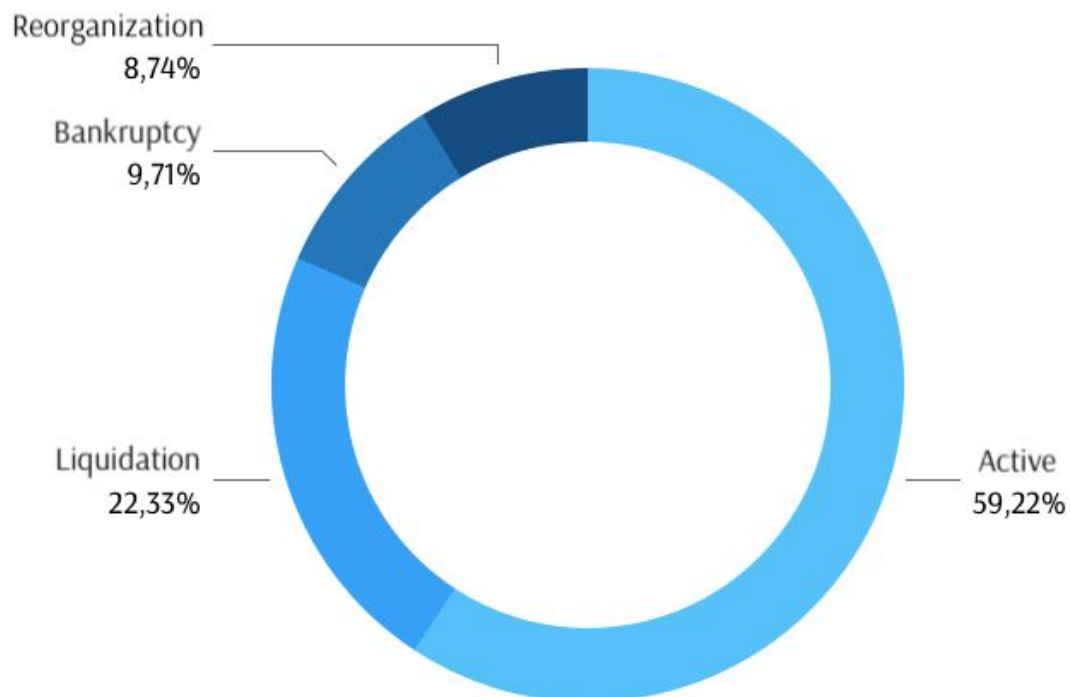
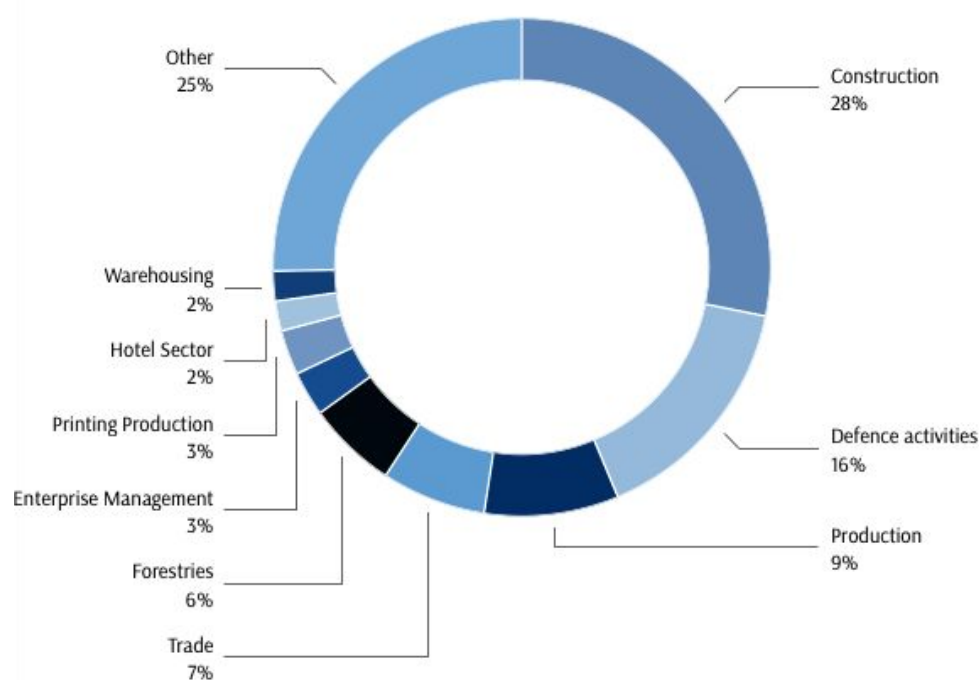


Fig 1. MoD's state enterprises⁵. Information based on interviews with MPRD representatives

⁵ Information based on the interview with MPRD representatives dated 12 March 2020

A wide range of works and services provided by the MoD's enterprises are noteworthy. These are construction, logging, hotel services, etc.



Financial performance of the MoD state-owned enterprises

Over the past four years, net financial performance (income minus loss) of state-owned enterprises managed by the MoD has consistently deteriorated. In 2016, the total annual income of approximately one hundred SOEs was UAH 136,000⁶, while the following year they faced a loss of UAH 22,4 mln.⁷ In 2018, the total annual loss reached UAH 8,2 mln⁸, and in 2019 it was already UAH 38,7 mln.⁹

In total, according to the MoD's consolidated financial report for 2019, the income of all enterprises reached UAH 816,3 mln, while expenses amounted to UAH 855 mln. Thus, SOE dividends were not transferred to Ukraine's state budget.

⁶ Report on the implementation of the consolidated financial plan of state enterprises of the Ministry of Defence of Ukraine for 2016

⁷ Report on the implementation of the consolidated financial plan of state enterprises of the Ministry of Defence of Ukraine for 2017

⁸ Report on the implementation of the consolidated financial plan of state enterprises of the Ministry of Defence of Ukraine for 2018

⁹ Report on the implementation of the consolidated financial plan of state enterprises of the Ministry of Defence of Ukraine for 2019

The SOEs of the Ministry of Defence paid UAH 99,3 mln of taxes to the state budget and UAH 57,5 mln to the local budgets; other payments to the state amounted to UAH 66,3 mln. In 2019, UAH 55,2 mln was paid as a single social security tax.

