



NAKO

TI UKRAINE • TI-DS



2019 ANNUAL REPORT

The Independent
Defence Anti-Corruption
Committee (NAKO)

CONTENTS

About us	4
Introductory word	7
NAKO Strategic Objectives and Results	10
Objective 1: Tackling corruption in defence spending and promoting good governance in defence sector	11
Promoting and implementing reforms based on NAKO's research and recommendations for the Ministry of Defence and other government bodies	12
Building a corruption-free system of social welfare for servicemen and women, the housing issue included	13
Creating a legal framework and corruption prevention mechanisms for the Ministry of Defence in purchasing and using of goods and services	14
Objective 2: Increasing accountability and transparency of Ukraine's defence industry	16
Improving the corporate governance model of Ukroboronprom by introducing the OECD standards	17
Reducing corruption risks in the state defence industry	18
Transparent competitions and recruitment of the new staff	21
Objective 3: Reducing over-classification and strengthening civil democratic control	22
Reducing over-classification in the defence sector	23
Strengthening parliamentary oversight over the defence sector	24
Strengthening civil democratic control over the defence sector, civil advocacy of reforms and participation in policy making	25
Objective 4: Developing NAKO as an independent organization	28
Building proper governance of the organization	28
Development and approval of internal policies and procedures	29
Team development	30
Building external and internal communications	30
Financial Report	32
Organizational structure	33
Donors and Partners	34

ABOUT US

This is how different stakeholders remember cooperation with NAKO in 2019:



“As a presidential candidate, I marked corruption in defence as one of the top priorities and outlined my steps in case of winning. Now we are actively moving towards fulfilling the promises and are ready to cooperate with NAKO in order to fight corruption within Ukraine’s defence sector”.

Volodymyr Zelensky,
President of Ukraine



“Civil society plays an important role in the defence sector reforms. In particular, I would like to note the contribution of Transparency International Defence & Security and NAKO. One of the TI-DS projects which covers the Ministry of Defence is the Government Defence Integrity Index”.

Andriy Zahorodniuk,
Minister of Defence of Ukraine
(August 2019 – March 2020)



“NAKO is a story of expertise, civil oversight and support for development of the best practices. This organization is a kind of an “eternal engine” which relentlessly gives impetus towards decreasing corruption risks within the caste-ridden defence and security sector. Thank you for being with us!”

Mariana Bezuhla,
Deputy Head of the Parliamentary Committee
for National Security, Defence and Intelligence



—”

“NATO Liaison Office in Ukraine appreciates the contribution of the NAKO’s experts to the process of defence procurement and defence industry reforms. NATO advisors have participated and contributed to numerous NAKO events: seminars, public discussions and presentations of the research results. In November 2019 we have supported the NAKO’s training on parliamentary control over the defence and security sector organized for selected MPs and their assistants. NAKO’s experts have also contributed to the NLO events, particularly during thematic donor coordination meetings focused on defence and security issues”.

Alexander Vinnikov,
Head of NATO Liaison Office in Ukraine



“Decreasing corruption risks in defence is always important, especially during the war. NAKO makes considerable efforts to promote transparency and accountability within this sphere. The Committee’s research and expertise are valuable for decision-makers and the society”.

Andriy Borovyk,
Executive Director of Transparency
International Ukraine

—”

—”

“For three years of my work at the US Embassy in Ukraine my job was related to different anti-corruption initiatives. During this time NAKO was a very important partner, definitely a trustworthy one. The experts of this organization provided expertise on fulfilment of implementation of the MoD Program for Internal Control in order to guarantee minimal human and material losses of Ukraine’s Armed Forces”.

Robert Steven Silverstein,
Senior Defence Advisor of US Embassy in Ukraine



NAKO'S STORY

Defence and security budget has been breaking records for several years in a row. The defence and security sector functions under high political pressure, limited civil control and excessive secrecy. There are significant behind-the-scenes conflicts of interests that are compromising top-level officials. In the best case, a lack of coordinated system of internal and external “checks and balances” leads to ineffectiveness. At worst - causes corruption. Corruption provokes conflicts and human rights violations.

Corruption in Ukraine is a deeply political problem. Within the defence and security sector it cannot be solved only through technical assistance. Also given the weak structures of democratic oversight, different groups of civil society are not always capable to advocate positive changes directly.



NAKO
TI UKRAINE • TI-DS

In order to build within a sector such a system of governance that actually serves people's interests, Ukraine needs an external body, not only an independent one, but also a politically influential and able to cooperate with defence institutions.

Thus in 2016, Transparency International Defence and Security (TI), a global anti-corruption network, together with Transparency International Ukraine have created such a body - the Independent Defence Anti-Corruption Committee (NAKO). In 2019 NAKO became a separate non-governmental organization.

OUR MISSION AND OBJECTIVES



government.

NAKO analyzes corruption risks within Ukraine's defence sector and provides recommendations

to the state authorities as to reducing the level of corruption. The organization helps promote transparency and strengthen accountability to the society in the state defence institutions, assists the reform process and performs public control.

Our mission is to improve governance and mitigate corruption risks within Ukraine's defence and security sector.

INTRODUCTORY WORD



STEVEN FRANCIS,
Director of Transparency
International Defence and
Security (2019-2020), member
of NAKO Board

For some 15-years now, Transparency International's Defence and Security programme (TI-DS) has led the way in putting corruption in defence and security on the agenda of the world's policy makers, defence companies, international organisations, and civil society. One of five global programmes within the TI movement, TI-DS is based in London from where it works for a world where open governments served by transparent defence institutions are accountable to ordinary citizens. Our research and experience confirms that peace and stability is best achieved when national defence and security strategies and the institutions that deliver them are accountable and clearly linked to the interests of the citizens they should serve. Defence industry too should provide capability based on the same clear national defence strategies in a fair and open market, and be held to account through effective oversight mechanisms rooted in functioning civil societies and transparent government procurement systems. Perhaps

best known for our two indices – the Government Defence Integrity Index and Defence Companies Index, the programme also conducts research and produces reports which aim to shine a light on the corrosive effects of corruption within the sector as well as its relationship with conflict, where it can often ferment civil unrest before going on to sustain the violence which can follow.

The programme also works alongside other TI national chapters in a number of countries on defence and security related topics, and it's in that context that in 2016, TI-DS in partnership with TI-Ukraine, judged that the conditions demanded the establishment of a separate body able to focus exclusively on the specific challenges of corruption in Ukraine's national defence sector – the Independent Defence Anti-Corruption Committee (NAKO). Given the political nature of corruption in Ukraine, the aim was to create a part Ukrainian, part International group of anti-corruption experts could be both independent of existing structures, yet sufficiently influential to allow it to gain traction with the country's defence establishment.

