

2020 ANNUAL REPORT



NAKO
TI UKRAINE • TI-DS

**The Independent
Defence Anti-Corruption
Committee (NAKO)**

CONTENTS

Abbreviations and Acronyms	3
About NAKO	4
About us	5
Introduction	7
NAKO Strategic Objectives and Results	9
Goal 1: Better Defence Governance	10
Ministry of Defence (MoD) Reforms	10
Corruption-free system of social protection for military personnel	12
Defence procurement	13
Goal 2: Transparent and Accountable Defence Industry	14
Ukroboronprom's corporatisation and implementation of corporate governance	15
Reducing corruption risks in the state defence industry	16
Transparent competitions and attracting new staff	17
Goal 3: Democratic Civilian Control of the Defence Sector and Reduction of Secrecy	18
Decreased level of secrecy	19
Strengthening parliamentary control over the defence sector	20
Strengthening public control	21
Goal 4: NAKO's Institutional Development	22
Building NGO good governance	23
Team development	23
External and internal communications	24
Partnerships	28
NAKO activities	28
Audits	29
Financial Report	29
Organizational structure	30

ABBREVIATIONS AND ACRONYMS

COVID-19	Coronavirus disease 2019
GDI	Government Defence Integrity
EUACI	European Anti-Corruption Initiative
FCO	Foreign and Commonwealth Office
IACC	International Anti-Corruption Conference
ILP	International Lawyers Project
IRF	International Renaissance Foundation
IRI	International Republican Institute
ISO	International Standard
MoD	Ministry of Defence of Ukraine
MP	Member of Parliament
NAKO	Independent Defence Anti-Corruption Committee
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organisation
OECD	Organization for Economic Cooperation and Development
OLAF	European Anti-Fraud Office
OSCE	Organization for Security and Cooperation in Europe
RPR	Reanimation Package of Reforms
SBU	Security Service of Ukraine (acronym from the Ukrainian)
SDO	State Defence Order
SOE	State-Owned Enterprise
TI-DS	Transparency International Defence & Security
U.S.	United States
UAH	Ukrainian Hryvnia
UK	United Kingdom
UN	United Nations
VRU	Verkhovna Rada of Ukraine (Parliament)

ABOUT NAKO

The Independent Defence Anti-Corruption Commission (NAKO) is an independent civil society organization fighting corruption and advancing good governance in defence and security sector.

NAKO's goal is to reduce corruption risks in Ukraine's defence and security sector by ensuring high-quality research, effective advocacy, and raising awareness. Based on its analysis and research, NAKO provides recommendations to state bodies. We also

ensure civilian oversight over the anti-corruption transformation of state defence and security institutions.

NAKO was founded in 2016 as a joint initiative of Transparency International Defence & Security and Transparency International-Ukraine. In 2019, with the support of its founders, NAKO evolved into an independent civil society organisation. Currently, NAKO maintains a strategic partnership with the Transparency International movement.

ABOUT US

This is how different stakeholders remember cooperation with NAKO in 2020:

—”

NAKO provides expertise, promotes the best global practices, and provides public scrutiny in the national security sector. The organisation provided recommendations to Committee defence procurement bills, intelligence, the SBU, and the reform of state-owned defence enterprises. This kind of interaction and support helps reduce risks of corruption in the security and defence sector. Thank you for your cooperation!



Mariana Bezuhla, Deputy Chairperson
of the Verkhovna Rada Committee on National Security, Defence, and Intelligence

—”

In cooperation with the Ministry of Defence, NAKO has developed solutions to reduce corruption risks in five key areas for the Ministry: procurement, construction and housing, state-owned enterprises, land, and fuels and lubricants. Experts not only identified systemic violations, but also developed roadmaps on how to minimize opportunities for corruption in the Ministry's priority areas and, in particular, developed relevant draft resolutions. The Ministry is open to constructive cooperation with civil society.



Oleksandr Polishchuk, Deputy Minister of Defence

—”

Our cooperation with NAKO was based on the desire to reform the security and defence sector. I participated in events organized by NAKO and received feedback on draft acts. The public scrutiny that NAKO provided is important and necessary for the sector and for our country in general. It is an opportunity to highlight the readiness and ability of state institutions to be open and accountable.



Svitlana Panaiotidi,
Deputy Minister of Economic Development, Trade, and Agriculture

—”

France actively supports the ongoing reform process of Ukraine's defence industries. We have found in NAKO a resourceful partner in advancing our common values of transparency and efficiency.



H.E. Mr. Etienne de Poncins, Ambassador of France to Ukraine



Ukroboronprom has approved the Code of Ethics that we developed together with NAKO. We are also launching a compliance system, with which NAKO is assisting. We listen to the expert assessments of international partners and do everything possible to increase Ukroboronprom's transparency.

Yuriy Husiev, Director General, Ukroboronprom



NAKO made a significant contribution in organising the procurement of independent audit services for the Concern and its companies, with the involvement of international experts. Thanks to NAKO's participation in the early stages of this procurement, we were able to successfully conduct a tender in 2019 and perform an audit over the course of 2020.

Nadiia Bihun, Procurement Director, Ukroboronprom



NAKO has a track record of pushing for change in a difficult sector. NAKO's strategy for creating a change is a combination of working with the state institutions through constructive engagement and supporting reform-minded leaders, while also acting as a powerful external oversight body.

Natalie Hogg, Director, Transparency International Defence and Security



Special thanks to the NAKO team for a tremendous job launching various anti-corruption projects. Thank you for sharing your professional expertise related to civil society oversight of the executive branch. I look forward to continuing our mutually beneficial cooperation.

Col. Tomasz Strycharz, Adviser on Security Policy, NATO Representation to Ukraine



The IRF supported NAKO's project, 'Accountability and Anti-Corruption in the Defence Sector for Safer Ukraine'. The project achieved tangible results, ranging from publishing research materials on different aspects of corruption in Ukraine's defence and security sector to effective advocacy and communication for policy changes to increase transparency and accountability of the sector.