Labour costs amounted to UAH 274,6 mln. On average, 2,828 people officially worked at the MoD's enterprises in 2019 (40 of them were managers, 768 represented administrative and managerial staff, and 2020 were employees).

Average monthly labour costs amounted to UAH 7,400 per employee, UAH 18,400 per manager, and UAH 9,200 per supervisor.

The total value of SOEs assets is UAH 1,2 bln. However, debts and liabilities exceed half of the asset value, that is, UAH 636 mln.

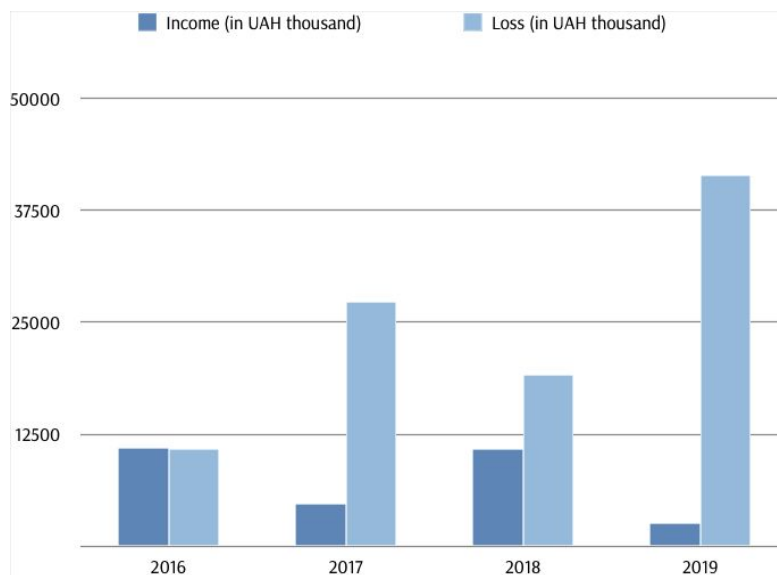


Fig 2. The ratio of income and loss of the MoD's SOEs, based on consolidated reports on implementation of the annual financial plans of the MoD's SOEs

The abovementioned financial performance may be indicative rather final. A lot of enterprises do not provide proper financial statements or provide them with a significant delay. When the Main Property and Resources Directorate requested clarifying information related to financial plans for 2016-2018, all enterprises only partly provided the necessary info. As of the beginning of early 2020, only very few enterprises provided financial statements for 2018.

As MPRD explains, the reason why some enterprises had no financial statements for 2016–2017, and many enterprises were lacking such statements for 2018 is a chronic financial problem at all SOEs, lack of appointed directors at some SOEs, and the loss of constituent documents and accounting records.

Net financial result of MoD SEs (from available data)

Name	2015, UAH ths	2016, UAH ths	2017, UAH ths	2018, UAH ths
Lviv Military Forestry Plant SOE	882	1260	94	-3419
Bila Tserkva Department of Military Construction Works SOE	178	-118	31	
55th DOO	-662	6	30	
Kyiv Logistics Support Office SOE	217	228	222	
Cherkasy Military Forestry SOE	997	1311	1550	
417th DOO	5	18	23	
Odesa Design Institute SOE	23	-46		
Central Design Institute SOE	273	175	209	269
Ivano-Frankivsk Military Timber Plant SOE	2186	2499	478	298
703 Metal-Working Plant Of Boiler Equipment SOE	5	13	-1182	
Kharkiv Logistics Support Office SOE	-180	-228	-1	
Kyiv Department of Mechanization and Construction SOE	61	62	67	
Odesa Construction Materials Plant SOE	17	20		
Bila Tserkva Military Auction SOE	-15	8	32	
643rd DOO	88	-97	13	
Kyiv Mechanical Plant SOE	-1642	-947	105	
Kozatsky Hotel SOE	-2302	-792	-24	
Kyiv Department of the Operations Officer SOE	-161	-583	102	
Kyiv Woodworking Plant SOE	141	-547		
Podilskvybukhprom SOE	16	12,6		
28th DOO	82	84	-2245	
Ukroboronpostachalnyk SOE	0	-164		
1st DOO	55	14	8	
Ukrainian Road and Transport Company “Voienkonvers-43” SOE	-24	-83	1	
Viiskesetmenedzhment Group Company	75	200	-614	
Viysktorhservis Group Company	633,9	582,2	-3419	
Lviv Prefabricated Construction Plant SOE		390	83	
Zakhidviyskbud SOE		-36	5	
Chernihiv Military Forestry SOE		3385	1037	
Ukrspetsnaladka SOE		12	7	
Ukrspetskonversiia SOE			134	15
			Net income	Net loss

Legal framework for the management of MOD state-owned enterprises

The Ministry of Defence manages state-owned enterprises under the general provisions of the existing Ukrainian legislation for all executive bodies.

The MoD functions envisaged in the Law of Ukraine “On Defence” No. 1932 dated 6 December 1991 include, in particular, management of the defence materials transferred to it and the property of enterprises, institutions and organizations under the Ministry’s management.

The Law of Ukraine “On Managing Objects that are in State Ownership” dated 21 September 2006 determines the powers of Ukraine’s Cabinet of Ministers and bodies authorized thereby to implement the rights of the state as the owner of such objects, related to owning, using and disposing such objects to meet public and social needs. The management object of state property is, in particular, the property of SOEs, and the aforementioned ministries are the entities managing state property.

Thus, for state enterprises under the MOD management, the Ministry is the management entity, and the property transferred from the MoD to state enterprises is the management object.