With Ukraine's defence budget now reaching unprecedented levels, it is unfortunate that the sector still operates behind a still largely opaque veil of secrecy and with very limited public oversight. Behind the scenes serious conflicts of interest remain. The net result is

inefficiency and waste at best; and at worst the perpetuation of mistrust, unrest and conflict. Now more than at any time, Ukraine deserves better and if left unchecked the stakes are only going to get higher. But there is some cause for optimism as well. The recently elected government has moved swiftly to pass and implement much needed legislation and engage seriously with civil society, the international community and other experts. Reform minded and conscious of the promises it made to win the election, the current government has opened a window of opportunity which needs to be seized. Bodies like NAKO are well placed to contribute and are being listened to, but perseverance and patience are required in equal measure. Problems that have been years in the making cannot be changed over-

night, and the hard work required to lead ambitious reform programmes needs to be relentlessly sustained.

It is against that backdrop, that NAKO itself is about to enter a new and exciting chapter of its own. Having been incubated as a project within TI-DS, NAKO achieved independent legal status under Ukrainian law in December 2018. Over the next year, work will continue to help it become financially self-sustaining as well. The aim is that greater independence together with a continued close association with TI-Ukraine – and through that, the wider TI Movement – will provide the foundation a securer future and for further successes in the continued fight against corruption in this most important of sectors.

OLENA TREGUB, NAKO Executive Director

The year of 2019 began not only with the start of the presidential campaign, but also another corruption scandal. Journalists published the investigation exposing a large-scale scheme of how Ukrainian top-level officials profited at the expense of the war and the state defence order in particular. The three-series investigation has made the topic of defence corruption more mainstream. It also raised the demand for radical changes in the system of supplying the Armed Forces. The need for transformation of the state defence enterprise 'Ukroboronprom' or the so-called 'monster' of Ukraine's military-industrial complex has become obvious.

Since the very first day of its creation in 2016, NAKO has been working on these exact issues and has developed a significant number of reports and recommendations for the government on how to mitigate corruption in such a complex and strategically important sector as defence.



Presidential politics and elections helped us attract more public attention to this complicated issue.

We decided to address the presidential candidates directly on how they were going to

tackle corruption in defence, and this is how the Presidential Questionnaire project was born. We have collected the vision and the plans of the potential Commanders-in-Chief regarding fighting corruption in the defence sector. The Questionnaire project helped us not only to learn the views of the candidates on the defence corruption but also to receive the action plan from Volodymyr Zelensky who is now the sixth President of Ukraine on how he was going to tackle some of the most critical areas of the defense sector reform.

The President publicly committed to review the current defence procurement practices and policies, mitigate corruption risks in the MoD land management system, radically change the defence housing system, and introduce a fundamentally new legislation regarding protection of the state secret. It was important for us that the President didn't avoid the Ukroboronprom (UOP) issue. In fact, he supported implementation of the OECD corporate governance standards for state enterprises and the independent review and audit of UOP's activity and its member companies. It's worth mentioning that we did not have to wait long for the first steps to be taken. For more than 2 years, NAKO had been advocating for the independent financial audit, and we were glad to see that the newly appointed UOP-management fulfilled this promise immediately and continued with a commitment of the large-scale corporate governance reform. Not only UOP Board and management were injected with fresh blood but also a number of major UOP companies changed directors. The new directors have been selected transparently and with consideration of the opinion of the members of the Parliamentary Committee, Embassies of the US, France and UK, and NAKO.

In 2019, we also managed to build extremely productive relationships with the new management of Ukroboronprom, the Ministry of Defence, the Ministry of Economy and the Parliamentary Defence Committee. NAKO was also able to establish contact with the Prosecutor General's Office, the National

Security and Defence Council and the Parliamentary Anti-Corruption Committee.

Due to active communication with the government bodies, we managed to highlight the defence procurement issue, which the President promised to solve answering our Questionnaire. In summer we presented the report outlining the main corruption risks in Ukraine's state defence order. It helped us to create a coalition of stakeholders determined to do their best to reform the procurement system. We ended up being actively involved in the development of the new draft law aimed to radically change the state defence order system. In December, the draft law "On Defence Procurement" was voted by the Parliament in the first reading. We expect it will be adopted in the first half of 2020.

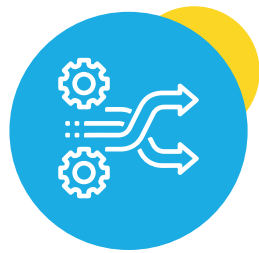
One can say that the year 2019 gave us not only political neologisms such as "turboregime" and "monocoalition", but also new hopes for reducing the scale of corruption in defence. However, there is still a lot of work to be done. Ukraine clearly needs the new approach to classification policy because it is an important prerequisite for the effective reform of the defence procurement system. Moreover, a balanced approach to secrecy is the foundation for transparency and accountability of the whole defence and security sector. Ukroboronprom transformation will stay on agenda: in 2020 the state defence enterprise has to receive its first independent financial audit results but it's only the beginning of the reform. We should also remember about the defence housing queue which is only getting bigger and bigger while the risks of losing more defence land as a result of ineffective management are in place. At the very end, no top level corrupt official has not been put to jail as promised. One of the reasons for that is that the law enforcement system remains ineffective and thus defence corruption investigations are delayed.

Political reality of 2019 has laid a promising foundation but will such positive dynamics continue in future?

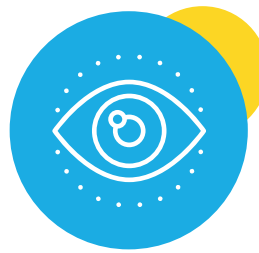
NAKO STRATEGIC OBJECTIVES AND RESULTS



Tackling corruption in defence spending and improving governance in the sector



Transforming Ukroboronprom



Reducing over-classification and strengthening civil democratic control



Developing NAKO as an independent organization

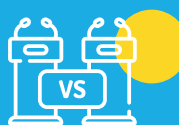
2019 IN NUMBERS



50+ working groups



41 public event



1 talk-show with presidential candidates



3 publications:
2 analytical briefs and
1 compendium of recommendations



120 mentions in media



7 legal analyses



87 anti-corruption recommendations for the government



45 expert interviews held to prepare the research briefs



OBJECTIVE 1: TACKLING CORRUPTION IN DEFENCE SPENDING AND PROMOTING GOOD GOVERNANCE IN DEFENCE SECTOR

NUMBERS IN 2019:



- **5** recommendations developed to mitigate corruption risks in the implementation of the State defence order



- **More than 45** interviews held while developing briefs



- **62** general recommendations presented to the government to mitigate corruption risks



- **4** legal analyses held



- NAKO partook in **40** working groups meetings

FOCUS:

1 Promoting and implementing reforms based on NAKO's research and recommendations for the Ministry of Defence and other government bodies.

2 Building a corruption-free system of servicemen social welfare, housing issue included.

3 Creating a legal framework and corruption prevention mechanisms for the Ministry of Defence in purchasing and using goods and services (defence procurement).

RESULTS:

- NAKO recommendations on the MoD key corruption risks are consolidated and presented;
- NAKO recommendations are included in the Anti-Corruption Strategy prepared for the government by selected Ukrainian NGOs led by the Center for Political and Legal Reforms;
- A survey for servicemen on the best possible ways to solve the housing issue is developed by NAKO and conducted by OSCE;
- A research on corruption risks in the State defence order (SDO) with recommendations on its further reform is published and presented;
- The draft Law "On Defence Procurement" developed in cooperation with NAKO is adopted in the first reading.