Oleksandr Sushko, Executive Director of the International Renaissance Foundation



INTRODUCTION



OLENA TREGUB,
NAKO Executive Director

Despite the fact that 2020 seemed extremely difficult for both Ukraine and the world, it gave us a number of reasons for restrained optimism. We were able to see revolutionary changes in several areas of NAKO's work: the adoption of the Law "On Defence Procurement" and the start of corporate governance reform at State Concern Ukroboronprom.

However, the struggle for transparency and against corruption in Ukraine's defence sector in 2020 has not only advanced but also regressed in some aspects. So far, the Law

"On Defence Procurement" has failed to revolutionize defence procurement. Among the reasons for this are opposition to reform of the old post-Soviet system and the low capacity of the executive branch, which is responsible for implementing the law.

There is a similar story with Ukroboronprom, the flagship of the Ukrainian defence industry. On one hand, launching the reform of the Concern was an unimaginable goal in 2016, when NAKO was just beginning, and we welcome the real efforts to transform the old and inefficient system. We will see in 2021 how transparent corporatisation will be. Will the Verkhovna Rada (VRU) support the Soviet approach to managing the defence industry, or will Members of Parliament (MPs) act more progressively? Will this reform really help strengthen Ukraine's security and defence sector? Will this sector become more attractive to international partners and investors? The Ukrainian authorities will answer these questions, demonstrating their commitment to transparency, accountability, and political will to act in Ukraine's best interests.

As Ukraine's security and defence policy makers directly affect the country's ability to ensure its security, the role of independent non-governmental organisations is growing, not only monitoring and advocating for reforms, but also assisting the government to implement revolutionary changes.

ANDRII BOROVYK,
NAKO Board Member, Executive
Director of Transparency
International-Ukraine

Despite significant progress in Ukraine's security and defence sector in recent years, Ukraine received low scores in the Transparency International Government Defence Integrity Index in 2020, receiving a score of only 41 out of 100. Among the reasons for this is the lack of effective parliamentary control over defence procurement and other expenditures, as well as the lack of real interaction between parliament and ministries on these issues. This situation only contributes to corruption flourishing, threatening not only Ukraine's Euro-Atlantic path, but also its national security.

Security services must be accountable to parliamentarians as democratically-elected representatives of the people and implement the legal framework approved by parliamentarians. However, using the example of the Law "On Defence Procurement", we are convinced again that this is not always the case. The law should have been implemented by January 1, 2021, but this did not happen, with the relevant ministries were unable to develop about 30 regulations on time.

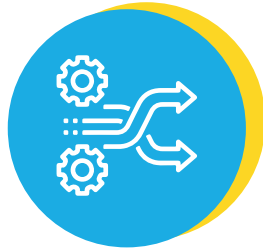


Qualitative implementation of this Law will be one of the key challenges in 2021, not only for the involved ministries, but for Parliament, which should oversee this process, and for civil society, which, we promise, will closely monitor this process. Only when this document is implemented qualitatively, that is, in accordance with the spirit of the Law, will it be possible to say that the reforms have taken place. And then Ukraine will be one step closer to NATO.

NAKO'S STRATEGIC GOALS AND RESULTS



Improved defence governance



Transforming Ukroboronprom



Reduced secrecy and strengthened democratic control



NAKO developed as an independent organisation

2020 IN NUMBERS



450+ mentions in the media



21 public events held



65+ working groups



3 joint civil society statements made public



70+ recommendations provided to public authorities



5 studies, **2** analytical note, and **1** columns published in the media



32 analyses performed



1 global Government Defence Integrity Index presented



GOAL 1: BETTER DEFENCE GOVERNANCE

Ministry of Defence (MoD) Reforms

NUMBERS:



35+
recommendations
provided



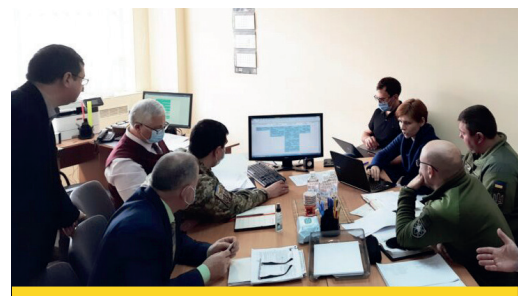
10+
analyses
performed



25
draft solutions
developed

MAIN RESULTS:

- Law “On Defence Procurement” was adopted.
- Large-scale analysis of corruption risks in MoD activities conducted in five priority areas.
- Parliament adopted in the first reading the Anti-Corruption Strategy, developed with NAKO participation.
- As a result of a NAKO study on the activities of state-owned enterprises, the MoD changed its enterprise management strategy.
- 24 out of 25 recommendations were considered in the draft MoD Anti-Corruption Program for 2021-2024.



Reducing corruption risks in the Ministry of Defence

In early 2020, NAKO launched a project to develop solutions to eliminate corruption risks in five priority areas of MoD activities:

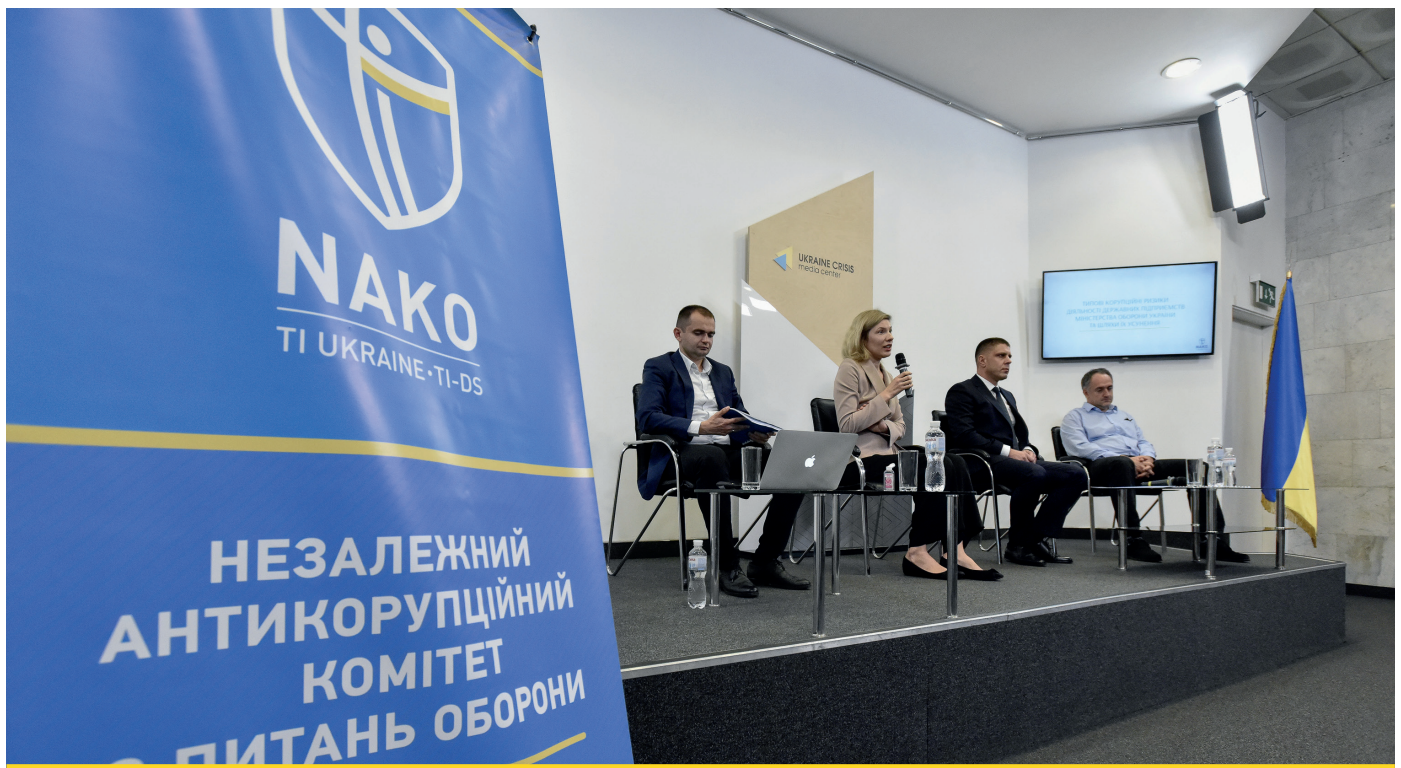
- organisation of defence and public procurement;
- defence land management;
- management of MoD state-owned enterprises (SOEs);
- construction of facilities and provision of housing for military personnel;
- fuel consumption.

Within the framework of this project, five specialised working groups were established at the MoD, each of which was coordinated by NAKO experts. Over the course of several months, they identified systemic violations, identified non-compliance with laws and policies, and drafted decisions and roadmaps to address existing corruption risks.

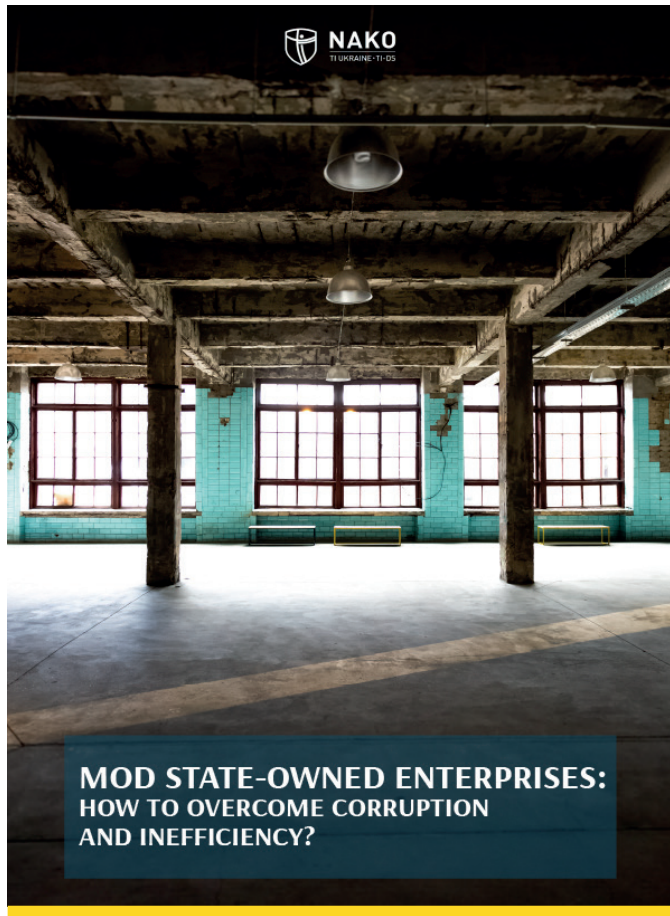
In support of the expert recommendations in the above areas, the program's lawyer developed more than 25 draft decisions addressing specific problems, in particular, standard draft contracts, methods for optimizing SOEs,

improving the procedures for constructing and providing housing to military personnel, etc. Draft laws, resolutions, and orders were also prepared, and drafts of amendments to existing approved procedures and methodical recommendations were provided.

In November 2020, all the work of NAKO experts was transferred to the MoD during the inaugural meeting of the Commission on Corruption Risk Assessment, which will focus on analysing 12 areas. Following the meetings, NAKO provided 25 recommendations to the MoD.



“MINISTRY OF DEFENCE STATE-OWNED ENTERPRISES: How to overcome corruption and inefficiency?”



The MoD does not have a strategy to effectively manage the more than 100 subordinate SOEs, and the processes of reorganising and closing them has been going on for years. Combined with inefficient personnel policies, all this leads to the accumulation of debts and the loss of resources and assets. Simultaneously, the vast majority of MoD SOEs are not able to meet the needs of the Armed Forces of Ukraine.

Based on an MoD working group, NAKO analysed and developed recommendations to minimize the relevant risks. The results of the analysis were presented in the analytical report “Ministry of Defence state-owned enterprises: How to overcome corruption and inefficiency?”