The Regulations on Ukraine’s Ministry of Defence, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 671 dated 26 November 2014, entrusted the Ministry of Defence with selected tasks of SOE management. Namely, it was established that the Ministry shall:

1. establish, liquidate, and reorganize enterprises, institutions and organizations under the MoD’s control, as well as approve regulations thereon (their charters) and perform other functions of managing state property within its powers;
2. appoint and dismiss the heads of enterprises, institutions, and organizations under the MoD’s control; decide on their encouragement and disciplinary actions;
3. keep track of state property under the MoD’s control;
4. submit to the State Agency of Reserve proposals for creation, maintenance and storage of the government reserve material assets at enterprises, institutions, and organizations under the MoD’s control;

5. ensure that enterprises, institutions and organizations supplying military goods for the Armed Forces comply with the requirements of the legislation on creating, storing and using stocks of the government reserve material assets;
6. submit to the Ministry of Economy proposals to create, develop, maintain, transfer, liquidate and sell mobilization capacities at enterprises, in institutions and organizations under the MoD's control;
7. in accordance with the established procedure, organize the exemption of persons liable for military service who work in the MoD from active duties, at enterprises, institutions, and organizations under the MoD's control for the mobilization period and wartime;
8. in the manner prescribed by law, ensure functioning of the system of military registration of citizens through the General Staff of the Armed Forces and together with other military units, central and local executive authorities and local self-government bodies; organize registration for military service of conscripts and persons liable for military service who work in the MoD, at enterprises, in institutions and organizations under the MoD's control;
9. consider citizens' appeals on issues related to the activities of the Ministry of Defence, the Armed Forces, enterprises, institutions and organizations under the MoD's control, and issues related to the acts issued thereby; in the prescribed manner, provide access to public information managed by the MoD;
10. within the powers provided for by law, ensure development and implementation of measures to prevent and fight against corruption and prevent offenses, as well as ensure control over their implementation in the MoD office, at enterprises, in institutions and organizations under its control and in the Armed Forces;
11. select personnel for the MoD office and for the positions of heads of enterprises, institutions and organizations under the MoD's control; organize training, retraining and further training of civil servants and military personnel of the MoD office;
12. organize planning and finance activities in the MoD office, at enterprises, in institutions and organizations under its control; monitor the use of financial and material resources; ensure organization and development of accounting;
13. within the powers provided for by law, ensure the implementation of state policy on protection of state secret, protection of classified information, information security and cybersecurity, and technical protection of information, control over its preservation in the MoD office, at enterprises, in institutions and organizations under the MoD management;

14. ensure functioning of the workplace safety management system in the MoD, the Armed Forces and the State Special Service of Transport; coordinate and monitor it in the military authorities, military units, higher military educational institutions, military educational units of higher educational institutions, military lyceums, institutions and organizations of the Armed Forces and the State Special Service of Transport, as well as at enterprises under the MoD management.

In 2016, by its order No. 258 dated 16 May 2016, the Minister of Defence approved the Regulations on the Main Property and Resources Directorate, by which he assigned this structural unit to be responsible for ensuring implementation of powers to manage state property and assets assigned to state enterprises, institutions, organizations and state business associations under the MoD management.

Strategy to Manage MoD State-Owned Enterprises

At the end of 2018, Ukraine's Ministry of Defence approved the *Projected Reform Scheme for State Enterprises and Institutions under the MPRD's Functional Control until 2022*¹⁰. However, there are grounds to believe that this document does not answer the following strategic question: which enterprises are necessary to satisfy the MoD and AFU's needs.

All measures to reform and create a new management system for the MoD's state-owned enterprises are expected to be implemented until 2022 in the following key areas:

- to define the list of enterprises that are involved or may be involved in order to meet the AFU's needs;
- privatize, liquidate or reorganize enterprises that are not involved in satisfying the AFU's needs or do not have competitive production;
- lease out property complexes which are not involved in satisfying the AFU's needs.

According to this Scheme, 41 SOEs should be left under the MPRD's functional control, excluding 12 SOEs located within the occupied territories and 9 SOEs in bankruptcy.

¹⁰ Letter of the State Secretary to the Minister of Defence No. 21927/3 dated 13 December 2018

It was decided to privatize 6 SOEs.

The following factors cast doubt on the effectiveness of this Scheme.

1. Today, the overwhelming majority of the MoD state-owned enterprises fail to satisfy the AFU's needs.

According to the Accounting Chamber, as of 2019, only one MoD state-owned enterprise fully implemented statutory goals. It was Montazhnyk-Ukraine SOE managed by MID. More than 90% of activities of this SOE are carried out in the interests of the AFU and the MoD's Main Intelligence Directorate. For example, in 2015-2018, construction and installation works performed by the enterprise reached UAH 290,6 mln, and the works performed in the interests of the Ministry of Defence (MoD's MID) amounted to UAH 268,2 mln, or 92.3 percent of the sum total.¹¹

The main reasons why SOEs of Ukraine's MoD fail to meet the AFU's needs include the following:

- Negative results of financial and economic activities;
 - Poor condition of fixed assets (in particular, outdated and faulty equipment);
 - Accumulation of various types of debts, namely, debts to creditors, accounts receivable, arrears of wages, tax arrears on various levels, etc. and
 - Failure to compete with the private sector due to lack of economic resources.
2. The projected scheme to reform state enterprises does not take into account the activities of state-owned enterprises of other MoD's departments, except for the MPRD. These are such departments as MQD, MID and CMMD.
 3. 3. In fact, more than 41 enterprises will remain under the MPRD's control, since 20 SOEs will be added to these 41 SEs. 23 SOEs should be liquidated, and the remnants of their property will be transferred to other MPRD's SOEs.

¹¹ Report on the results of the audit to assess the management of state property and assets assigned to state enterprises of the Ministry of Defence of Ukraine and the use by such enterprises of funds received to fulfill orders of the Ministry of Defense of Ukraine, approved by the decision of the Accounting Chamber No. 4-1 dated 26 February 2019 https://rp.gov.ua/upload-files/Activity/Collegium/2019/4-1_2019/zvit_4-1_2019.pdf

II. Common corruption risks at the MoD state-owned enterprises

Common corruption risks in the enterprise operation

As of today, there are no reasons for optimism regarding the financial recovery of the MoD state-owned enterprises. Following the analysis of the financial performance of state-owned enterprises, the results of internal and external financial and management control over SOEs, and the conducted interviews with representatives of MPRD and other departments of Ukraine's AFU and MoD, a systemic problem leading to deterioration in the financial status of SOEs should be emphasized.

In today's legislative, financial and administrative reality, Ukraine's Ministry of Defence, as a government authority, is unable to ensure effective control over the activities of its state-owned enterprises.

This issue has two components, namely:

1. Lack of strategy to manage state-owned enterprises (including principles of reorganization/liquidation/privatization).
2. Ineffective HR policy.

The abovementioned issues result in typical financial violations at enterprises:

- Accumulation of both credit and debit debt, tax arrears on various levels, salary debt, etc.
- Loss of constituent documents and accounting records of state-owned enterprises.

And as a result, the following violations take place:

- Loss of immovable and movable property listed on the SOE balance-sheet.
- Illegal lease of immovable and movable property, and, sometimes, parts of an integral property complex, for cash.
- Illegal use of SOE fixed assets and personnel for the benefit of private enterprises.

