

CORRUPTION IN THE REAL ESTATE SECTOR OF THE MINISTRY OF DEFENSE: RISKS AND RECOMMENDATIONS



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Independent
Defence Anti-Corruption
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EXECUTIVE SUMMARY

The Ukrainian armed forces have made a promise to the country's service personnel: a commitment to provide military housing of good quality, free of charge, and in proximity to military bases. That promise, however, remains very far from the day-to-day reality that service personnel and their families have to cope with. The waiting list for defence housing includes more than 47,000 people (as for December, 2019)¹, while those who have been assigned housing often live in unregistered buildings, sub-standard, poor quality lodgings,² or in areas unreasonably far from the military bases where they need to work. The unrealistic defence housing promise also perpetuates a system of bribery and fraud, often the most reliable ways of securing housing,³ while problems related to construction, misappropriation of resources, and lack of effective control over MOD land affects government spending and therefore all Ukrainian citizens.

NAKO's previous analysis of defence housing in Ukraine focused on shortcomings of the defence housing management system and governance shortcomings that contribute to bad outcomes. It identified corruption risks and potential corruption schemes as one of the key

factors contributing to the parlous state of the defence housing issue.⁴ Building on that analysis, this report zeroes in on specific corruption-related schemes enabled by shortcomings in the governance of MOD real estate, which should be used to improve the defence housing situation.

Three case studies featured in this report illustrate gross violations in the process of construction of defence housing, with old, derelict buildings being passed off as 'new' housing; loss of state resources and control over real estate due to alleged collusion between MOD officials and contractors; and significant damages brought on by the activity of a rogue actor within the MOD able to push through unauthorised sales of defence land. These cases, chosen for their representative features rather than due to being unique, help illustrate the likely corruption schemes and the governance gaps that collectively enable them. All of these are arguably underpinned by refusal to reconsider or adapt the promise to provide housing to all defence personnel according to the modern realities and using new mechanisms: treating it as a given appears to block reform, freeze harmful expectations, and perpetuate old schemes.

¹Ministry of Defense of Ukraine, <https://bit.ly/2VgcNSD>

²For instance, during an exploratory mission to Odessa in 2019, NAKO researchers explored appalling housing conditions of a young service member's family, with two adults and two children living in a dilapidated flat with less than the legally defined minimum of 13.65 m² per person.

³At an OSCE training session on 5 – 6 September 2019 in Kyiv, servicemen and women expressed their frustration with the system, the sense of being trapped within it and how, at times, participation in graft can be the most dependable way of securing a place within the defence housing queue.

⁴The Independent Defence Anti-Corruption Committee (NAKO), 'Poor Governance and Corruption in Ukraine's Defence Housing System: Risks and Recommendations NAKO Report' (October 2018), p. 15. Available at: <https://bit.ly/2DOjYdh> (verified January 2021).

Based on the case studies and on the analysis of the governance gaps, we identified the main corruption risks that contributed to the violations, as shown in the table below:

CORRUPTION RISKS



- Lack of effective oversight and control, coupled with arbitrary decision making
- Lack of Capability and Needs-based Planning
- Cumbersome Defence Housing Budgeting Process
- Opaque and Unregulated Tendering Process
- Frequent Institutional Restructuring and Personnel Turnover

CORRUPTION SCHEMES ENABLED

- Abuse of office leading to embezzlement
- Collusion between officials and contractors/bidders
- Fraud



Based on the research contained in this report, **NAKO's key recommendations include:**

- Strengthening both internal MOD controls and democratic oversight of the relevant institutions and processes, in the first instance through reinforcing the role of the Accounting Chamber and the implementation of recommendations contained in its reports;
- Adoption of need-based, strategic plans in housing in order to curtail opportunities for arbitrary decision making;
- Adaptation of budgetary procedures and housing sign-off processes to enable longer-term planning and prioritise finalisation of projects in line with identified needs;
- Revision of the construction tendering process to tighten the formulation of requirements (including costs, timeframes and requirements related to provision of service housing within larger projects on MOD land) and criteria for bid acceptance and rejection in order to reduce embezzlement opportunities. Transparency of these procedures needs to be enhanced, including through the use of the online Prozorro system for public tendering of defence housing projects.
- Limiting staff turnover within relevant departments through restructuring based on a series of audits and adapted to needs and strategic plans.