The study found that many enterprises do not prepare full-fledged financial statements, or these statements are significantly delayed. Officially, this is explained by chronic financial problems at all SOEs, the lack of appointed directors at some of them, and the loss of constituent and accounting documentation.

Representatives of the relevant VRU Committee and the MoD in attendance at the presentation of the study agreed with NAKO’s recommendations and voiced their readiness to participate in an interagency working group with NAKO to solve the problems at SOEs. According to MoD representatives, NAKO’s findings will be considered in the preparation of the Ministry’s new anti-corruption program. In addition, following the presentation of NAKO’s study, the MoD announced the beginning of large-scale reorganisation, closing, and privatisation of half of the Ministry’s SOEs by 2020.

Corruption-free system of social protection for military personnel

As part of a project to reduce corruption risks in five key MoD areas, NAKO experts worked to identify systemic violations and develop

solutions in construction and housing for military personnel. In particular, NAKO analysed the procedures for paying out mone-

tary compensation, constructing and purchasing housing, and providing military personnel with official housing. According to the results of NAKO's analysis, 20 violations were identified. The respective report with the analysis, decision proposals, and a reform roadmap was submitted to the MoD.

In the second half of 2020, the Commission on Corruption Risk Assessment in Ministry of Defence Activities, chaired by the Head of the Office for Prevention and Detection of Corruption, worked with the analysis. NAKO was also invited to this working group. According to the results of its work, the developed corruption risk assessment should become the basis for

preparing a new MoD Anti-Corruption Program for 2021-2024.

In addition, NAKO presented the results of a military personnel survey in six regions of Ukraine, which was conducted in 2019 with the support of the Organization for Security and Cooperation in Europe (OSCE). This survey was conducted to understand the housing needs of military personnel and their vision for solving the housing problem. NAKO learned about military personnel's views on the main factors of corruption, the most effective control mechanisms, and possible ways to solve the issue of official and permanent housing.

Defence procurement

Work on Draft Law #2398, adopted at the end of 2019 in the first reading, continued in 2020. On July 17, after lengthy discussions and revisions, the VRU voted in the second reading of the Law "On Defence Procurement" with 276 votes in favour.

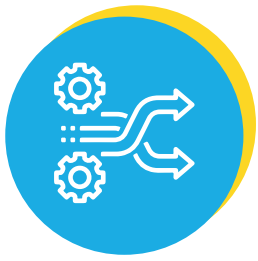
The Law aims to minimise corruption risks in the defence sector. It ensures open defence procurement procedures, significantly increases the transparency of procurement planning, and ensures effective public and democratic civilian control. Due to this, funds for the purchase of goods, work, and services for defence purposes will be used more efficiently.

NAKO added eight key recommendations to the second reading, four of which were partially considered. Simultaneously, there are certain points that have not been resolved. In particular, one of the important points we emphasized is the need to declassify information about the plans, content, and amount of funding for contracts that have already been



executed, in accordance with the Law "On State Defence Order."

However, despite several shortcomings, this draft law is the first in the history of Ukraine's defence sector to be developed with the participation of all key stakeholders, in particular with the participation of civil society. NAKO was actively involved in working on the draft law at all stages and commented on the draft law. All NAKO recommendations on minimising corruption risks in the state defence procurement system, presented in the NAKO study "State Defence Order Reform", were also taken into account when working on the draft law.



GOAL 2: TRANSPARENT AND ACCOUNTABLE DEFENCE INDUSTRY

NUMBERS:



30+
recommendations
provided



15
analyses
performed



50+
draft solutions
developed

MAIN RESULTS:

- Draft Law #3822 developed with NAKO participation, which provides for transforming Ukroboronprom
- Presented the risks of creating a profile ministry for the defence industry in the brief “Do we need a new ministry for defence industry reform?”
- Completed an independent international audit of Ukroboronprom, for which NAKO provided support on developing the terms of reference
- NAKO participated in the meetings of the Nominating Committee for the selection of heads of Ukroboronprom enterprises
- Conducted a Defence Industry Review for the first time, in which NAKO was involved
- At the request of Ukroboronprom, NAKO provided recommendations to the Concern’s Code of Corporate Ethics





Ukroboronprom's corporatisation and implementation of corporate governance standards

In the first months of 2020, the Working Group on Reforming State Concern Ukroboronprom and Defence Industry State-Owned Enterprises was launched under the VRU Committee on National Security, Defence, and Intelligence. The Working Group also included NAKO.

The strategic decision to start reforming Ukroboronprom was made in 2019, but the transformation began in 2020. This decision was preceded by a triage analysis – a comprehensive assessment of all Concern enterprises. Based on this, a team of Ukroboronprom, MPs, international partners, and independent experts developed a new corporate governance model with a detailed plan for its transformation and the necessary draft laws.

The basis for the transformation was Draft Law #3822 “On the peculiarities of reforming defence industry state-owned enterprises.” NAKO was also involved in developing the draft law, which provides the legal frame-

work for starting Ukroboronprom's corporatisation and implementing corporate governance standards in line with Organization for Economic Cooperation and Development (OECD) recommendations.

However, since it was registered in the summer, the draft law has undergone many changes, including the newly created Ministry of Strategic Industries. NAKO analysed the latest version of the draft law at the end of 2020 and provided the relevant conclusions to MPs for review.

In parallel with supporting legislative work to implement corporate governance, NAKO assisted Ukroboronprom within the Concern. NAKO provided recommendations for improving the Code of Corporate Ethics, a document that defines the basic values, principles, rules of ethics, and business conduct of all Ukroboronprom employees. This is an essential component of building corporate governance in accordance with international standards.

Reducing corruption risks in the state defence industry

Independent financial audit of Ukroboronprom



In 2020, Ukroboronprom's financial audit for 2018-2019 was finally conducted. Earlier, NAKO helped develop terms of reference and tender documents for procuring auditor ser-

vices, which later became the international company Baker Tilly. The results of this financial audit are scheduled for publication in early 2021. Simultaneously, Ukroboronprom has already announced a tender for independent audit services of its enterprises for 2020 and 2021, which indicates establishment of a positive tradition within the Concern.