Privatization risks

According to the *Projected Reform Scheme for State-Owned Enterprises and Institutions under the MPRD's Functional Control until 2022*, it was decided that 6 SOEs should be privatized.

List of the MoD's SOEs schedules for privatization

SE	Main activity
209th DOO (209 УНР)	construction management
55th DOO (55 УНР)	construction management
Ukroboronpostachalnyk SOE (ДП "Укроборонпостачальник")	construction management
Druzhbivka Quarry of Non-Metallic Minerals "Quartz" SOE (Дружбівський кар'єр нерудних копалин "Кварц")	extraction of sand, gravel, clay and kaolin
Ukrkonversbud SOE (ДП "Укрконверсбуд")	construction management
417th DOO (417 УНР)	construction management

The main indicator that unites the abovementioned enterprises is that all of them can no longer be involved in satisfying the AFU's needs.

However, financial performance of MoD enterprises and the results of inspections of state-owned enterprises by the MoD's Main Inspectorate and the Military Law Enforcement Service of the AFU confirm the deep economic crisis faced by a large number of MoD enterprises and the management crisis in the Ministry itself. Therefore, there are reasons to believe that the number of enterprises scheduled for privatization is significantly underestimated.

During 2019, the Inspectorate carried out inspections at 4 enterprises, namely, Vinnytsia Engineering and Construction Department SOE , 417th Department of the Operations Officer (planned for privatization), Lviv Prefabricated Construction Plant and Ivano-Frankivsk Military Timber Plant . None of these SOEs is involved in satisfying the AFU's needs.

For example, the inspectors found that Vinnytsia Engineering and Construction Department SOE does not participate in the MoD's construction tenders. SOE

explains the lack of orders for Ukraine's MoD by the failure of the Prozorro system to announce such bidding processes in Vinnytsia region in 2017-2018. However, the inspectors found out that there were tenders in the region, but the SOE failed to participate due to personal reluctance of the management to move equipment and staff within the region.¹²

Since 2009, Vinnitsa Engineering and Construction Department has not received orders from Ukraine's MoD of Ukraine and the AFU.

Due to significant competition in the construction industry in the private sector and participation of many competing companies in tendering procedures, and because of the high price of its products, Lviv Prefabricated Construction Plant does not win tenders and does not receive orders in the interest of MoD and AFU'.¹³

Ivano-Frankivsk Military Timber Plant lacks the necessary forestry, mechanized, and logging equipment necessary to carry out forestry operations for Ukraine's MoD and AFU.¹⁴

As of 1 April 2018, accounts receivable of Ivano-Frankivsk Military Timber Plant was UAH 17,7 mln and its accounts payable was to UAH 45,1 mln.¹⁵

The military police has audited 'Army of Ukraine' Publishing Enterprise. According to the report addressed to the Minister of Defence, since 2013, this enterprise has not been carrying out any activity. This SOE is only involved in legal disputes regarding its immovable property.¹⁶

The findings of the financial control bodies on the SOE efficiency in satisfying the MOD and the AFU needs, as well as the financial performance of SOEs state contradict the MPRD conclusion on the need to privatize only 6 SOEs. The Accounting Chamber and the MoD's internal monitoring bodies have indicated the failure of the overwhelming majority of state enterprises to fulfil their tasks, namely, to satisfy the needs of the MoD and the AFU, to generate income, and keep the economic value of assets. However, only 6 out of 114 enterprises, i.e. 5.2% of the

¹² Report on the results of the inspection carried out at Vinnytsia Engineering and Construction Department SE No. 221/1353 dated 1 June 2018

¹³ Report on the results of the inspection carried out at Lviv Prefabricated Construction Plant No. 221/2115 dated 17 September 2019

¹⁴ Report on the results of the official investigation at Ivano-Frankivsk Military Timber Plant SE No. 221/1134 dated 14 May 2018

¹⁵ *ibid*

¹⁶ Report to the Minister of Defence of Ukraine No. 306/1/257 dated 13 January 2020

total number, were selected by MPRD for privatization.

There are also reasons to believe that MPRD experts are personally reluctant to reduce the number of enterprises under their control. Based on the interviews, it was found that, as of March 2020, instead of 6 SOEs, only 3 SOEs were prepared for privatization. A possible reason for this is that if the number of SOEs under the MPRD management is reduced after privatization, the number of MPRD personnel may be significantly reduced.

At the same time, the government privatization program provided a chance to solve the long-term problems of the MoD state-owned enterprises reorganization and liquidation processes. During this processes, the price of such enterprises has been often reduced, and Ukraine's MoD has lost movable and immovable property and production resources.

Liquidation and reorganization risks

Measures to reorganize and liquidate¹⁷ enterprises within the same management body are a common practice with a number of positive effects, namely:

- increased efficiency of management of enterprises by reducing their number;
- creating conditions for effective internal control;
- increased efficiency of the use of the SOE resources; and
- improved general financial and economic performance of SOEs.

However, such practice, which has proved effective in the private sector, does not work within Ukraine's Ministry of Defence.

As of today, out of 23 MoD state-owned enterprises under liquidation, liquidation process of 9 enterprises (over 30%) started 5 years ago, or even earlier.¹⁸

¹⁷ see Appendices 1 and 2

¹⁸ Information based on the interview with MPRD's representatives dated 12 March 2020

List of MoD SOEs which have been under liquidation for more than 5 years

SE	Year of the liquidation order
Publishing and Printing Enterprise "Glory and Honour" SOE	2007
Department of Capital Construction SOE	2007
Konvers-Skhid SOE	2007
Pivden-Olviia SOE	2007
Military Publishing House of Ukraine "Varta" SOE	2009
Kharkiv Department of Mechanization and Construction SOE	2013
Kyiv Military Cartographic Factory SOE	2014
Montazhnyk-Lviv SOE	2015
Lviv Building and Construction Department SOE	2015

Some of the negative effects of the protracted reorganization/liquidation of the MoD state-owned enterprises are as follows:

- Loss of immovable property for the benefit of private structures;
- Reduction in price of movable property, machinery, equipment, etc.;
- Accumulation of debt due to regular seizures of accounts and property; and
- Informal leasing of the SOEs' immovable property (lease payments in cash).