INTRODUCTION

The defence housing issue has been a thorny one since Ukraine's independence. Trying to fulfil the promise to provide housing to all defence service personnel, in 1999 the Ukrainian Government approved the Comprehensive Program 'Construction (Purchase) of Housing for Military Servicemen/women of the Armed Forces of Ukraine' 2101190 (CPCEF), aimed at providing housing to service personnel, officials of the Customs Service, the Ministry of Internal Affairs and their family members. According to the integrated CPCEF program 2011-2017, financed by the state budget (UAH 6.144 billion), and other sources not forbidden by the legislation (UAH 7.288bn) the Ministry of Defence was to receive 45,085 apartments (total area of over 2.8 million m²).⁵ Today, these obligations remain largely unfulfilled, and the number of service personnel registered on the waiting lists has increased in 2011-2017 from 44,900 to over 47,000.⁶

At the same time, research indicates that millions of UAH have been diverted from Ukraine's budget through defence housing and real estate schemes. Some projects have been delayed; others where buildings have been constructed for defence housing purposes remain unfinished and thereby uninhabitable. Between 2016 and 2017, a total of UAH 1.2 billion (52.2% of the entire CPCEF budget) were allotted to the program;⁷ an analysis by the Parliament's Accounting Chamber

concluded that the Ministry of Defence did not ensure the efficient management of these funds, and as a result defence housing was not delivered, constructed or acquired in a timely and effective manner.⁸ In June 2018, the Accounting Chamber published its report into the efficiency of the defence housing system in 2016-2017. Poor governance was identified as the cause of over UAH 600 million (approximately \$22 million) being ineffectively used or misappropriated, while potential embezzlement was assessed to have cost over UAH 32 million (approx. \$1.2 million).⁹ For comparison, in 2017 only UAH 280 million had been allotted for the provision of medicine to military hospitals *-in wartime*.¹⁰ Given that the average monthly pension in Ukraine is about UAH 2480 as for 01 January, 2018 (approx. 91 USD/month), UAH 600 million would amount to nearly 250,000 months of pension payments for Ukraine's senior citizens.¹¹

Cumbersome budgeting processes, a lack of a central authority possessing an accurate and comprehensive understanding of Ukraine's defence housing needs and current situation, weak governance, and an promise of free housing that was unrealistic in the first place all combine to create an under-performing system ridden with corruption schemes and opportunities.

The consequences are dire, affecting a wide spectrum of issues from waste of resources to the

⁵ Ukraine's Accounting Chamber, 'Assessment of the Level of Efficiency in the Use of Budgetary Funds Allotted to the Ministry of Defence of Ukraine for the Construction (Acquisition) of Housing for Servicepersons of the Ukrainian Armed Forces' (2018), Confirmed by Decision of the Accounting Chamber on 12.06.2018 No. 14-1. Available at: <http://bit.ly/2OUXMEP> (verified January 2021), p 18-19.

⁶ Accounting Chamber 2018, 'Assessment of the Level of Efficiency,' p. 5.

⁷ Accounting Chamber 2018, 'Assessment of the Level of Efficiency,' p. 6. For 2016-2017, the Ministry of Defence approved the following budget allocations for the CPCEF: in 2016 - UAH 687.3 million (UAH 600 million from the general fund, UAH 87.3 million from a special fund); in 2017 - UAH 751 million (UAH 600 million from the general fund and UAH 151 million from the special fund). The 'general' and 'special' funds reflect different ways of allocating resources, as well as their source. At both state and local levels, the 'general fund' refers to resources earmarked for the fulfillment of general state and local government functions (provision of educational and medical services, social protection, defence, and other functions). Special funds, while they are also directed toward these areas of spending, but with one significant difference - they have specific, well-defined sources of funding and directions of use.