In addition, a forensic audit was conducted of Antonov state aviation enterprise, one of the Concern's largest companies. NAKO participated in developing the terms of reference for this audit. The results were passed on to law enforcement agencies.

Establishing the Ministry of Strategic Industries

In the summer of 2020, the need to create a new ministry and appoint the relevant Deputy Prime Minister to implement reform in defence industry SEOs was discussed. The ministry's mandate was to include the following issues: adapting Ukraine's defence industry to the best global practices, which would promote effective functioning under the conditions of armed aggression by the Russian Federation; strengthening interstate cooperation; and advancing Ukraine's European and Euro-Atlantic integration.

In the context of state regulation of the defence industry, creating a new ministry raised questions, given the scale of this decision's risks and consequences.

The expert community called for transparent public policymaking, however the concept of Ukraine's defence industry was not presented to the general public. Therefore, NAKO analysed



the strengths and weaknesses of the decision to establish a new ministry, the results of which were presented in the brief ***“Do we need a new ministry to reform the defence industry?”***

After the Ministry of Strategic Industries had been formally established and the relevant

Deputy Prime Minister appointed, NAKO analysed the Ministry's Draft Regulations and identified potential corruption risks in its functions. A detailed analysis was provided to the state authorities. Some of NAKO's recommendations were considered in the final version of the Regulations.

Review and Strategy for developing the defence industry

In 2020, a Review of the defence industry was completed for the first time in Ukraine's history. Its purpose was to assess the defence industry's capabilities to meet the needs of the security and defence sector. Following the Review, several strategic documents are being developed. For the first time in history, public organisations, and in particular NAKO, were involved in the work on the non-classified part of the review.

Our team also participated in developing the Draft Strategy for Defence Industry Development, presented to the Ministry of Economy in September. However, by the end of the year, both documents had not been ap-



proved. Development of a new Draft Strategy was taken over by the newly created Ministry of Strategic Industries and the Defence Industry Review was not approved by the National Security and Defence Council.

Transparent competitions and attracting new talent

As of the end of 2020, Ukroboronprom is much more transparent and open to dialogue with experts and society. The selection of personnel for key positions in the Concern has also become more transparent. As part of the tradition started in 2019, NAKO also participated in the Nomination Committee in 2020, which selected directors for the Concern's enterprises in transparent competitions. Thus, the directors of the following enterprises were selected with civil society participation: 410 Civil Aviation, Zorya-Mashproekt, and Scientific Technical Complex Impuls. If decisions regarding Ukroboronprom personnel can be called transparent, it is impossible to use the same word to describe the appointment of personnel to key positions

in the central executive bodies of defence industry politics. When President Zelenskyy announced his intention to create the post of Deputy Prime Minister for Defence Affairs, civil society called on the authorities to do so transparently. At NAKO's initiative, non-governmental organisations (NGOs) called on the President and the National Security and Defence Council to make the process of selecting the future Deputy Prime Minister more public. Nevertheless, consideration and discussion of candidates for this position was non-transparent. NAKO and StateWatch analysed the candidates presented in the media and sent their conclusions to the President of Ukraine and published them in the media.



GOAL 3: DEMOCRATIC CIVILIAN CONTROL OF THE DEFENCE SECTOR AND REDUCTION OF SECRECY

NUMBERS:



7
analyses
performed



5 packages of
recommendations
provided



8 op-eds
written by
NAKO experts

MAIN RESULTS:

- NAKO recommendations on certain aspects of declassifying the State Defence Order were considered in the Law “On Defence Procurement.”
- For the first time in history, civil society is participating in a working group to develop a draft law on state secrecy. NAKO is the only NGO whose recommendations were partially included in the working version of the draft law.
- NAKO launched the “Week of Parliamentary Oversight of the Security and Defence Sector” project, which will take place in 2021 with the participation of VRU MPs and MPs from Lithuania and Norway.



Decreased level of secrecy

In its advocacy work, NAKO pursues the goal of a proper balance between transparency and secrecy in national security interests, which currently means decreasing secrecy.

Ukraine inherited the Soviet approach to circulating information in the security and defence field, which was total secrecy. Despite the 2011 Law “On Access to Public Information”, nothing in this area has changed fundamentally since the 1990s.

In the 2019 NAKO election questionnaire, then-presidential candidate Volodymyr Zelenskyi promised to reform the sphere of secrecy, and in 2020, the VRU Committee on National Security implemented three important initiatives in this area.

Thus, the revolutionary Law “On Defence Procurement” was finalized and adopted, which changed the rules of the game in the procurement of goods, work, and services for defence purposes for the security and defence sector. This law (subject to the adoption of implementing bylaws) provides much greater transparency in defence procurement. NAKO joined in on the wording of the Law “On Declassification of Executed State Defence Contracts”, which is necessary for effective control over procurement, as well as for stimulating competition in the weapons and military equipment market.

In addition, work on the new Law “On State Secrets” continued throughout 2020. NAKO is the only civil society representative in the responsible working group and the only NGO whose recommendations were partially included in the working version of the draft law. Previously, this was difficult to imagine,

as all legislative processes within the parliamentary committee on national security were extremely opaque.

NAKO proposed including several provisions in the draft law that would prevent excessive secrecy of information and possible abuse, but these proposals were rejected. Reducing the level of secrecy, unfortunately, is not a priority for the authors of the draft law. Their focus is on the security of classified information, but the approaches to classifying information as secret (level of secrecy) remain almost unchanged. In addition, certain provisions of the current draft law jeopardize full implementation of the Law “On Defence Procurement”, to which NAKO also drew the working group’s attention.

As of the end of 2020, the draft law was being finalized by a Committee working group. Work is expected to resume after adoption of the Law “On the Security Service of Ukraine.” NAKO will continue to advocate for a reduction in secrecy and compliance with the Law “On Defence Procurement” in the later stages of the legislative process.

In September 2020, the VRU also supported Draft Law #2412-d on reforming Ukrainian intelligence. It introduces a new concept of intelligence secrecy. Due to the vague wording of the Law’s text, there are risks of unauthorized classification of information regardless of the presence or absence of reasonable grounds for this.