Promoting and implementing reforms based on NAKO's research and recommendations for the Ministry of Defence and other government bodies

NAKO's Compendium of Recommendations

NAKO analysts have systemized all the recommendations developed by the Committee between 2017 and the first half of 2019, reviewed their implementation based on the publicly available information, and also asked the government experts to assess how the recommendations were implemented. Based on the experts' feedback, selected recommendations were modified and presented to policymakers in both English and Ukrainian.

NAKO recommendations included in the Government Action Program

NAKO has been systematically working with the government and its agencies to include NAKO's recommendations in a number of strategic documents and policy plans. In 2019 the Cabinet of Ministers of Ukraine published a detailed Action Program which included a number of objectives consistent with NAKO's recommendations. For instance, the program includes the issues of how to improve the defence land and real estate management, to ensure transparency and competition in the procurement process, and solve the defence housing queue issue.



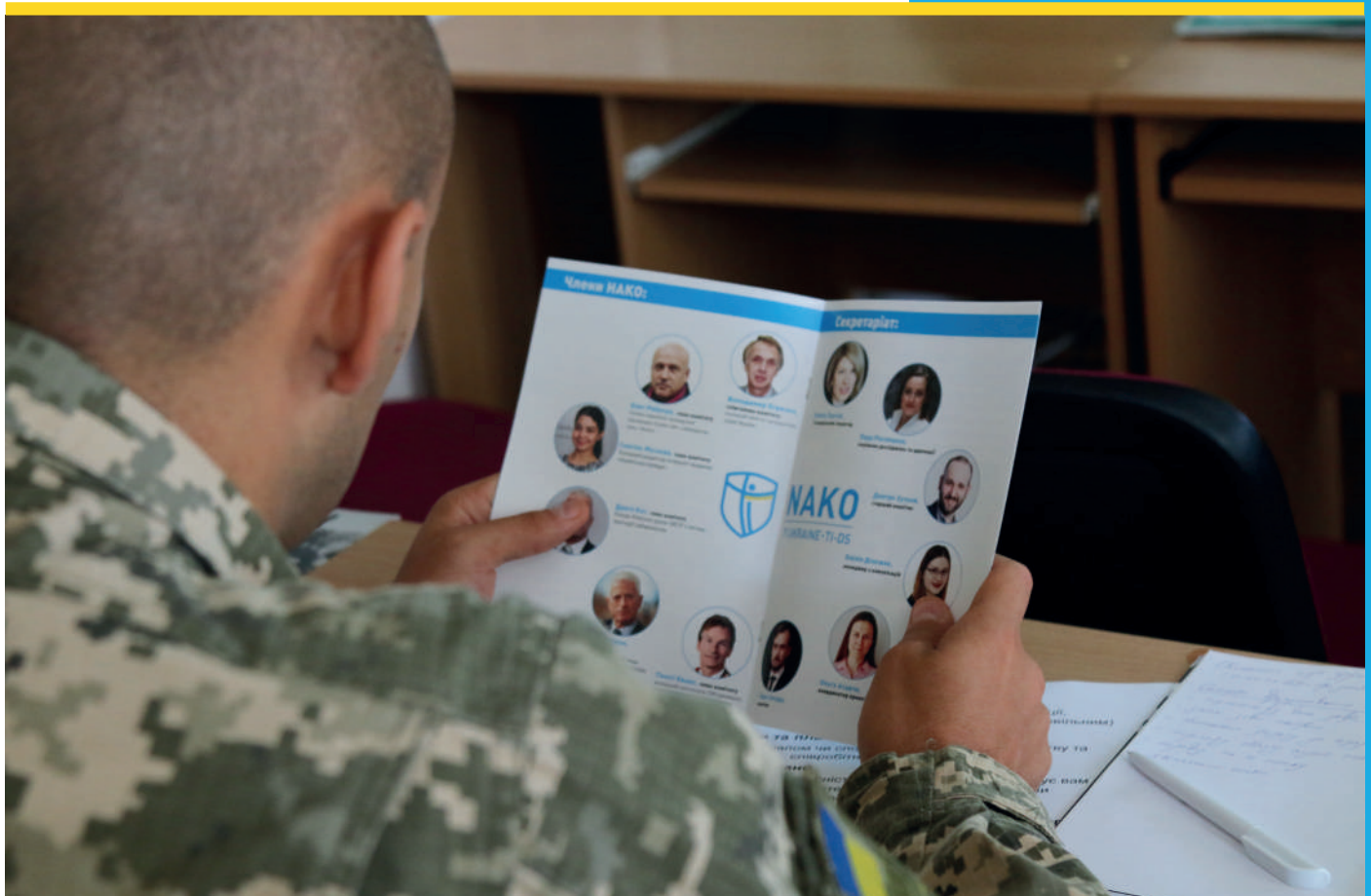
Building a corruption-free system of social welfare for servicemen and women, the housing issue included

Within NAKO's activity related to the reform of the defence housing system, we established cooperation with the OSCE Mission in Ukraine. In particular, NAKO developed a 5-question survey for the senior staff of the Armed Forces on the best ways to solve the defence housing issue, while the OSCE representatives conducted the survey during selected public events. NAKO provided presentation materials for these seminars.

OSCE is covering 8 Ukrainian cities with their seminars (Dnipro, Odessa, Lviv, Kharkiv, Rivne, Mykolaiv, Vinnytsia, Kyiv) during autumn 2019 - spring 2020.

The results of the survey we have received will be taken into account while developing the advocacy strategy aimed at solving the housing problems of the servicemen and women.

OSCE-led National Survey





Creating a legal framework and corruption prevention mechanisms for the Ministry of Defence in purchasing and using of goods and services

As of 2019, the State defence order made up approximately 10% of the total defence and security budget which is UAH 212 bln.

Systemic shortcomings and excessive secrecy at all levels of SDO's implementation add to the corruption risks. In practice, when the SDO is formed, it does not focus on the specific needs of the Armed Forces of Ukraine or other law enforcement agencies. Instead, it focuses on the budgeted financial resources and opens up the loopholes for the responsible officials to profiteer from the supply of armaments and military vehicles.

In June 2019, NAKO mobilized Ukrainian civil society actors to sign and present the Declaration where the signatories called for the government to reform the SDO immediately, and declared the intention to support the reform comprehensively.

The document was signed by a number of NGOs, in particular: the «Ukrainian Defense

and Security Industry» association, the «League of Defense Companies of Ukraine» civil organization, the Center for Army, Conversion and Disarmament Studies, StateWatch, the Dnipro Space Cluster, the Maidan of Foreign Affairs Foundation, the U.S.- Ukraine Business Council (USUBC). NAKO members handed the Declaration over to Secretary of the National Security and Defense Council of Ukraine Oleksandr Danyliuk.