⁸ Accounting Chamber 2018, 'Assessment of the Level of Efficiency,' 2018, p. 18.

⁹ Accounting Chamber 2018, 'Assessment of the Level of Efficiency,' 2018, p. 54.

¹⁰ Military Budget Request 2018 (p. 65), available at <https://bit.ly/2S68ZPv> (verified January, 2021).

¹¹ Ukraine's Pension Fund Directorate No. 6-1, dated 03 March 2018. Available at: <https://bit.ly/2zkmF2o> (verified January, 2021).

rights of individual service personnel to Ukraine's integration into international organisations. The long waiting lists, the incidence of bribery and fraud in the system, and the substandard, insecure living conditions for many military families violate service personnel's rights and impact morale, shaping their attitudes to the institutions for which they work. That the Ministry of Defence does not appear to exercise effective control over either its land of the real estate built on it bodes ill for Ukraine's Euro-Atlantic integration processes, as the issue has previously helped derail at least one prospective membership. The 2010 Tallinn criteria, which guided the Bosnia-Herzegovina accession plan, explicitly conditioned the opening of the BiH accession negotiation process on the all the MOD property being properly registered and accounted for¹² - a complex process hindered by political divisions and administrative hiccups inside the BiH constituent parts, especially Republika Srpska.¹³ Similar problems in Ukraine could have a similar impact, or even be used by stakeholders opposing the country's Euro-Atlantic integration.¹⁴

This report is one in a series of issues related to corruption risks in defence housing and management of MOD land. NAKO's work on defence real estate aims to improve the system by suggesting concrete changes and by raising the levels of transparency in order to improve accountability and facilitate reform. The first report focused on the institutional structures, assumptions, governance gaps and corruption risks shaping the current defence housing system, concluding that if the current situation continued unchanged, it would take more than 600 years to tackle the waiting list.¹⁵ Partly in response to feedback from stakeholders, this report focuses on specific corruption schemes in order to provide more con-

crete illustrations of the significance of systemic risks that need to be addressed.¹⁶

This report is divided into four sections. **Section 1** briefly discusses the governance gaps affecting delivery of defence housing in Ukraine, utilising open-source research (including parliamentary audits), previous NAKO analysis, and interviews. **Section 2** offers the reader insight into common corrupt schemes and practices that can affect defence housing projects worldwide; based on research of the Norwegian Centre for Integrity in the Defence Sector, this section adapts the schemes identified to Ukrainian realities.¹⁷ **Section 3** uses specific corruption schemes - two related to real estate and the third to control of MOD-owned land - to illustrate the way in which governance gaps enable some of the schemes affecting defence real estate projects. Finally, **Section 4** offers some recommendations for improving the system.

The study, while it tackles some widely-occurring risks and schemes, does not claim to be exhaustive. For example, NAKO researchers have received signals that fluctuations in currency value can be used to pressure developers to hand over incomplete buildings, as completion becomes more difficult due to changing price levels. This potential scheme, however, remains outside of the scope of this report. Institutionally, the study focuses on MOD-related issues and does not include real estate problems affecting Ukraine's intelligence services (HUR). Nonetheless, we see the analysis and recommendations contained herein as a blueprint for improvement in the defence housing sector in all relevant areas and institutions, thus improving budget management and the situation of service personnel in all defence-related bodies in Ukraine.

¹¹ Ukraine's Pension Fund Directorate No. 6-1, dated 03 March 2018. Available at: <https://bit.ly/2zkmF2o> (verified January, 2021).

¹² 'Bosnia and Herzegovina Membership Action Plan,' 26 April 2010, available at: <http://bit.ly/2InCnP7> (verified January, 2021).

¹³ 'Military Property Row Slows Bosnia's NATO Path,' Balkan Insight, 23 December 2015. Available at: <http://bit.ly/2oPTQc1> (verified January, 2021).