The VRU did not have time in 2020 to consider the draft law on the Security Service of Ukraine (SBU), which envisages starting SBU reform.

Strengthening parliamentary control over the defence sector

In 2020, NAKO continued work on a project to strengthen the capacity of the National Security, Defence, and Intelligence Committee and its role in Euro-Atlantic integration. NAKO facilitated establishing contacts and dialogue between members of the VRU and MPs from Lithuania and Norway.

To strengthen its parliamentary oversight capacity and to continue previous arrangements with Parliament, NAKO began preparations for a “Week of Parliamentary Oversight of the Security and Defence Sector,” which includes a series of webinars for Ukrainian MPs. According to the plan, parliamentar-

ians from Lithuania and Norway, as well as the Commander of the U.S. Armed Forces in Europe (2021-2017) Ben Hodges and Deputy Speaker of the Verkhovna Rada (2014-2019) Oksana Syroyid will hold a series of webinars for Ukrainian MPs in 2021. Their goal is to exchange experience of parliamentary control over planning and defence procurement processes, as well as of interacting with other authorities and civil society.

In the second half of 2021, the project also plans to organise a visit of Ukrainian MPs to Lithuania, if possible, considering the COVID-19 pandemic.





Strengthening public control

The NAKO Questionnaire for Presidential Candidates, launched during the 2019 presidential election, was logically continued in 2020. Over the course of the year, we monitored President Zelenskyi's activities in the fight against corruption in defence and analysed it for compliance with the commitments declared in the

Questionnaire.

As a partner of Transparency International Defence & Security, NAKO presented Ukraine's results in the Government Defence Integrity Index, the world's only assessment of corruption risks in defence agencies, at the end of the year.



GOAL 4: NAKO'S INSTITUTIONAL DEVELOPMENT

NUMBERS:



20 news digests in Ukrainian and English



3 exclusive online discussions for Defence Talks



40+ media commentaries



2 audits passed

MAIN RESULTS:

- Security and defence issues were discussed with U.S. Secretary of State Michael Pompeo during a meeting with Ukrainian civil society representatives
- NAKO formed a Board with three international and Ukrainian experts.
- Ukraine's results in the Government Defence Integrity Index were presented.
- A partnership was established with the International Lawyers Project, through which NAKO has received pro bono legal assistance from reputable international law firms.
- For the first time, NAKO passed an independent financial audit for 2019 as an independent organisation.





Building NGO good governance

NAKO was launched by Transparency International Defence & Security and Transparency International-Ukraine in 2016. From a project aimed at reducing corruption in Ukraine's defence sector, NAKO has grown into an independent NGO founded in 2019 that aims to reduce corruption and promote good governance in areas important for Ukrainian national security.

While maintaining a strategic partnership with the Transparency movement, NAKO continued to move towards good governance and full operational independence in 2020. Currently, NAKO's purpose is to reduce the risk of corruption through quality research, effective advocacy, and public awareness to strengthen Ukraine's national security in political, economic, social, military, and other spheres.

Team development

As part of NAKO capacity building, two representatives of the organisation were trained **in organisational governance, risk, and compliance**. The trainings were attended by Executive Director Olena Tregub and Senior Policy Making Expert Svitlana Musiiaka. These trainings will help NAKO to increase its capacity to provide recommendations for reforming SEOs in the security and defence sector and the defence in-

dustry. They studied international anti-corruption standards, in particular, the U.S. Law on Corruption Abroad, the UN Convention against Corruption, the OECD Anti-Bribery Convention, and the ISO Anti-Corruption Standards.

In addition, NAKO Communication Manager Emiliia Dieniezhna completed a 3-month **fund-raising and project management** training.

External and internal communications

Despite the pandemic, NAKO's public communications did not stop. We have actively used various communication platforms, including online channels, to inform Ukrainian society and the international community about the challenges in the fight against corruption.

Meeting with the U.S. Secretary of State

In January, NAKO Executive Director Olena Tregub took part in a meeting in Kyiv between U.S. Secretary of State Michael Pompeo and Ukrainian civil society representatives. Other participants included Transparency International-Ukraine Executive Director Andrii Borovyk, President of the American Chamber of Commerce in Ukraine Andy Hunder, and journalist and public figure Emine Japarova. The following topics were on the agenda: reforms and anti-corruption, business and investment, and the issue of Crimea's annexation. They discussed draft laws on defence procurement and state secrets, as well as Ukroboronprom's audit and corporatisation.



World Economic Forum in Davos

In January, NAKO Executive Director Olena Tregub took part in the 50th World Economic Forum in Davos.



Panel with Defence Minister Zagorodniuk at the Munich Security Conference

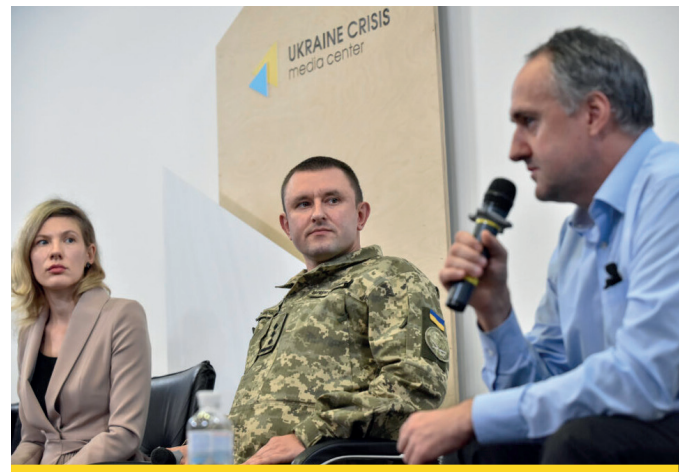
In February, during the Munich Security Conference 2020, the panel "Building a more effective national defence and security: ways to reform" was held with the participation of Ukraine's Minister of Defence Andrii Zagorodniuk (August 2019 - March 2020). The panel was organized by the Transparency International Defence & Security. NAKO provided coordination support, through which Ukraine's security and defence sector was represented at the conference at a high level, and key messages of the event were disseminated to a Ukrainian audience. The discussion aimed to raise the different approaches to fighting corruption in Ukraine and Afghanistan and effective tools that reformers can use.



