

## Project summary

# Promoting responsible business conduct in Ukraine's energy sector

The OECD project *Supporting Energy Sector Reform in Ukraine (2019-2021)*, implemented with financial support from the Norwegian Ministry of Foreign Affairs, included a review of responsible business conduct (RBC) in Ukraine's energy sector. This project component examined RBC due diligence practices in energy companies in Ukraine and provided support in implementing recommendations under the OECD RBC instruments, particularly the *Guidelines for Multinational Enterprises and Due Diligence Guidance for Responsible Business Conduct*.

The project consisted of analytical and capacity-building activities, as follows:

- (i) a study of RBC due diligence practices in Ukraine's energy sector, as well as a specific contribution to the *OECD Energy Investment Policy Review of Ukraine*; and
- (ii) peer-learning and experience-sharing sessions among energy companies, with OECD experts, regarding RBC due diligence.

The project activities fed into the development of policy recommendations and key considerations for reform. These are further described in this note.

## PROJECT PARTICIPANTS

Companies participating in the project were selected based on their involvement in Ukraine's energy supply chain and engagement with RBC practices. Participation was voluntary. Companies participating in the project included Naftogaz, UkrGasvydobuvannya, UkrEnergo, Energoatom, Ukrhydroenergo, GTSOU, DTEK, RGC, Smart Energy, and Ocean Group, among others. The project also engaged actively with Ukraine's National Contact Point (NCP), the Ministry of Environment and Natural Resources, and other representatives of the government, civil society, and the international community. Project implementation on the ground, including liaison and co-ordination, was supported by DiXi Group.

## (i) Study of RBC due diligence practices in Ukraine's energy sector

To understand RBC due diligence practices in Ukraine's energy sector, the OECD RBC Centre conducted surveys of key energy companies operating in the country. The surveys, carried out between November 2020 and February 2021, sought to identify current practices, gaps, and opportunities for improvement based on the [OECD Due Diligence Guidance for Responsible Business Conduct](#). The OECD team also relied on supplementary desk research to address information gaps and to identify broader RBC-related issues and practices throughout the sector.



The findings of the survey and supplementary research were used to develop the OECD study [Responsible business conduct due diligence practices in Ukraine's energy sector](#). The preliminary version of the study was made available in June 2021 and discussed during a roundtable involving energy companies that participated in the survey, as well as selected representatives of the government, civil society, and the international community. The discussions helped frame topics for the subsequent capacity-building activities held with energy companies in July and September, as described below. Following the discussion, comments and capacity-building activities, the study was revised and formally launched at a high-level event in December 2021.

## (ii) Peer-learning and experience sharing

Following the study, two capacity-building workshops were organised with project participants. Based on the conclusions and policy considerations, as well as feedback from the participants during the roundtable discussion in June, the (virtual) capacity building activities covered (i) the essentials of due diligence for energy sector practitioners (July 2021), and (ii) promoting RBC due diligence in supply chains and business relationships in Ukraine's energy sector (September 2021). The workshops targeted representatives of energy companies and each involved approximately 20 participants and subject-matter experts.

### **Capacity-building activity 1: Essentials of RBC due diligence for energy sector practitioners in Ukraine.**

This first workshop focused on providing an understanding of key concepts and methodologies in carrying out RBC due diligence based on the OECD six-step framework within the companies' own operations, including embedding RBC policies, identifying and assessing adverse impacts, preventing, ceasing and mitigating risks, engaging in monitoring and evaluation, communicating impacts and providing remedy, as needed. As part of experience sharing, the workshop included case study presentations from energy companies, namely DTEK and Ukrenergo, regarding their existing RBC due diligence frameworks, including the adoption of RBC strategies and risk-management functions, efforts in carrying out due diligence, and adherence to international instruments and standards. The workshop also involved interactive scenarios, inviting participants to solve case studies focusing on embedding RBC frameworks within companies' management systems.