¹⁴ This thesis was also put forth and discussed at a conference at Kyiv's Agrarian University on 12 September 2018, which NAKO staff participated in.

¹⁵ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System,' p. 15.

¹⁶ The suggestion to focus on specific schemes came from meetings with stakeholders in the autumn of 2018 in Kyiv.

¹⁷ Centre for Integrity in the Defence Sector (CIDS), 'Guide to Good Governance No.5: Managing the Risks of Real Estate Corruption and Fraud in the Defence Sector', June 2017. Available at <https://bit.ly/2DSM0V2> (verified January, 2021).



SECTION 1: POOR GOVERNANCE AND CORRUPTION RISKS IN UKRAINIAN DEFENCE HOUSING

Poor governance and management systems are problematic in and of themselves, as lack of competence and procedural gaps can affect the delivery of programmes. However, they can also facilitate fraud, theft and corruption

schemes, and can be consciously used by corrupt networks who benefit from them. This section analyses five key governance gaps that together facilitate systemic abuses, fraud, waste and corruption.

LACK OF CAPABILITY- AND NEEDS-BASED PLANNING

Ukraine's defence housing planning is conducted on an annual project basis, rather than being based on long-term strategic plans analysing housing needs and best options for delivering them. An audit conducted by the Accounting Chamber reporting to the Ukrainian Parliament has pointed out that the annual plans spread the funds available for the next year into small pots assigned to numerous facilities, and in an apparently arbitrary manner, enabling the start of new projects while existing ones remain unfinished. It also creates incentives for the MOD to approve the reception of derelict, unfinished, or uninhabitable housing, as resources for finishing the projects might not be available.¹⁸ The distribution of resources does not appear to be based on an analysis of needs or capabilities, while the regional distribution of resources is seemingly based on arbitrary decision making within the MOD's Main Quartering Directorate (MQD).¹⁹ During the budgeting process, the MQD also tends to redi-

rect funds budgeted for construction or reconstruction of defence housing to the acquisition of units on the secondary market, which can raise the cost of acquiring housing by 100%.²⁰

The Accounting Chamber has also pointed out the lack of approved strategic and investment plans vetted by authorised bodies,²¹ particularly the Main Quartering Directorate.²² This could be a violation of the Ukrainian Law on the Management of State Property, whose Article 6 (1) subsection 6 stipulates that authorised management bodies need to 'approve the annual financial and investment plans, as well as the investment plans for the medium term (3-5 years) of state-owned enterprises and economic structures belonging to the sphere of their management, and exercise control over their implementation in due course.'²³ Overall, this lack of specific plans creates opportunities for arbitrary decision-making and corrupt schemes, from embezzlement to fraud to redirection of resources to particular projects.

¹⁸ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System, p. 36.

¹⁹ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 20 & 29.

²⁰ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. p. 24-25.

²¹ The Cabinet of Ministers of Ukraine may delegate powers to manage state-owned assets to authorised bodies of government, represented by ministries, other central and local executive authorities, and the Council of Ministers of the Autonomous Republic of Crimea. Authorised persons may be both legal entities and individuals, and an authorised person can manage one or more companies. See Cabinet of Ministers of Ukraine, 'Regulation No. 147 On Approval of the Order of Use of Funds Provided for in the State Budget for Construction (Purchase) of Housing for Servicemen, Persons of Ordinary and Commanding Staff,' dated February 16, 2011. Available at: <http://bit.ly/39DmrDL> (verified January, 2021).

²² 'Regulation No. 147 On Approval of the Order of Use of Funds Provided for in the State Budget,' p. 15.

²³ 'Ukrainian Law on the Management of State Property 2006,' (Закон 'Про управління об'єктами державної власності'). Available at: <http://bit.ly/2oYoXCj> (verified January, 2021).