Some of the disadvantages of reorganization/liquidation processes causing negative effects are as follows:

1. Liquidation committees and committees on SOE reorganization are headed by the directors of these SOEs who are interested in concealing the results of their own ineffectiveness and poor decisions.

In 2015, the liquidation committee of Army of Ukraine SOE was headed by I.V. Zavalenko, who was this SOE's acting director in years 2013-2015.¹⁹

During the liquidation process, the committee made a significant mistake resulting in the failure of the MoD's management body to gain full control over the SOE's assets. The liquidation balance-sheet including information about the enterprise's

¹⁹ Report to the Minister of Defence of Ukraine No. 306/1/257 dated 13 January 2020

property, the list of creditors' claims, and the results of the claims consideration was not provided.

In general, the liquidation of Army of Ukraine SOE lasted for three years until 2018; however, it was never completed. The same year, the Minister of Defence issued an order to reorganize the Army of Ukraine SOE by its merging with Kyiv Logistics Support Office SOE.²⁰

One of the members of the reorganization committee was I.V. Zavalenko. He was appointed as an expert working with state enterprises of the MoD's Viisktorhservis group company.²¹ This happened despite the unsatisfactory performance of Army of Ukraine SOE and unsatisfactory results of this SOE liquidation.

During the reorganization process, it was established that no person was protecting the property of SOE. It is not possible to establish the quantity of property items belonging to the enterprise due to the lack of primary documents. The hard disk with accounting and tax registration materials was removed by unknown individuals. I.V. Zavalenko failed to explain the reasons for the lack of documents and the hard disk.

Thus, I.V. Zavalenko managed to participate in both the unsuccessful liquidation and reorganization of Army of Ukraine SOE (which continued at the time of writing this review), and it was under his management of the SOE that the main documents disappeared, thereby preventing the completion of liquidation and reorganization processes.

2. The liquidation committee and the committee on SE reorganization sometimes lack representatives of the management body (for example, MPRD)

Thus, the management body avoids direct responsibility for reorganization and liquidation results. Also, the management body lacks the operational ability to influence the course of reorganization and liquidation processes.

During the interview, MPRD representatives explained the absence of their own representatives in some committees by objective and subjective factors.

²⁰ Order of the Ministry of Defence of Ukraine No. 333 dated 10 July 2018 "On reorganization of the Publishing and Printing Enterprise of the Ministry of Defence of Ukraine "Army of Ukraine"

²¹ Report to the Minister of Defence of Ukraine No. 306/1/257 dated 13 January 2020

Objective factors are the lack of financial compensation for the committee work, and logistical obstacles. Some SOEs are located far from Kyiv, and reorganization/liquidation can last for months or years, which is why a MPRD representative will have to move from Kyiv to another city for the reorganization/liquidation period.

The subjective factor is that MPRD representatives are often personally reluctant to participate in such committees' work as some SOEs under reorganization/liquidation are located quite far from Kyiv, and the committees' work usually takes a long period of time.

3. Orders on SOE reorganization and liquidation sometimes fail to include a specified completion date of reorganization and liquidation procedures

Thus, these procedures can last for longer than 10 years, and the Ministry of Defence actually loses the ability to effectively manage its own immovable and movable property.

The *Methodological Recommendations on the Reorganization and Liquidation of Enterprises, Institutions and Organizations under Control of the Ministry of Defence of Ukraine approved by the Minister of Defence of Ukraine No. 11930/3 dated 19 September 2011* recommend to include the representatives of the governing body to the reorganization and liquidation committees, and to determine a clear completion date for these procedures. However, the MPRD consistently violates these requirements. This negative practice can be explained by the fact that, prior to the reorganization/liquidation procedure, the MPRD is aware of the SOE's problems and its employees understand that the chosen procedure can last for an indefinite period of time. However, the question remains, why to launch the procedure if there is no indicative information when it should be completed.

HR risks

Challenges in the operation of MoD state-owned enterprises are intensified by the Ministry's ineffective HR policy in the issues related to state-owned enterprises.

The Ministry's HR policy is marked by two characteristics:

- SOEs are mostly managed by acting directors.
- Lack of open and competitive selections to fill the positions of SOE directors.

It is now a common situation when the MoD's state-owned enterprise is managed not by a proper director who signed the contract with clearly defined rights, duties and responsibilities, but by acting directors. The duties of such directors are of temporary nature, but in practice such managers work for years with no specific tasks and responsibilities.

According to the results of audits carried out by the MoD Internal Audit Department during 2019, out of 11 operating SOEs, 7 were headed by acting directors.

For example:

In 2015-2018, 643th DOO state-owned enterprise was headed by acting director S.A. Parkhomenko. The audit identified financial violations resulting in losses in the amount of UAH 1,3 mln.²²

In 2017-2019 (audit completion date), Department of Capital Construction SOE was headed by acting director A.I. Iliukha. The audit identified the funds and property management risks in the amount of UAH 15,1 mln.²³

In 2015-2019, Ukrkonversbud SOE was headed by acting director A.I. Iliukha. According to the SOE financial statements, as of 2019, its accounts receivable amounted to UAH 20,3 mln and its accounts payable amounted to UAH 17,5 mln.²⁴

In 2013-2019 (audit completion date), Department of Capital Construction and Investment SOE was headed by acting director V.I. Salivon. Accounts payable amounted to UAH 18,2 mln; accounts receivable were not examined "due to lack of documents". The audit identified financial violations resulting in losses in the amount of UAH 5,1 mln.²⁵

Labour relations between director of Vinnytsia Engineering and Construction Department SOE V.I. Korobkov and the MoD deserve special mention. As of 2019, Korobkov carried out the functions of managing the enterprise on the basis of his own order of 2011, according to which Korobkov unilaterally extended his own powers.²⁶

²² Letter of the MoD's Internal Audit Department No. 234/3640 dated 9 October 2019

²³ In the same letter

²⁴ In the same letter

²⁵ In the same letter

²⁶ Report on the results of the inspection carried out at Vinnytsia Engineering and Construction Department SE No. 221/1353 dated 1 June 2018

Some of the negative effects of the failure to appoint heads and conclude contracts with them are as follows:

- Lack of responsibility for the failure to implement financial plans, loss of assets and violation of labour legislation.
- Lack of MoD's control over the process of asset acceptance and transfer from one head to another, resulting in the risk of asset losses.
- Lack of control over accumulation of accounts payable and accounts receivable.