To reveal the issues of the state defence order and corruption risks within the system, NAKO conducted a research and published a report titled «Reforming the State Defence Order». Based on the results of the study, NAKO analysts developed a number of recommendations to mitigate corruption risks in the existing defence procurement system.

The study was presented to the representatives of the Ministry of Defence, the newly elected MPs, defence attaches, selected NGOs

and the expert community.

In autumn, Verkhovna Rada started to work on the new draft law “On Defence Procurement”. Members of the parliamentary Committee on National Security, Defence and Intelligence, the Ministry of Defence, the Ministry of Economy, the representatives of state defence conglomerate ‘Ukroboronprom’, defence-related producers and the civil society experts, particularly NAKO, worked together to develop the draft law.

On October 9, a round-table co-organized by NAKO took place on the platform of the Committee on National Security, Defence and Intelligence. During the event, the defence procurement reform was discussed, including NAKO’s recommendations based on the report. A special focus was on the draft law which was supposed to replace the existing Law “On State defence order”. The round-table was open not only for the Ukrainian stakeholders, but also for the international partners.

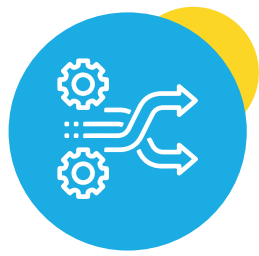
NAKO was actively involved in the activity of the Committee’s working group which was de-

veloping the draft law. In particular, we consolidated and presented the views of the civil society and experts to the policy makers. All NAKO’s recommendations were included in the draft.

On November 7, the draft law №2398 “On Defence Procurement” was introduced by the MPs of the specialized committee to the Parliament. Within a month, the draft law was modified and adopted in the first reading on December 5: 293 deputies supported the draft law.

For the first time in history of Ukraine’s defence sector, a draft law was developed together with all the key stakeholders, including the profile governmental bodies, both state and private armament developers and civil society: the MPs, representatives of the Ministry of Defence and Ministry of Economy, Presidential Office, Security Service of Ukraine, SC Ukroboronprom, The Association «Ukrainian Defense and Security Industry», Public Organization “League of Defense Companies of Ukraine”, independent experts and international partners. NAKO led the coordination effort and ensured the process was open and inclusive.





OBJECTIVE 2: INCREASING ACCOUNTABILITY AND TRANSPARENCY OF UKRAINE'S DEFENCE INDUSTRY

2019 NUMBERS:

• 50 candidates for positions of directors of UOP member companies analyzed	
• 6 corruption schemes at Ukroboronprom studied	• 20 recommendations on reducing corruption risks developed
• 3 legal analyses held	• NAKO took part in 10 working groups meetings

FOCUS:

Reforming the UOP corporate governance by introducing the OECD standards.

1

Reducing corruption risks in the state defence industry.

2

Transparent competitions and recruitment of the new staff.

3

RESULTS:

- Successfully advocated for the renewal of the UOP Supervisory Board and its composition;
- Main corruption schemes at Ukroboronprom were analyzed, published, and presented in line with recommendations for minimizing the risks;
- Helped UOP develop the terms of reference for financial and legal audits, assessment of its corporate governance for adherence to the OECD standards, and transparently procure the audit service;
- For the first time in the history of the state defence conglomerate, the independent international financial audit of Ukroboronprom was launched (the auditor is Baker Tilly);
- NAKO as a civil society representative was invited to join the meetings of the Nomination Committee which considered the candidates for directors of UOP member companies.



Improving the corporate governance model of Ukroboronprom by introducing the OECD standards

Fighting corruption at Ukroboronprom depends directly on its capability to build up adequate corporate governance mechanisms. Thus, it is very important for its Supervisory Board to be truly independent and viable.

Effectiveness of such a body within a state defence enterprise of such a size is a key to success in implementing its transformation strategy, corporatization and financial plans. This is why over the recent years NAKO has actively insisted on the need to ensure such independence and effectiveness of UOP's Board.

In different periods, the work of the Supervisory Board stopped and resumed at different times. The need to conduct the international financial audit of the state defence enterprise remained, but the Board and the Audit Committee was required for this.

According to the current requirements, the Board consists of 5 members: three of them are the representatives of the President, while the other two are appointed by the Cabinet of Ministers. NAKO is advocating the need for independent members.

In July 2019, President Zelensky renewed the composition of the Supervisory Board. Ai-

varas Abromavicius, David Arakhamiia and Andrii Zagorodnyuk became the Board members. A few months later, Abromavicius became the Director General of the UOP, while Zagorodnyuk was appointed the Minister of Defence and Arakhamiia became the Head of "Sluha Narodu" faction in the Parliament. Hence, Volodymyr Zelensky appointed the new members of the Board, namely his aide Andrii Iermak, Director General of "Ukrposhta" Ihor Smiliansky, and the Executive Director of "Naftogaz" Iurii Vitrenko. Simultaneously, Oleh Prokhorenko of "Ukrgezvydobuvannia" was appointed to the Board by the Cabinet of Ministers. Thus, the Supervisory Board of the state defence enterprise was relaunched. Its management started to work on conducting the international financial audit, a corporate governance reform and implementation of the OECD standards in partnership with NAKO.

NAKO contributed to the draft of the new corporate governance model, including the new rules of the Supervisory Board selection and functioning. NAKO provided recommendations for the new legislation and the change of the existing laws which is required to enable the corporatization of UOP and introduction of OECD corporate governance principles.

Reducing corruption risks in the state defence industry

“Ukroboronprom: the Schemes”, a brief

A number of investigative reports highlighting corruption at Ukroboronprom proved the existence of structural problems that lead to ineffective use and misappropriation of both the state budget funds and the funds of the UOP member companies.

NAKO published an analytical brief describing six main schemes that can be used for illegal enrichment within UOP and its member companies.

The study raised the issue of misappropriation of the MoD surpluses assets, export and import corruption schemes, particularly the “grey” import. The brief also focused on the price fixing between the procurement participants, this includes price overstatement and conflict of interest which arises during the arms export.

Based on the results of the research, NAKO analysts developed selected recommendations that can reduce opportunities for corruption if implemented. The report was publicly presented to the Ukrainian and international audience and handed over to the management of the state defence enterprise, as well as government officials. The recommendations focused not only on building up stronger internal controls and compliance mechanisms within the UOP, but also changing regulations at the governmental and parliamentary levels.





NAKO has been recommending conducting an independent international audit of Ukroboronprom since 2017. NAKO emphasized that the Supervisory Board and its Audit Committee had to control tendering of the auditor, the process had to be transparent and should involve international partners and non-governmental organizations.

First negotiations between NAKO and Ukroboronprom regarding the audit started in 2017, however this process was artificially delayed due to the lack of political will at the top of the political leadership of the country. NAKO, as a civil oversight body that consistently advocated for such an audit and actually was its initiator, joined the process of preparation for the audit.

NAKO together with involvement of the international partners helped develop the terms of reference for the audit, find financing and engage reputable international companies in the competition.