CUMBERSOME DEFENCE HOUSING BUDGETING PROCESS

Requiring approximately UAH 54 billion (approx. \$2 billion) to resolve and with over 47,000 persons on the waiting list, Ukraine's defence housing question is recognised as the largest problem facing the MoD.²⁴ In addition to strategic planning, the budgeting process itself can help determine whether these resources – assuming they will be available – are used effectively and help resolve the issues at hand. The MQD budgeting process, based on laws regulating the state budget and on the more specific Procedure № 147, does not appear to be fit for purpose.²⁵

To secure all the necessary approvals, the MoD must go through 11 steps at a minimum (the procedure is laid out in **pic.1**). This results in a long, cumbersome and time-consuming procedure which can take up to 8 months. Given that most planning processes are annual, by the time the funds are assigned and disbursed, effectively organising tender procedures for purchasing or construction, or even allocating resources to particular projects, is virtually impossible.²⁶ The resulting rush to spend leads to inefficient decision and deal-making, creating risks that facilitate already existing corruption schemes and the creation of new ones.

OPAQUE TENDERING PROCEDURES AND LOOSELY FORMULATED CONTRACTS

The defence housing tendering process has been criticised as opaque and ineffective, failing to establish criteria for rejection of bids, ensure that project delivery criteria in the final agreement should not differ from those offered within the winning bid, and prevent contract terms from being changed after the parties agree to key elements.²⁷ A crucial gap in the tendering process is the failure to regulate a key aspect in the MQD's relationship with real estate developers entrusted with developing housing on MOD land. A 1993 Presidential Decree regulating the construction and purchase of housing for service personnel proscribed that in cases where developers are contracted to build new housing on a particular plot of land, up to 35% of the living space they construct can be kept by the companies as part of their remuneration.²⁸ That decree, however, expired in 2005; legally, these investments are

now covered by the Law on Investment Activities. Article 7 (paragraphs 3 & 5) provides that the prices and conditions are to be agreed upon and regulated in each individual contract, in accordance with the laws of Ukraine.²⁹ Thus, commercial structures are able to transfer their rights as investors as well as offer a share of housing, at their own discretion, without any economic justification. Neither the Main Quartering Directorate nor the Ministry of Defence's Central Directorate of Capital Construction (CT DCC), have put forward any criteria as to the amount of housing to be transferred to the MoD by private developers for each project.³⁰ In 2015-2017, this gap was used by officials from the Capital Construction Service (UCB), who released land plots for construction without specifying the proportion of housing that needed to be made available to the MOD or quoting specific needs the project was meeting.³¹

²⁴ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System, p. 15.

²⁵ Cabinet of Ministers of Ukraine, 'Regulation No. 147 on Approval of the Order of Use of Funds Provided for in the State Budget for Construction (Purchase) of Housing for Servicemen and Persons of Ordinary and Commanding Staff,' dated February 16, 2011.

²⁶ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 19-20.

²⁷ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 61.

