

PRESS RELEASE

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### **NAKO withdraws from engagement with UkrOboronProm citing stalled reform efforts**

The Independent Defence Anti-Corruption Committee (NAKO) announced that it would withdraw from engagement with UkrOboronProm, due to the failure of the Government and Presidential Administration to make progress in establishing an independent Supervisory board.

The committee had hoped to support efforts to reform the state-owned enterprise, both by providing advisory services and by advising the Government and Presidential Administration on the steps needed to establish an independent and effective Supervisory board for the Company. Recommendations were provided to Deputy Head of the Presidential Administration Valeriy Kondratiuk, who committed to supporting their implementation. Oleh Rybachuk, co-chair of NAKO, said:

*We hoped we could contribute to reducing the high corruption risk that exists in UkrOboronProm today, and ensure that UkrOboronProm is overseen by an independent, effective board, so that the firm could do what it should: provide our troops with the equipment they need and use taxpayer funds wisely. Unfortunately, we do not see that this presidential administration has the political will for real change.*

At the invitation of UkrOboronProm, NAKO has monitored UkrOboronProm's procurement of a consulting firm to advise and support the implementation of governance reform. Without an independent Supervisory board in place, however, the NAKO committee determined that the procurement of a consultant would be out of line with Ukrainian legislation (Article 6 of the Law of Ukraine "On features of management of objects of state-owned property in the defence industry complex" requires Supervisory board sign-off on strategy, audit, and reorganisation of the Company). More importantly, the procurement of a consultant would have little chance of affecting substantive change.

The OECD Principles on Corporate Governance of State-Owned Enterprises represent good practice internationally on governance of state-owned enterprises. According to these principles, the government is responsible for establishing well-structured, merit-based and transparent board nomination processes in State-owned enterprises. These boards are required to provide strategic guidance and monitor management, and are ultimately accountable for the Company's integrity and performance.

*Given the allegations surrounding senior political leaders' relationship with UkrOboronProm, it is absolutely vital that the Supervisory board is genuinely independent, said Drago Kos, co-chair of the NAKO. In a time of war, the largest state-owned defence enterprise must meet the needs of the troops – [not political leaders.] The only way for this to happen is through a supervisory board that is independent and trusted by the Ukrainian public.*

NAKO announced that it would work with others to develop concrete recommendations on how to put in place an independent Supervisory board in 2018, and offered their continued support to the government on their implementation.

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***The Independent Defence Anti-Corruption Committee (Nezalezhny Antikorrupciynii Komitet z pytan oborony, or "NAKO")*** is a joint initiative established by Ukrainian activists, journalists and international experts to fight corruption in the Ukrainian defence sector. The NAKO is a national-international project of Transparency International Defence & Security and Transparency International Ukraine, and is supported by the Ministry of Foreign Affairs of the Netherlands.

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