### **Capacity building activity 2: Promoting RBC due diligence in Ukraine's energy supply chains and business relationships.**

This second workshop provided targeted guidance and advice on applying the RBC due diligence framework throughout the companies' supply chains and business relationships. In outlining how the RBC due diligence framework could help mitigate supply chain risks, specific topics focused on identifying and verifying due diligence practices of control points, integrating RBC expectations throughout supplier contracts, and enhancing stakeholder engagement, among other issues. Participating companies outlined a number of challenges in advancing supply chain due diligence, including issues related to legal, regulatory and policy frameworks (such as the procurement law), a lack of liberalisation of energy markets, and corporate governance issues in state-owned companies. Interactive scenarios focused on human and labour rights, as well as environmental challenges within the energy supply chain, allowing companies to share their experiences and explore possibilities in mitigating these impacts.

**Follow-up survey.** After the second workshop, the OECD conducted a follow-up survey among companies that had participated throughout the project, including initial stages of the study and capacity-building activities. The survey sought to understand developments in promoting RBC due diligence among the participants over the duration of the project (i.e. over the previous 12 months) and to provide an opportunity for feedback as part of understanding project outcomes.

## Key outcomes and considerations

Even though certain changes can take longer to implement, given that the development of new policies and frameworks requires lengthy consultations and approval processes, preliminary project outcomes helped capture instances where change has been introduced, as well as considerations that will likely lead to change beyond the duration of this project. In particular:

- *Strengthening RBC due diligence frameworks.* Most companies participating in the project confirmed improvements in their due diligence frameworks over the past year, including in embedding RBC policies, monitoring implementation, and setting up grievance mechanisms. Key drivers for adopting RBC-related policies have included growing interest by board members and management, as well as reputational risks and engagement with local communities.
- *Embedding RBC.* Key RBC areas targeted by Ukraine's energy companies include environmental protection, technology and innovation, and anti-corruption, followed by health and safety measures, disclosure, and gender issues. In addition, six companies in the follow-up survey stated that they have increased efforts to comply with international RBC frameworks and standards, including the UN Global Compact and ISO, while working towards meeting SDGs.
- *Monitoring supply chain risks.* Most companies have yet to strengthen efforts to map RBC risks throughout supply chains, with reasons for delays including a lack of resources, limited information from suppliers, and the absence of legal requirements to do so. However, some companies stated that following their participation in the OECD workshops and experience sharing sessions, they had started looking into supply-chain risk-mapping, which they expect will continue moving forward.
- *Improving RBC disclosure.* Most of the participants noted that they continue to issue either stand-alone reports related to RBC, or integrate relevant information within their annual and non-financial reports. While annual reports are available for previous years, only a few have already issued 2020 reports. On a broader scale, further efforts will be needed to improve transparency and disclosure practices of both financial and non-financial information among companies throughout the sector.

Moreover, as outlined in [Ukraine's Energy Investment Policy Review](#) (2021), the project shows that further and more concrete efforts will be needed to promote effectively an enabling environment for RBC. Recommendations include:

- streamlining RBC-related policies throughout the sector and strengthening and enforcing existing frameworks on environmental protection, and human and labour rights;
- improving the functioning of institutional frameworks, to include strengthening the role of the National Contact Point and raising awareness regarding RBC due diligence instruments to mitigate adverse impacts; and
- strengthening anti-corruption institutions and promoting high standards of transparency and disclosure, as well as improving non-financial reporting requirements.



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## UKRAINE AND THE OECD

This work falls under the OECD project Supporting Energy Sector Reform in Ukraine (2019-2021), conducted with the financial support of the Government of Norway. The project is implemented in close co-operation with key Ukrainian stakeholders, including the Ministry of Energy, the Ministry of Finance, the Ministry of Economy, the Cabinet of Ministers, and other relevant public bodies. It also benefits from inputs from civil society, academia, business sector, and relevant international partners.

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