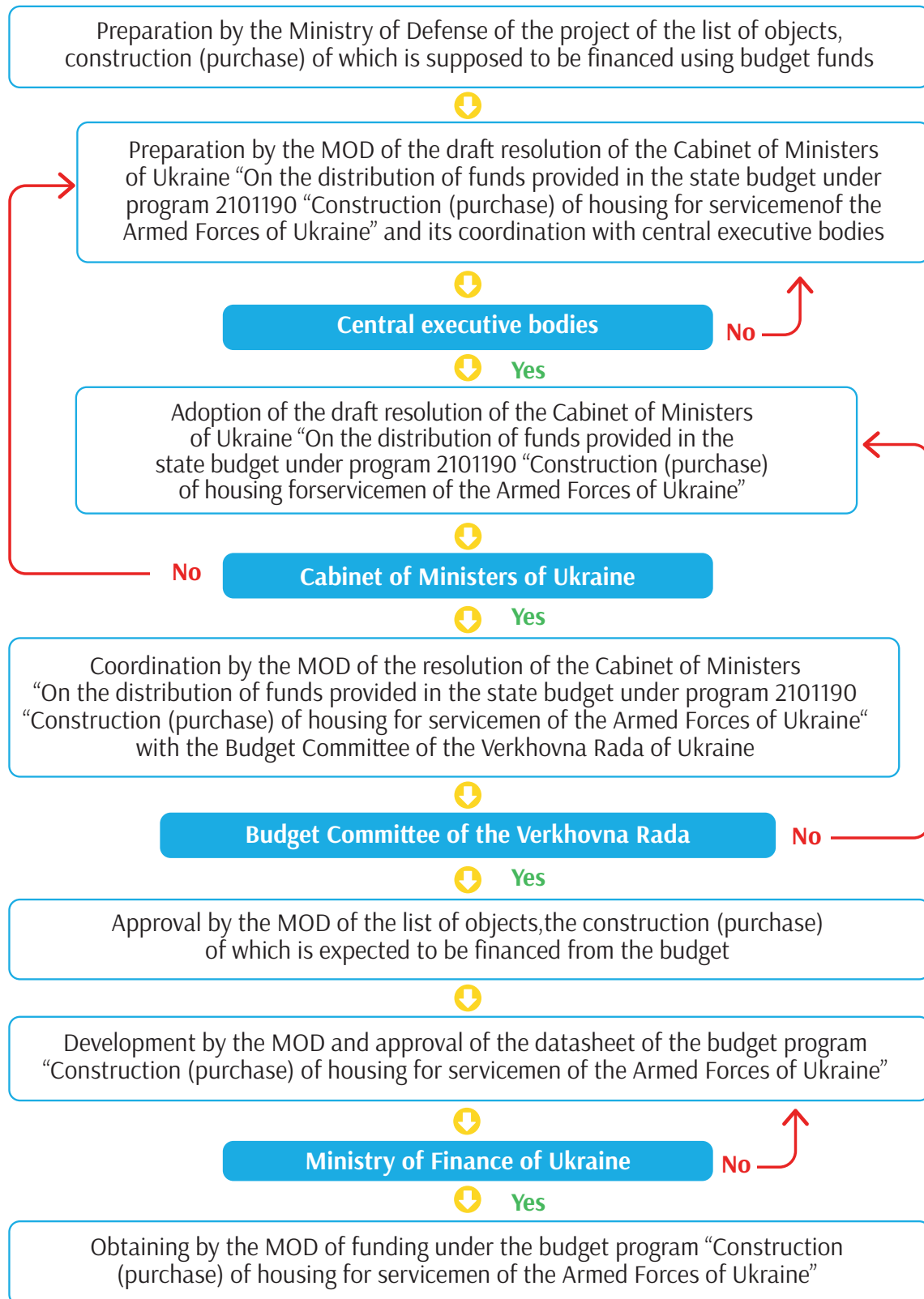
²⁸ Presidential Decree 1993, 'About investing in the construction and purchase of housing for the servicemen of the Armed Forces of Ukraine and their families' (Article 3 - 240/93) (Про інвестування будівництва та придбання житла для військовослужбовців Збройних Сил України та членів їх сімей). Available at: <http://bit.ly/2nMhAxo> (verified January, 2021).

²⁹ 'Law of Ukraine on Investment Activities 1560 – XII' 1991, last amended 20 October, 2019. (Закон Про інвестиційну діяльність). Available at: <http://bit.ly/2ozuDmr> (verified January, 2021).

³⁰ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 21, 49.

³¹ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 49-50.

Flow chart of the distribution of funds and approval of lists of housing construction objects under the budget program “Construction (purchase) of housing for servicemen of the Armed Forces of Ukraine”



Pic.1. This chart shows the complex procedure involving at least 11 steps the MoD must go through in order to secure funding for the construction/acquisition of housing through the budgetary defence housing acquisition program. The institutions involved in the process include the MoD, Central Organs of the Executive, the Cabinet of Ministers, the Parliamentary Budgetary Committee, and the Ministry of Finance. It shows that the process requires the formulation and approval of 9 documents.