In July 2019, after the change of management and the Board at the UOP, NAKO's preparatory work was in demand, the documentation for procuring the auditing services was updated and properly used. For the first time in Ukrainian history, in early September the auditor for the international independent financial audit of Ukroboronprom was finally selected and started the audit. It was Baker Tilly.

According to the plans of the Board, the 2019-2020 financial audit will be followed by the strategic and corporate governance audits.

In addition, NAKO helped the management of the UOP to develop terms of reference for a forensic audit which will be conducted in 2020 at selected member companies to reveal potential corruption and fraud cases.

The independent financial audit of Ukroboronprom

Legal analysis of the new statute of Ukrspetsexport

After the management change in September 2019, journalists from Bihus.Info reported that Pavlo Bukin, the former Director General of Ukroboronprom, had initiated and introduced changes to the statute of the main export company right before his dismissal, in a non-transparent way. Ukrspetsexport is a state company controlled and coordinated by Ukroboronprom specializing in export and import of military and special-purpose products and services. NAKO with the support of an independent external legal expert analyzed the statute changes and identified a number of corruption risks.

As a result, NAKO recommended 'Ukroboronprom' to optimize the statute of Ukrspetsexport in order to minimize the identified corruption risks. The statute changes actually removed the company's activity from the orbit of the state defence conglomerate, both institutionally and operationally. The head of Ukrspetsexport received almost full autonomy in important management and financial processes (such as personnel decisions, structural company changes, staff disciplinary actions and approval of financial plans). These changes also put the company's relatively independent subsidiaries, Spetstechno-export, Ukrinmash, Ukroboronservice, Promoboronexport, Progres and Tasko-export, in the position of severe dependence. Moreover, defining Ukrspetsexport in that new statute as a legal entity under private, not public law potentially could have helped its officials to avoid e-declarations. It's because according to the Law of Ukraine "On Preventing Corruption" the declarations have to be submitted only by officials of the legal entities under public law. NAKO analysis and the recommendations were used not only by 'Ukroboronprom' but also by the international partners.





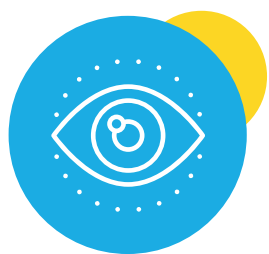
Transparent competitions and recruitment of the new staff

After both presidential and parliamentary elections, NAKO realized the need for personnel reshuffles in Ukraine's defence industry. In July, 2019, NAKO in coordination with the civil society partners addressed the government with a joint statement on the need for transparent appointments in the military-industrial complex (MIC).

In response, Ukroboronprom made its personnel policy more transparent and competitive. In 2019 NAKO representatives partook in a number of Ukroboronprom's nomination com-

mittee meetings which selected directors for its biggest member companies.

The representatives of Verkhovna Rada, NSDC, the Embassies of the US, France and the UK, and the civil society joined the Nomination Committee. NAKO and our colleagues from StateWatch ensured civil society monitoring of the process. As a result of the nomination committee's work, directors were selected for Zhytomyr Armored Plant, Morozov Design Bureau, Kyiv Armored Plant, Plant 410 CA, Zorya-Mashproekt and Malyshev Plant.



OBJECTIVE 3: REDUCING OVER-CLASSIFICATION AND STRENGTHENING CIVIL DEMOCRATIC CONTROL

2019 NUMBERS:



- established contact with **47** MPs of 8 & 9 convocations and **38** parliamentary assistants



- held **1** training for the MPs and their assistants



- initiated and supported **5** official statements from the civil society, particularly the Declaration to call for the State defence order reform



- effectively cooperated with **55** representatives of government, including the Ministry of Defence and the Ministry of Economy

FOCUS:

Reducing over-classification in the defence sector.

1

Strengthening parliamentary oversight over the defence sector.

2

Strengthening civil democratic control over the defence sector, civil advocacy for reforms and participation in policy making.

3

RESULTS:

- the Presidential Questionnaire project implemented and “7 Questions about Defence” talk-show featuring presidential candidates and their representatives organized;
- the Parliamentary Pledge, a project aimed at raising awareness of future MPs of parliamentary oversight over the defence and security sector implemented; commitment for effective oversight received from the main parties and MPs;
- a training for the MPs & their assistants organized, in line with several pro-reform coalition building events;
- at the request of the Parliamentary Committee for National Security, Defence and Intelligence NAKO's experts were included in the official list of the Committee's experts;
- NAKO helped develop the National Security Strategy and the NATO-Ukraine Annual Program;
- NAKO recommendations were included into the National Anticorruption Strategy;
- NAKO recommendations were included into the international Toronto Principles roadmap for reforms;
- the Memorandum of understanding and cooperation with the NISS was signed.



Reducing over-classification in the defence sector

Since 2017, NAKO has researched and advocated for reducing unjustified over-classification in Ukraine's defence. In 2018 NAKO published a brief focused on the balance between secrecy and transparency in the defence and security sector. The publication analyzes the outdated approach to protecting the state secret, which means automatically classifying almost all the information related to defence and security as "Top Secret". The current Law "On State Secret" is more than 25 years old, and the need for a new modern legislative framework is rather urgent. The new concept of protecting the state secret and managing classified information was developed under the umbrella of the Secret Service of Ukraine at times of Petro Poroshenko presidency. However, no draft law which could bring Ukraine closer to the Euro-Atlantic practices has been introduced. Within the NAKO Questionnaire project, the then presidential candidate Volodymyr Zelensky promised to introduce a new

state secrecy law to the Parliament for consideration among the first ones. To name a few aspects, Zelensky promised to adapt secrecy legislation to NATO and the EU standards, introduce the new principles of classification and declassification, implement the concept of presumption of public information, review the procedures regulating the access of citizens to the state secret (including foreigners, such as military advisors from NATO countries etc. After the parliamentary elections, NAKO held a number of meetings with the MPs where we emphasized the need to prioritize the new state secret legislation. In December 2019 NAKO joined a working group developing the new draft law "On Protection of State Secret". The aforementioned points are reflected in the document. It is noteworthy that for the first time in Ukraine's history the civil society takes part in the development of such a law. NAKO's goal is to see the draft law adopted in 2020.

Strengthening parliamentary oversight over the defence sector

Ensuring effective civil democratic control over the defence and security sector is a key to strengthening the national mechanisms of accountability needed to prevent and combat corruption in the area. In the context of a snap parliamentary election the need to build capacity for parliamentary oversight became even stronger.

Before the elections to Verkhovna Rada in 2019 NAKO invited political parties and individual candidates to join the **Parliamentary Pledge** and commit to fulfill their constitutional duties to execute civil democratic control over the defence and security sector if elected.

The first persons to sign the Parliamentary Pledge were the candidates from Batkivshyna Aliona Shkrum and Vadym Ivchenko. Later, Sluha Narodu party also committed to fulfilling their constitutional duties of civil democratic control over the defence and security sector. On behalf of the party, the document was signed by Halyna Ianchenko who later became the Deputy Head of the Anti-Corruption Committee.