Zagorodniuk said that he was especially proud of the progress that had been made in combating corruption in procurement, specifically in terms of procurement from a single supplier. The Minister also noted the important role that Transparency International Defence & Security and NAKO play in the process of reforming Ukraine's defence sector.

Reanimation Package of Reforms' "Reforms Forum"

In February and November, NAKO experts spoke twice during conferences as part of the "Reforms Forum: On the Road to Vilnius", organised by the Reanimation Package of Reforms (RPR). NAKO experts are co-authors of RPR's Reform Roadmap (2019-2023) in the field of national security.





19th International Anti-Corruption Conference (Seoul, South Korea)

In November, NAKO Executive Director Olena Tregub addressed two panels at the International Anti-Corruption Conference.

During the first discussion, “Civil Oversight as a Tool for Correcting Corruption in the Defence Sector: Dialogue between the UK, Nigeria, and Ukraine” with John Spellar, Vice Chairman of the UK Commons Defence Committee, Tregub shared NAKO’s experience in promoting transparency and accountability in the Ukrainian defence sector. She said NAKO’s strategy was to advocate for thorough research. She cited the example of NAKO’s efforts to increase transparency in defence procurement, from publishing reports on open and closed procurement to providing technical assistance in drafting a law on defence procurement, which was voted on in the summer of 2020.

John Spellar emphasized that it was extremely important for Parliament to be involved in the process of overseeing security and defence, given that Parliament is the primary source of power and the specific body responsible for the budget.

In another discussion, “[How Can International Actors Support Nonviolent Action for Transparency, Peace and Social Justice?](#)”, with the participation of Shaaska Beyerle, a senior fellow at the George Mason Terrorism, Transnational Crime and Corruption Center, the speakers discussed the approaches used by NGOs to combat corruption in countries affected by conflict or violence. Olena Tregub shared the key points contained in her report “[Ukrainian Activism for Transparency and Accountability: Two Steps Forward, One Step Back](#),” which was previously published with the support of the U.S. Institute of Peace.

The International Anti-Corruption Conference (IACC) is the world’s largest and most influential anti-corruption forum, bringing together heads of state, civil society, and the private sector. Since 1983, the conference has been held every two years in different parts of the world. Each time, up to 2,000 participants from 135 countries take part in it. The forum is organized by the Council of the International Anti-Corruption Conference and the global anti-corruption network Transparency International. This time, the conference was held in Seoul, South Korea (remotely).



Government Defence Integrity Index (GDI)

In December, NAKO publicly presented the results of the Transparency International Defence & Security (TI-DS) [Government Defence Integrity Index 2020 \(GDI\)](#) for 15 Central and Eastern European countries, including Ukraine. Ukraine received 41 points out of 100 and a grade of D, which means a high risk of corruption in the defence sector. The GDI Index is the only global index to assess the corruption risks of defence agencies. As a strategic partner of TI-DS, NAKO assisted with preparing Ukraine's evaluation. In particular, NAKO coordinated the work of TI-DS researchers and facilitated dialogue with the Ministry of Defence and the National Security and Defence Council. Following publication of the Index results, NAKO is cooperating with the Ministry of Defence to include the TI-DS recommendations in the Ministry of Defence Anti-Corruption Program for 2021-2024. At the request of the Ministry of Defence, NAKO is also working on a full translation of the assessment and recommendations for Ukraine from English into Ukrainian.

Communications online and in a hybrid format

In the context of the COVID-19 pandemic, we launched Defence Talks, a series of online events to discuss current issues in the defence sector and the defence industry with key stakeholders. In particular, the discussions focused on reforming the defence industry in the context of Ukraine's Euro-Atlantic integration, transforming Ukroboronprom, and the state defence industry's management crisis.

In 2020, NAKO representatives regularly participated in public discussions on reforming the defence industry, which were initiated by our partner organisation StateWatch. In December, we summarised the results of monitoring this reform together.

Our team regularly communicated with Ukrainian and international audiences not only through the NAKO website and social media, but also through e-mail distribution of NAKO digests. We have been actively informing our subscribers about key and current events in the sector. Over the course of the year, NAKO sent more than 20 digests with analytics and news.



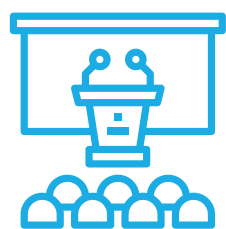
PARTNERSHIPS

In 2020, we established and deepened partnerships with several organisations and projects. In the summer, NAKO began working with the International Lawyers Project (ILP), an NGO based in London that works with civil society and government reformers to help them obtain pro bono legal support from companies. Thanks to this cooperation, NAKO received legal assistance from reputable international law firms in three areas: state secrets, SEO corporatisation, and defence procurement. DLA Piper's British, Polish, Romanian, Norwegian, and Ukrainian offices have shared with us information on how state secrets are regulated in their respective jurisdictions. NAKO also received legal support from Dentons on Draft Law "On Corporatisation of Ukroboronprom State-owned Enterprises" and from Kinstellar on the Law "On Defence Procurement" and its implementation.

NAKO also continued its cooperation with the NGO StateWatch. Over the course of the year, we actively worked on monitoring defence procurement and defence industry reforms. NAKO and StateWatch analysed the candidates for the position of Deputy Prime Minister of Strategic Industries and analysed the candidates for director positions at the largest Ukroboronprom enterprises.