A further gap is the failure of the tendering process to provide guidance to the tendering committees on the content of the Project-Based Budgetary Documentation (PBD) that should lay out clear terms for construction projects, delivery timelines, and provisions for penalties for failure to comply with the terms of the contracts.³² These omissions can have long-term consequences: many of the contracts entered into in 2003-2008 remain active as the planned housing has not been delivered or has not been made useable, and some projects have been plagued by scandals (see Section 3). These contracts frequently do not specify the cost of land used for construction, or analyse its location and other features. They also fail to specify end dates for fulfilling the obligations, and do not define the proportion of housing within larger estates that will be provided to the MOD.³³

The shortcomings in the tendering process are exacerbated by lack of transparency and accountability. Despite some efforts and a mandate from the Cabinet of Ministers,³⁴ electronic procurement systems have not been introduced for defence housing tenders. The MOD has explained the delay by pointing to long-term coordination problems on the side of the Ministry of Economic Trade and Development as well as the fact that the electronic procurement system was not ready for application to defence housing.³⁵ At the time of writing, Prozorro is used by the Ministry of Defence in direct procurement of defence housing, with the provision that must be between

95 and 100% completed by the end of the contracted period.³⁶ However, the process remains a complicated one, because Prozorro can only be used to verify information on commitments that are governed by the main contract (i.e. between the contracting authority and the main contractor) and the Ukrainian Law on Public Procurement. Unfortunately, there is no information on the agreements concluded with partners and subcontractors on the private market, as those are not governed by Ukraine's procurement legislation.³⁷ As a result, companies participating in public procurement are not prohibited from having contractual obligations with other private companies of which they are the ultimate owners or beneficiaries, nor are they required to submit information regarding those contracts in order to reduce the conflict of interest risk. How this gap appears to have enabled a corruptive scheme will be presented in Section 3 (Case 1).

Overall, the tendering process, from drafting to project completion requires a thorough review, reform and greater transparency. An analysis carried out for the Ukrainian Parliament concluded that due to the ineffective and opaque procedures governing acquisition on the secondary market, as well as to gaps in equity contribution agreements, the MoD has accepted housing far removed from the place of service, units built on real state that was under dispute in courts, and lodgings of sub-standard quality. In 2016-2017, this amounted to 201 apartments with a total value of UAH 168.4 million.³⁸

³² Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 50.

³³ Letter No 946-02/313 from 20 March, 2018 addressed to Ukraine's Prosecutor General by Ukrainian MP D. E. Dobrodomov. This letter, dated November 2015, was provided to NAKO staff. While we could not find confirmation of it within its authors' registries, the existence of the letter was confirmed by Dobrodomov's office.

³⁴ See Cabinet of Ministers Order no. 275-P, 'On the continuation of the experiment during the acquisition of housing for military personnel of the Armed Forces,' dated 25.04.2018. Available at <http://bit.ly/32GmT1i> (verified January, 2021); and Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 21-22.

³⁵ Cabinet of Ministers Order № 275-p; and Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 21-22.

³⁶ Ministry of Defence of Ukraine, 'For the first time, in a pilot experiment, the Ministry of Defence will be purchasing apartments for servicemen through Prozorro,' 31 August 2018. Available at: <http://bit.ly/38ANAqx> (verified January, 2021).

³⁷ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System,' p. 35.

³⁸ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System,' p. 57.