The practice to ignore transparent and competitive selection for top positions leads to a situation where vacancies are filled by directors with questionable professional achievements.

The Accounting Chamber auditors noted the MoD's ill-considered and inconsistent HR policy, based on the examples of Ivano-Frankivsk Military Timber Plant SOE and Kharkiv Department of Mechanization and Construction SOE.

In 2018, the temporary director's duty was entrusted to M.I. Kochetyhov, who had already been the head of the timber plant and made economically unjustified decisions that resulted in the risk of losing the enterprise's assets and created preconditions for bankruptcy.²⁷

The chairman of the liquidation committee of Kharkiv Department of Mechanization and Construction SOE P.H. Yakhno, without any authorization, took possession of the charter, registration documents, seals and stamps, originals of service contracts, accounting records and financial statements, decrees regarding the enterprise, and other documents. During the employment period of P.H. Yakhno, the enterprise did not maintain any accounting records, and documents received from the previous director were destroyed or hidden.²⁸

²⁷ Report on the results of the audit to assess the management of state property and assets assigned to state enterprises of the Ministry of Defence of Ukraine and the use by such enterprises of funds received to fulfill orders of the Ministry of Defense of Ukraine, approved by the decision of the Accounting Chamber No. 4-1 dated 26 February 2019

²⁸ In the same report

*“The location of the enterprise’s assets is unknown. Since taking the position, we have not heard from the chairman of the liquidation committee P.H. Yakhno, and there is no information about his whereabouts”.*²⁹

Such an ineffective policy is caused by discretion in the MoD’s regulations governing the appointment of SOEs’ directors.

The procedure to appoint and dismiss heads of MoD state-owned enterprises is established by the order of the Ministry’s State Secretary *“On Approving the Instruction on the Procedure for Appointing and Dismissing Heads of MoD State-Owned Enterprises”* No. 5ДC dated 13 April 2017.³⁰

According to the Procedure for Appointing and Dismissing Heads of SOEs, heads of enterprises are appointed under terms of signing a contract by order of the State Secretary based on the results of a competition or substantiated proposals from a MoD’s structural unit entrusted with the SOE functional control.

In order to fill the vacant position of the enterprise director, the military authority submits to the State Secretary information on the financial standing of the enterprise, areas of concern and ways to address them, the results of internal audits, as well as proposals on a competitive selection or the candidate (candidates) for the position of the enterprise director, and the possible term of the contract with him.

In the first case, the competitive selection is carried out by decision of the State Secretary in the manner prescribed by the Resolution of Ukraine’s Cabinet of Ministers *“On the Competitive Selection of Heads of Business Entities in the Public Sector of the Economy”* No. 777 dated 3 September 2008.

In the second case, the heads of the CMMD, MHD, AFU, MPRD and MID have unrestricted opportunities to choose candidates for the SOE positions without taking into account the criteria of professionalism and previous management success.

Ukraine’s MoD prefers the second option, which is why the criterion of the candidate’s personal loyalty to the head of the MoD’s structural unit, which is not taken into account during competitions, may become a decisive factor.

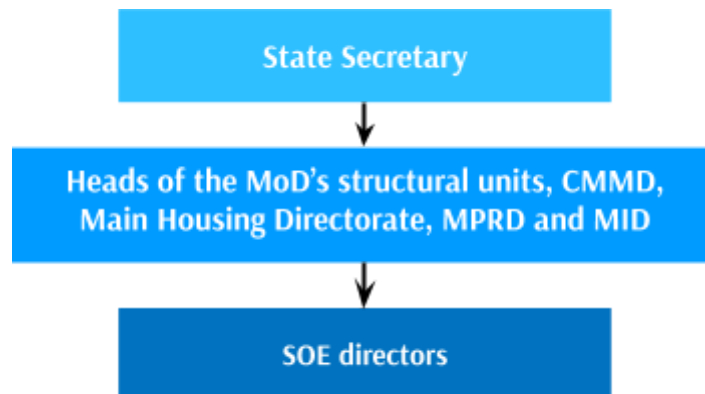
²⁹ Report of the Accounting Chamber

³⁰ <https://bit.ly/3h5XQuQ>

The term of the contract concluded with the SOE director is also discretionally determined by the head of the structural unit. The contract can be concluded for a period of one to five years and comes into effect upon signing by the parties. It is the basis to issue an order on appointing a person as director of the enterprise from the date specified in the contract.

Proposals on the contract term are substantiated by the military authority, subject to the tasks and the financial and economic status of the enterprise, the candidate's work experience at similar or managerial positions in business entities in the public sector of the economy, or other managerial positions and circumstances.

The discretions of the State Secretary regarding the final choice of the content of the contract concluded with the candidate creates, in fact, conditions to establish an unofficial hierarchy of personal dependence in the following order:



Lack of clear performance indicators in the contract to give a reasonable and timely estimate of the SOE director's performance and to establish the contract term by the head of the MoD's structural unit only increases the personal dependence on the discretionary powers of the latter.

III. Recommendations on elimination of corruption risks related to the activities of the MoD state-owned enterprises

State enterprises are one of the “weaknesses” in the management activity of the Ukraine’s Ministry of Defence, which was indicated in the 2019 Program of Activities of the Cabinet of Ministers.³¹

The lack of strategy to manage the MoD state-owned enterprises, reorganization and liquidation processes that lasted for years, and ineffective HR policy result in the accumulation of the SOE debt, the loss of their resources and assets, exclusion from the processes of satisfying the AFU and MoD’s needs and, thus, in defeat in competition with the private sector.

The reform of MoD state-owned enterprises should be implemented in accordance with the recommendations of the OECD Principles of SOE Corporate Governance³² which aim at ensuring the SOE efficiency effectiveness of SOEs in the free and open market.

However, prior to implementation of these principles, based on the analytical and statistical data provided in this review, it is recommended to carry out advance preparation under current Ukraine’s legislation and taking into consideration Ukraine’s economic realities.

In order to ensure efficient management of MoD state-owned enterprises, it is necessary to introduce comprehensive changes to the current legislation and regulations of Ukraine’s Ministry of Defence and to take a series of measures to reformat the SOE operation.