Thus, NAKO's cooperation with MPs of IX convocation in terms of parliamentary oversight took a quantum leap.

First, potential cooperation was discussed at the working breakfast and introductory meeting with the representatives of the parliamentary Anti-Corruption and Interparliamentary Committees.

Participants discussed the role of parliamentary oversight and different corruption risks and issues. The urgent legislative initiatives, needed to reduce corruption risks in the de-



fence and security sector were also discussed, such as defence procurement legislation. Halyna Ianchenko and Anton Poliakov from Sluha Narodu, Solomiia Bobrovska from Holos and Volodymyr Kabachenko from Batkivshchyna joined the working breakfast, as well as many MPs' staffers.

Later NAKO discussed the priorities of cooperation with the parliamentary Committee for National Security, Defence and Intelligence (NSDI). The Committee asked NAKO to include our analysts to the Committee's expert group.

In answer to the MPs' request for a training on democratic control and secrecy within the defence and security sector, NAKO organized such an event. On November 7, NAKO in cooperation with the NATO Liaison Office in Ukraine and Geneva Center for Security Sector Governance (DCAF) organized a one-day training session. MPs, their assistants and selected representatives of the Rada partook in the session. Representatives of the following parliamentary committees partook in the training session: NSDI, Anti-Corruption Policy, and Law Enforcement ones. Based on the results of the training, it was agreed to organize more training sessions for the MPs focused on defence and security.

Strengthening civil democratic control over the defence sector, civil advocacy of reforms and participation in policy making

In the context of the 2019 Ukraine presidential elections NAKO developed a Questionnaire for the candidates for Ukraine's Commander-in-Chief post. The Questionnaire included 7 main questions on different aspects of defence corruption which had to be answered. The project was launched to publicly inform the Ukrainian voters about the positions of the candidates on how to tackle corruption in the defence sector. NAKO has managed to highlight the relevance of this topic in the public realm and receive commitments from the would-be President that the civil society is now able to monitor.

Later the analysis of answers was presented to the international partners, expert community and journalists at the panel discussion, "Fighting corruption in the defence sector. How do the presidential candidates plan to solve the most relevant corruption challenges?"

NAKO experts came to the alarming conclusions: most answers were general, ambiguous or vague which could indicate those candidates would not have a clear way forward if elected.

Of the 44 registered candidates, only 16 responded, the current President Volodymyr Zelensky was among them. Several candidates, including Zelensky, did manage to present detailed action plans.

During the Questionnaire project in March 2019 NAKO organized a televised talk show to discuss corruption in the defence sector. The following presidential candidates joined the discussion: Balashov Hennadiy, Bezsmertnyy Roman, Koshulynskyy Ruslan and Kupriy Vitaliy. Selected representatives of the candidates were also invited: Andriy Senchenko who was Yulia Tymoshenko's Military Cabinet Coordinator, Ruslan Ryaboshapka from Volodymyr Zelenskyy's team, Ivan Aparshyn from Anatoliy Hrytsenko's team, Olexander Polischuk who was an Ukrop party member the representative of Olexander Shevchenko's representative, and Taras Pastukh, the then Member of Parliament and representative of Andriy Sadovyy.

Volodymyr Zelensky answered NAKO's seven questions regarding his plans to tackle corruption in defence, reduce over-classification, reform the defence procurement system, conduct the reform of Ukroboronprom, solve the issues of defence land and housing, and fight the illegal trade in Donbas.

Presidential Questionnaire

Toronto Principles

These answers allow NAKO not only to monitor the implementation of the commitments but also to use this information for our advocacy in the process of policy making. After all, Zelensky's answers almost completely reflect NAKO's recommendations.

On 2-4 July, 2019, the Third International Ukraine Reform Conference took place in Toronto, Canada, and NAKO was represented there.

At the conference, the Toronto Principles and the corresponding sectoral policy briefs were presented to the international audience. The Toronto Principles define the key reform targets for Ukraine for the next 5 years. The "Principles" were developed by Ukraine's leading civil society organizations including NAKO, under the coordination of the Reanimation Package of Reforms. NAKO was responsible for drafting the brief on the defence and security sector.

The Toronto Principles are made up of components which are of special value for the Ukrainian society: security and rule of law, reforms in justice and the increased efficiency of the anti-corruption sphere. The Security and Rule of Law pillar includes the following principles and priorities: to develop defence and security capabilities based on NATO standards, especially those in the area of government accountability and institutional oversight, to improve the effectiveness of anti-corruption infrastructure, and to implement comprehensive steps to reform the justice sector.

So far, the Toronto Principles have been supported by more than 90 civil society organizations, private companies and active citizens.

The Anti-Corruption Strategy of the Center of Policy and Legal Reforms

On July 25, 2019, civil society experts publicly presented the new Anti-Corruption Strategy which was supposed to define the state anti-corruption policy. The document was developed by the Center of Policy and Legal Reform (CPLR) and included all NAKO's recommendations in the parts related to Ukraine's defence and security sector.

Ukraine hasn't had the Anti-Corruption Strategy since 2017. CPLR Board Member Mykola Havronyuk said that the National Agency on Corruption Prevention had failed to develop the proper document so it had to be done by the civil society experts. The government officials assured that this document will be used in 2020 as a basis for the government and the National Agency for Corruption Prevention to develop its National Anti-Corruption Strategy.

The Independent Defence Anti-Corruption Committee (NAKO) signed the Memorandum of Understanding with the **National Institute for Strategic Studies (NISS)**. On behalf of NAKO, the document was signed by Co-Chair Volodymyr Ohryzko, on behalf of NISS – by Director Olexander Lytvynenko.

According to this document, NAKO promises to:

- analyze corruption risks within Ukraine's defence and security sector and suggest ways to tackle those problems;
- assist in developing and implementing the anti-corruption policies;
- consult on preventing corruption.

Meanwhile, NISS promises to:

- address NAKO with requests for expertise and consultations;
- assist in receiving information within the NAKO's mandate.

NAKO Committee and Secretariat members met with Ukraine's **Prosecutor General Ruslan Riaboshapka** and his colleagues including the newly-appointed Chief Military Prosecutor Viktor Chumak.

The parties discussed the possible ways of future cooperation and agreed to sign the Memorandum of Understanding in the near future.

In 2019 NAKO also continued its cooperation with the **BITEC initiative** (Training Center for Building Integrity) at Ivan Chernyakhovsky National Defense University of Ukraine. More than 200 servicemen attended NAKO's lectures.

**Establishing
cooperation
with the
government
institutions**





OBJECTIVE 4: DEVELOPING NAKO AS AN INDEPENDENT ORGANIZATION

2019 NUMBERS:



- **24** internal policies developed



- NAKO team members took part in **27** trainings



- **14** newsletters in English and Ukrainian read by more than **730** subscribers



- More than **630 new** unique contacts in database

FOCUS:

Building proper governance of the organization.

1

Development and approval of internal policies.

2

Team development and capacity building.

3

Building external and internal communications.