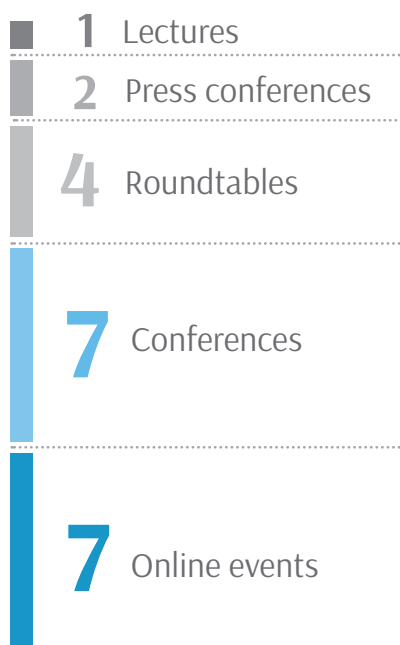
At the end of the year, we established dialogue with the Ukrainian office of the **International Republican Institute** (IRI). We plan to organise a series of trainings for MPs in 2021 with IRI organisational support. In particular, IRI facilitated establishing NAKO's relations with the Seimas of the Republic of Lithuania, whose MPs will hold a series of online seminars for Ukrainian MPs in February-March 2021 to share experiences on parliamentary oversight of the security and defence sector.

NAKO ACTIVITIES



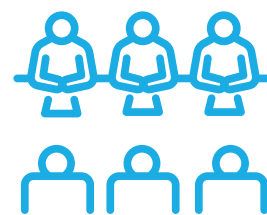
21

Public events,
including:



70+

Working
meetings



65+

Working groups
in legislative and
executive bodies

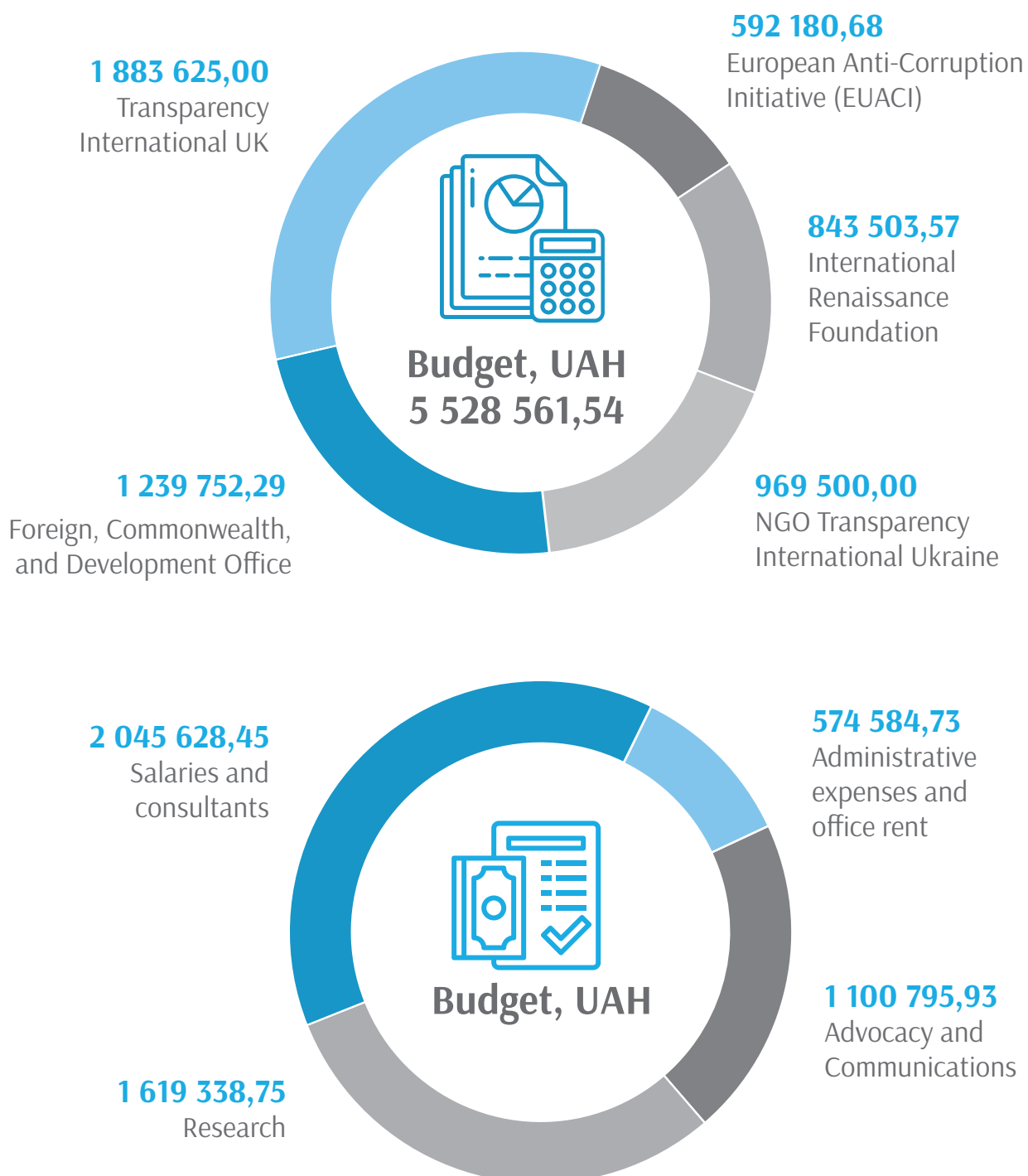
AUDITS



In 2020 NAKO conducted its first financial audit for 2019. The audit was performed by an independent auditor in accordance with International

Standards on Auditing. According to its results, our financial statements are recognized as reliable. The auditor's report is available on our website.

FINANCIAL REPORT



ORGANIZATIONAL STRUCTURE

Board



Giovanni Kessler

Former Director-General
of the European Anti-Fraud
Office (OLAF)



Andrew Bain

President of Atlantic
Group, Colonel of the
U.S. Marine Corps



Andrii Borovyk

Executive Director
of Transparency
International-Ukraine

NAKO team



Olena Tregub

Executive Director



Svitlana Musiiaka

Policy Expert



Olha Kyrian
Operations and Legal Manager



Emiliia Dieniezhna
Communications Manager



Anatolii Iagin
Advocacy Expert



Viktoriia Vyshnivska
Content Assistant



Nina Rakhylchuk
Accountant



Oksana Krasinska
Financial and Grant Manager



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2020

ANNUAL REPORT

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