1st measure lies in organizing and taking measures to establish the real state of affairs in legal entities under the MoD management, namely, the availability of title certificates, performance results, financial and economic indicators, the availability and condition of fixed movable and immovable property, personnel resource, etc. With should be done with the involvement of independent bodies, organizations or experts in the form of audits, inspections, monitoring, etc. according to the developed plan and by using a single set of tools to ensure the collection of reliable data for further managerial decisions.

³¹ Resolution of the Cabinet of Ministers of Ukraine “On Approval of the Program of Activities of the Cabinet of Ministers of Ukraine” No. 188-IX dated 4 October 2019

³² <https://bit.ly/2Cgjs8U>

2nd measure is carried out on the basis of data obtained as a result of the 1st measure and lies in dividing the enterprises into two groups: operating enterprises and enterprises planned for privatization/ These groups should be formed based on a number of criteria, including, but not limited to:

1. executors of the State Defence Order for the MoD, MIA, Security Service of Ukraine and other customers;
2. executors of tenders for the MoD and the AFU;
3. availability of property and resources necessary to implement the functions of the MoD and the AFU.

This will enable singling out only those operating SOEs which are necessary to ensure the statutory activities of the MoD and the AFU in the national security and defence system. Such enterprises must remain under the MoD's control.

In case enterprises do not meet any of the above criteria, they become subjected to privatization.

This will enable quick release of the Ministry of Defence from unnecessary functions of control over redundant enterprises and property.

3rd measure lies in adopting new and updating the existing regulatory legal acts of Ukraine's Ministry of Defence, in particular:

1. adoption of the Strategy to Manage Legal Entities under the MoD Control. The Strategy should formalize the OECD Guidelines on Corporate Governance for SOEs as the basic principles of implementing the functions of the managerial body. The Strategy should also define the goals and priorities of such management, performance indicators, etc.;
2. introduction of the competitive selection for the positions of heads of legal entities under the MoD's control, in particular, by amending the Procedure to Hold a Selection for the Position of a Director of MoD State-Owned Enterprises;
3. statutory formalization of the competence of the MoD management to appoint the SOE directors as well as define in accordance with the current legislation their contract term, the directors' performance indicators, and the directors' clear responsibility for failure to implement financial plans, loss of assets, and violations of labour legislation;

4. settlement of issues related to reorganization or liquidation of legal entities by foreseeing clear completion dates for the reorganization/ liquidation process; prohibition for the head of a legal entity to manage the reorganization/liquidation committee; mandatory participation of a MPRD representative as the committee chairman in the reorganization/liquidation committee.

4th measure includes two legislative developments:

1. adoption of a law on writing off unrecoverable debts of MoD state-owned enterprises owed to government agencies.

This will allow financial rehabilitation of SOEs remaining under the MoD management and SOEs planned for privatization, similar to financial rehabilitation of SOEs that were part of Ukroboronprom (“Укроборонпром”) state defence conglomerate in 2012.³³

2. adoption of a law on creating a special account in Ukraine’s state budget where 100% of the funds received from the sale of state enterprises will be directed. Funds from this account will be used to purchase housing for the AFU military personnel.

This will allow to engage officials of Ukraine’s Ministry of Defence in unpopular privatization measures.

³³ Law of Ukraine “On Some Issues of Debts of Military and Industrial Complex Enterprises that are Part of the Ukroboronprom State Concern, and Ensuring of Their Stable Development” No. 5213-VI dated 6 September 2012.

Appendix 1

Procedure for Terminating a State-Owned Enterprise of Ukraine's Ministry of Defence by its Merger into another SOE

1. Selection of the MoD state-owned enterprise which will be the successor of all rights and obligations of the SOE being reorganized.
2. Assignment to the legal successor of all the rights and obligations of the SOE being reorganized, fixed capital, operating assets and other values of the SOE being reorganized as contributions to its authorized capital, based on the right of economic management according to the approved deeds of conveyance.
3. Appointment of the termination committee.
4. Appointment of the committee chairman who shall:
 - 4.1 notify in writing the body carrying out state registration at the enterprise's location of the SOE reorganization of a state enterprise. It should be done within three working days from the date of the order, and the chairman shall submit the documents envisaged in the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" in order to make an entry on the decision to terminate the legal entity in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations;
 - 4.2 publish in the media a message on the termination of a legal entity (a state enterprise) and information on the procedure and time limits for the creditors to file claims against it (claims are filed by creditors in writing within two months from the date the termination of the legal entity was announced). This message should be published in selected media where the legal entities have to inform about the termination of state registration of the legal entities.
 - 4.3 take the necessary measures to collect accounts receivable from the state enterprise being reorganized;
 - 4.4 ensure compliance with the requirements of the Civil and Economic Codes of Ukraine, labour legislation of Ukraine, the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" in the process of termination of the state-owned enterprise;
 - 4.5 in accordance with the labour legislation of Ukraine, ensure the observance of the rights and legally protected interests of employees of the state enterprise being reorganized;

- 4.6 within two weeks after the order, ensure that the representatives of the MoD's Internal Audit Department are fully provided with documents that, in accordance with paragraph 5.4 of the Internal Audit Standards approved by order of the Ministry of Finance of Ukraine No. 1247 dated 4 October 2011, are sources of audit evidence;
- 4.7 draw up a deed of conveyance and submit it for approval to Ukraine's Minister of Defence, when the time limit for creditors to present their claims expires, and the claims are either satisfied or rejected;
- 4.8 following the approval of the deed of conveyance, ensure the submission of the documents envisaged in the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" to the bodies that have registered the state enterprise being reorganized, for state registration of the legal entity's termination due to its merger;
- 4.9 ensure compliance with the requirements of the Ukrainian legislation on the protection of classified information and its physical media;
- 4.10 transfer an inked seal, an inked letterhead stamp and the first copy of the deed of conveyance to the Branch State Archives of Ukraine's Ministry of Defence under the established procedure in accordance with the deed;
- 4.11 destroy inked seals and inked letterhead stamps with Roman numerals II, III, etc., as well as other seals, under the established procedure in accordance with the deed;
- 4.12 together with the Branch State Archives of the Ministry of Defence of Ukraine, agree upon the act of transferring to the legal successor documents of the SOE being reorganized; the retention period for these documents is up to 10 years inclusive;
- 4.13 in accordance with the established procedure, transfer to the Branch State Archives of Ukraine's Ministry of Defence the documents drafted in the course of activities of SOE being reorganized.