4

Building proper governance of the organization

From 2016 to 2019 NAKO functioned as a joint project of Transparency International UK and Transparency International Ukraine. During these years NAKO's role and impact in Ukraine's defence sector has raised significantly. Thus, TI-Ukraine and TI-UK supported NAKO in creating a fully independent non-governmental organization which would be a part of Transparency International global anti-corruption movement and focus on Ukraine's defence and security sector.

In 2019, NAKO became an independent organization and worked to make its Statute

and governance model correspond to the best international practices for NGOs. We have formed the Conference of Members which includes the well-known and reputable journalists, civil activists and experts, and the Board, while NAKO's Committee has become an advisory body. NAKO's Board reserves seats for the representatives of the TI-movement in order to keep NAKO's institutional connection to this international non-governmental organization. The strategic partnership between NAKO, TI-Ukraine and TI-UK is regulated by a tripartite memorandum.



Development and approval of internal policies and procedures

Moving towards full operational autonomy and towards the best international standards for NGOs, with the support of Transparency International United Kingdom, we developed a package of policies and procedures, related to NAKO team, Committee and Board members, Conference, consultants and advisors connected with our organization. Some

of the policies and procedures were already approved by the Executive Director and by the Board, while others should be approved by the Conference of Members. We are looking forward to the first official meeting of the Conference members which is planned to be held in 2020, where the policies will be officially adopted.

NAKO policies and procedures include:

NAKO Code of Conduct	Security Policy	Communications Policy
Safeguarding Policy	Bullying and Harassment Policy	Staff Contracts and Conditions
Anti-Bribery Policy	Travel and Expenses Policy	Recruitment Policy
Whistle-blowing Policy	Grievance and Disciplinary Procedures	Procurement Policy
Fundraising, Grants and Donations Policy	Data Protection and Privacy Policy	Equal Opportunities and Promoting Diversity
Advocacy & External Engagement Policy	Legal Review Policy and Procedures	Performance Appraisal and Performance Review Guidelines
Accounting Policy in accordance with Ukrainian legislation	Office Access, Office Hours, and Flexible Working	Green & Clean Office Policy
Line Management, Tasking, and Attendance at External Events		

Team development

We also have worked a lot on strengthening our own organization and building the capacity of our team. Team members partook in numerous trainings and seminars including the following ones:

- DCAF training on transparency and accountability in the defence sector;
- CESS training on civil democratic oversight;
- corruption prevention training;
- training on grant management;
- training on financial management;
- team training on communications and advocacy;
- team training on staff security and cybersecurity;
- internship at the Center for European Security Studies in the Netherlands.

Building external and internal communications

Apart from building the new system of internal communication within NAKO, particularly focused on effective coordination of the Committee members, the Board and NAKO's partners, our organization has also managed to broaden our external contact base. During the year we added more than 600 unique contacts to our database, these are the partners regularly invited to our events and those receiving our newsletters in English and Ukrainian.

In 2019 we also focused on our public communications. Using both national and international global media platforms, not only did we raise awareness of the society on the defence corruption issues but also advocated for implementation of our recommendations on the reforms. During the year we provided 120 comments and publications to Ukrainian and international media. NAKO experts were also invited to participate in 19 TV and radio programs. To name a few, NAKO's experts were invited to and published at the following media: Voice of America, Kyiv Post, Los Angeles Times, Ukrainska Pravda, Radio Liberty, Liga, CNN, etc.

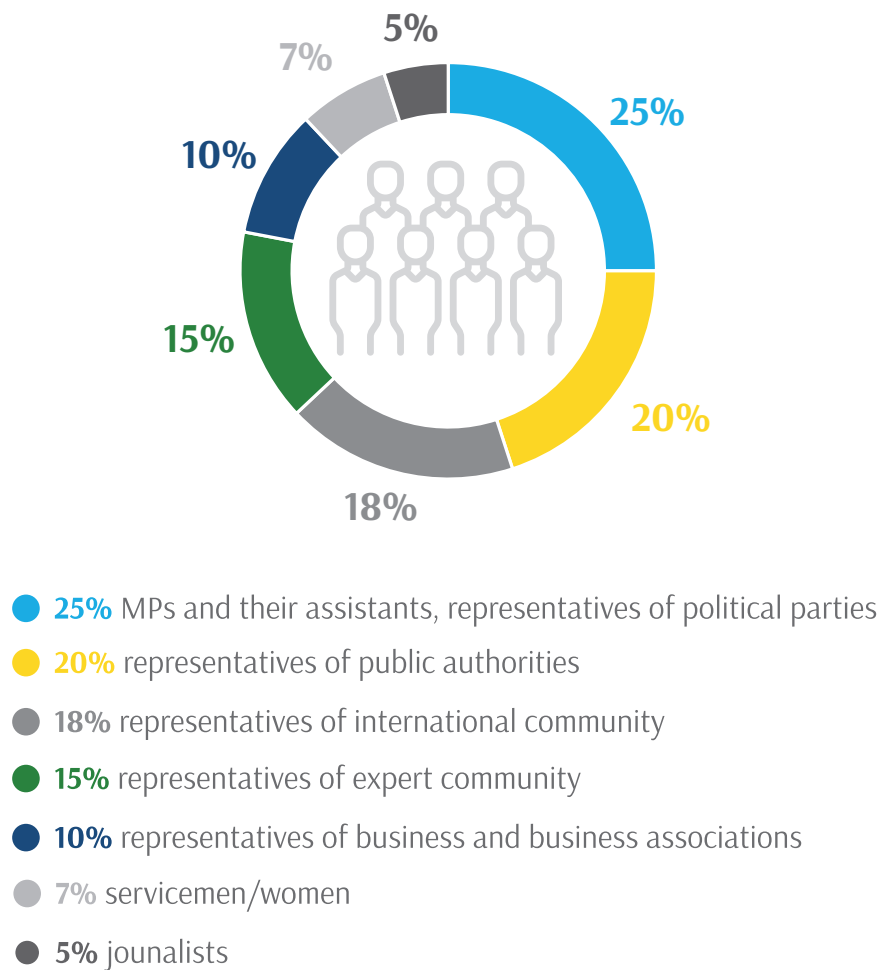
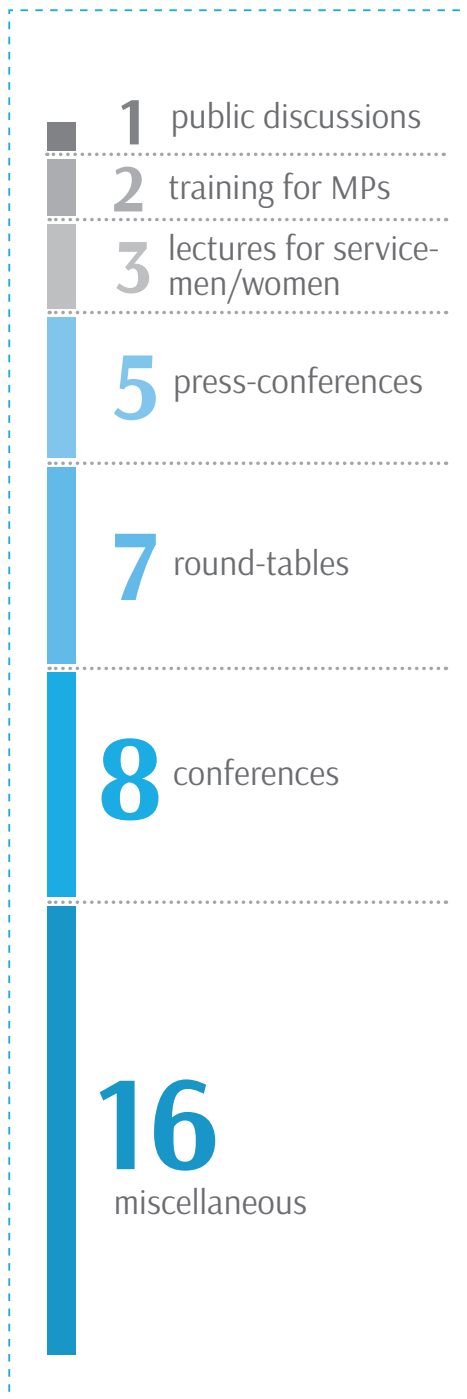
NAKO's talk show with the presidential candidates in March became our most successful communication event of the year.