Appendix 2

Procedure for Terminating a State-Owned Enterprise of Ukraine's Ministry of Defence

1. Appointment of the liquidation committee.
2. The liquidation committee chairman shall:
 - 2.1. notify in writing the body carrying out state registration at the enterprise's location of the liquidation of a state enterprise, within three working days from the date of the order, and submit the documents envisaged in the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" in order to make an entry on the decision to terminate the legal entity in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organizations;
 - 2.2. publish in the media information on the state registration of a legal entity being terminated, publish a message on the termination of a legal entity (a state enterprise) and information on the procedure and time limits for the creditors to file claims against it (claims are filed by creditors in writing within two months from the date the termination of the legal entity was announced);
 - 2.3. take the necessary measures to collect accounts receivable from the state enterprise being liquidated;
 - 2.4. ensure compliance with the requirements of the Civil and Economic Codes of Ukraine, labour legislation of Ukraine, the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" when carrying out the procedure of terminating a SOE;
 - 2.5. provide an inventory of the existing property of the state enterprise being liquidated;
 - 2.6. ensure observance of the rights and legally protected interests of employees of the state enterprise being liquidated, in accordance with the labour legislation of Ukraine;
 - 2.7. give notice to the head of the SOE being liquidated of the upcoming layoff within the period envisaged in Article 49-2 of the Labour Code of Ukraine, and also ensure compliance with other requirements of this article;
 - 2.8. submit information on the upcoming layoff of the head of the SOE being liquidated to the state employment service in accordance with the Law of Ukraine "On Employment of Population";
 - 2.9. following the expiration of the time limit to present claims by creditors and satisfy or reject these claims, ensure preparation of an interim liquidation balance-sheet of the state enterprise being liquidated, which

- must contain information on the property of the enterprise, a list of creditors' claims and the results of their consideration, as well as ensure its submission for approval to Ukraine's Minister of Defence;
- 2.10. ensure the payments by creditors of the SOE being liquidated, in the order of priority established by Articles 111 and 112 of the Civil Code of Ukraine;
 - 2.11. following the approval of settlements with creditors, ensure the preparation of the liquidation balance-sheet of the SOE being liquidated and guarantee its submission for approval to Ukraine's Minister of Defence;
 - 2.12. make suggestions on the further use of property of the state enterprise being liquidated, which remained after the satisfaction of the creditors' claims;
 - 2.13. following the approval of the liquidation balance-sheet, ensure the submission of its notarized copies to the body carrying out state registration at the location of the SOE being liquidated;
 - 2.14. ensure compliance with the requirements of the Ukrainian legislation on the protection of classified information and its physical media;
 - 2.15. transfer an inked seal and an inked letterhead stamp to the Branch State Archives of Ukraine's Ministry of Defence under the established procedure in accordance with the deed;
 - 2.16. destroy inked seals and inked letterhead stamps with Roman numerals II, III, etc., as well as other seals, under the established procedure in accordance with the deed;
 - 2.17. together with the Branch State Archives of Ukraine's Ministry of Defence, agree upon the act of transferring documents of the SOE being liquidated, the retention period of which is up to 10 years inclusive, and add it to the liquidation balance-sheet;
 - 2.18. in accordance with the established procedure, transfer to the Branch State Archives of Ukraine's Ministry of Defence documents drafted in the course of activities of the SOE being liquidated, the storage period of which is more than 10 years, together with the first copy of the liquidation balance-sheet.

References

The following sources were used to prepare this analytical review:

Interviews with the officials of the Ministry of Defence of Ukraine
Financial statements of the MoD's state-owned enterprises for 2015-2018

Laws of Ukraine:

- Civil Code of Ukraine
- Economic Code of Ukraine
- Law of Ukraine “On Some Issues of Debts of Military and Industrial Complex Enterprises that are Part of the Ukroboronprom State Concern, and Ensuring of Their Stable Development” No. 5213-VI dated 6 September 2012
- Law of Ukraine “On Prevention of Corruption” No. 1700-VII dated 14 October 2014
- Law of Ukraine “On Defence” No. 1932-XII dated 6 December 1991
- Law of Ukraine “On Privatization of State and Communal Property” No. 2269-VIII dated 18 January 2018
- Law of Ukraine “On Management of State Property” No. 185-V dated 21 September 2006

CMU regulations:

- Resolution of the Cabinet of Ministers of Ukraine “On Approval of the Regulation on the Ministry of Defence of Ukraine” No. 671 dated 26 November 2014
- Resolution of the Cabinet of Ministers of Ukraine “On the Model Contract with the Head of a State Enterprise” No. 597 dated 2 August 1995
- Resolution of the Cabinet of Ministers of Ukraine “On Competitive Selection of Heads of Business Entities in the Public Sector of the Economy” No. 777 dated 3 September 2008

Documents of the Ministry of Defence of Ukraine:

- Report on the results of the inspection carried out at Vinnytsia Engineering and Construction Department SE No. 221/1353 dated 1 June 2018
- Report on the results of the official investigation at Ivano-Frankivsk Military Timber Plant SE No. 221/1134 dated 14 May 2018
- Report on the results of the inspection carried out at Lviv Prefabricated Construction Plant No. 221/2115 dated 17 September 2019

- Report to the Minister of Defence of Ukraine No. 306/1/257 dated 13 January 2020
- Recommendations on the Reorganization and Liquidation of Enterprises, Institutions and Organizations under Control of the Ministry of Defence of Ukraine, approved by the Minister of Defence of Ukraine No. 11930/3 dated 19 September 2011
- Letter of the State Secretary to the Minister of Defence No. 21927/3 dated 13 December 2018
- Letter of the Head of the Main Property and Resources Directorate No. 329/3/3 dated 4 April 2017
- Order of the Ministry's State Secretary "On Approving the Instruction on the Procedure for Appointing and Dismissing Heads of State Enterprises under Control of the Ministry of Defence of Ukraine" No. 5ДC dated 13 April 2017
- Order of the Minister of Defence "On Approving the Regulations on the Main Property and Resources Directorate" No. 258 dated 16 May 2016
- Order of the Minister of Defence "On the Functional Control over State Property" No. 8 dated 21 January 2020

Documents of other authorities:

The report on the results of the audit to assess the management of state property and assets assigned to MoD state-owned enterprises and the use by such SOEs of funds received to fulfil orders of the Ministry of Defence of Ukraine, approved by the decision of the Accounting Chamber No. 4-1 dated 26 February 2019.