In 2019 the NAKO's team was represented at 41 events. We organized 14 events and co-organized 6 more where our experts also participated as speakers. Such events include, for instance, the MoD Anti-Corruption Week, press-conference "What to do with the Ukroboronprom? Focuses and goals of reform", the round-table in Verkhovna Rada on the SDO reform, etc.

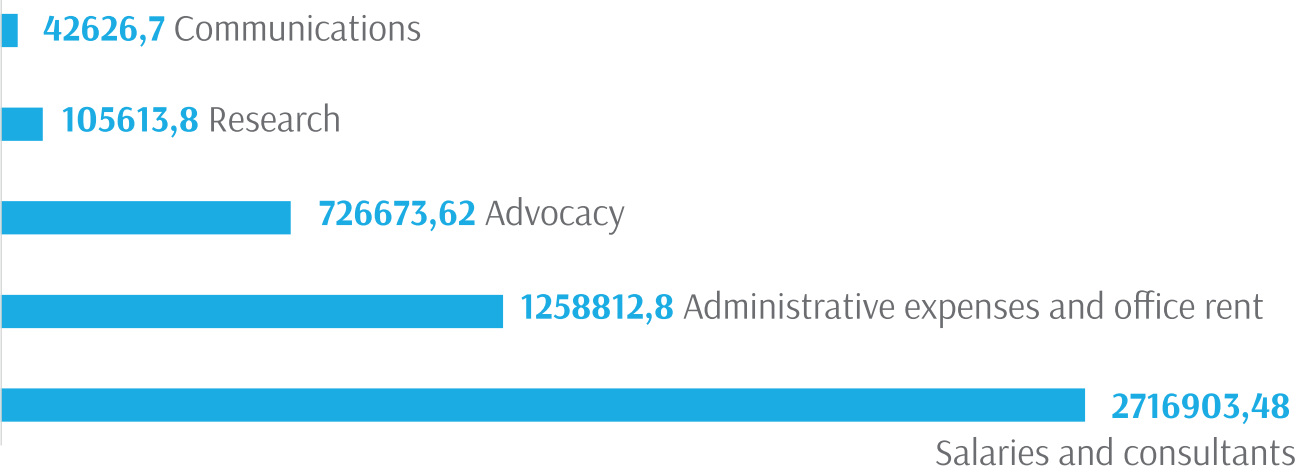
We were also invited as speakers to 20 events. NAKO represented Ukraine's civil society at the 2019 Ukraine Reform Conference in Toronto, the NATO leadership meeting in London, the Chatham House conference focused on Ukraine, the Stockholm forum to mark the 10th anniversary of Eastern Partnership, the Brussels seminar on the reform of the EU assistance to civil society, the NATO School seminar on integrity in Germany and other events.

The audience of NAKO's events



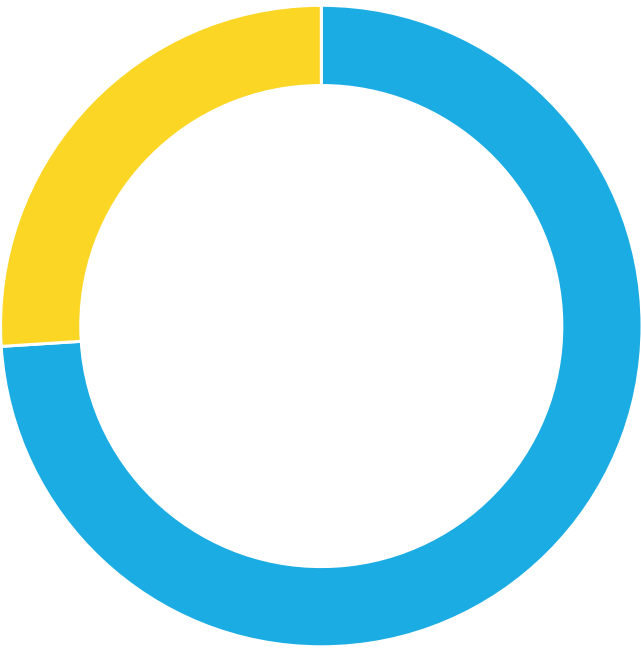
FINANCIAL REPORT

UAH



Budget, UAH

1261655,1
International
Renaissance
Foundation



Department
for International
Development

3588975,3
DFID

ORGANIZATIONAL STRUCTURE

Organizational structure

Board

- Katherine Dixon, former Director of TI-Defence & Security
- Steve Francis, Director of TI-Defence & Security
- James Wasserstrom, NAKO Committee Member
- Leah Wawro, former Program Manager of TI-Defence & Security

Secretariat

- Olena Tregub, Executive Director
- Lada Roslycky, Head of Content
- Olha Asadcha, Legal and Operations Manager
- Taras Yemchura, Advocacy Manager
- Emiliia Dieniezhna, Communications Manager
- Serhii Moskaliuk, Senior Researcher
- Viktoriia Vyshnivska, Content Assistant
- Olesia Remizova, Operations Assistant
- Nina Rakhylchuk, Accountant
- Mykyta Pobiehun, Intern

Committee

- Volodymyr Ohryzko
- James Wasserstrom
- Oleh Rybachuk
- Drago Kos
- Michele Yakovleff
- Iuliia Marushevska



NAKO
TI UKRAINE • TI-DS

DONORS AND PARTNERS



Ministry of Foreign Affairs of the Netherlands





NAKO
TI UKRAINE • TI-DS

2019

ANNUAL REPORT

**THE INDEPENDENT DEFENCE
ANTI-CORRUPTION COMMITTEE (NAKO)**

Yevhena Konovaltsia str., 36-D,
2nd floor, office 23,
Kyiv, Ukraine 01133

Phone: +38 (044) 390 08 09

facebook.com/nako.org.ua
www.nako.org.ua