FREQUENT INSTITUTIONAL RESTRUCTURING AND PERSONNEL TURNOVER WITHIN THE MQD

In 2019, 103 people worked within MOD's Main Quartering Directorate and the amount of expenditures that were directed to the salaries of employees in 2019 was UAH 27,2 million.³⁹

The MQD structure undergoes regular personnel and structural changes, with its departments and territorial directorates frequently disbanded and restructured. All these processes often occur behind a shroud of secrecy or opacity, with minimal, if any, democratic oversight or open communication.⁴⁰ For example, in 2015–2018, the MQD had been headed by 6 persons, at least one of whom had been suspected in having conducted corrupt activities.⁴¹ One case of receiving housing on the basis of a fraudulent inspection report has reportedly resulted in the payment of over UAH 32 million for 96 apartments, which at the time of the audit had not yet been received.⁴²

Frequent personnel changes, resulting in a lack of continuity and gaps in expertise, can increase the likelihood of abuse of office. Successive restructuring processes have not con-

tributed to the effectiveness of the department and have not resulted in the creation of a clear, vertically integrated management structure with clear accountability and reporting lines.⁴³ During its research, NAKO has also noted reluctance to release any information about the MQD structures, with officials quoting national security concerns.⁴⁴ For comparison purposes, the operations of similar institutions in other states - for example, the US Department of Defence's Housing Management - are much more transparent and information on their structures is freely available online.⁴⁵

Based on the published administrative documents,⁴⁶ since the fall of 2020 MQD is absent in the structure of the Ministry of Defense, which gives grounds to assume its liquidation as a structural unit or, at least, a change of status. However, there is no unambiguous confirmation of such a decision in open access, and no changes have been made to the regulations that indicate the powers of the MQD.⁴⁷ This situation is not conducive to transparency and good governance in the provision of military housing.

LACK OF EFFECTIVE OVERSIGHT AND CONTROL

There is arguably very little effective oversight and control over the activities of particular MQD officials, whether exerted by internal MQD/MOD structures or by external institutions mandated with overseeing expenditures and operations of government departments. An audit by

the Parliament's Accounting Chamber identified numerous cases of discretionary authority and lack of oversight resulting in abuse of office and fraud, in some cases involving MQD officials colluding with private companies working on real estate construction.

³⁹ MOD's Main Quartering Directorate response N°303/7/1/200 dated 21.03.2020 to the NAKO Public Information Request of 03/17/20.

⁴⁰ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System, p. 40.

⁴¹ Message on the website of the National Anti-Corruption Bureau of Ukraine. Available at: <https://bit.ly/3dju8Ux> (verified January, 2021).

⁴² Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 10.

⁴³ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 9-10.

⁴⁴ Interview with senior MQD official, February 2019.

⁴⁵ US Department of Defence Manual DoD Housing Management. Available at <https://bit.ly/2PHJfwg> (verified January, 2021).

⁴⁶ The List of military administration bodies whose jurisdiction extends to the entire territory of Ukraine (approved by the order of the Ministry of Defence dated 20.05.2016 N°270 as amended on 21.10.2020 N°385) <https://bit.ly/3qMy3fS> (verified January, 2021).

⁴⁷ Regulation on the organization of housing support of the Armed Forces of Ukraine (approved by the order of the Ministry of Defence of 03.07.2013 N°448) <https://bit.ly/3iKvmZF> (verified January, 2021)

These abuses included:

- Accepting unfinished apartments while certifying their condition as ‘complete’ and in compliance with sanitary and safety standards;
- Accepting apartments whose size either exceeded or did not provide the specified amount of living space per person;
- Adjusting contracts to extend the delivery time, in violation of tendering requirements/obligations and without appropriate authority;
- Post-contractual increase of valuation and therefore payment for works/services;
- Payment of unlawfully increased prices (including advances);⁴⁸
- Entering contracts that did not reflect the real housing needs of Ukraine’s Armed Forces;⁴⁹
- Manipulating between the legal terms of ‘housing’ and ‘apartment’ in order to justify changes to contractual obligations in favor of a private company.⁵⁰

Not only were these abuses made possible by lack of control and an excess of discretionary authority, but no accountability measures have been implemented afterwards, no investigations were opened, and none of these officials have suffered consequences.⁵¹ This points to significant gaps in accountability and oversight of defence housing projects.

Shortcomings in accountability and oversight also extend to the MQD’s and MOD’s relationships with external oversight bodies, including the Accounting Chamber. The Chamber is Ukraine’s financial and budgetary control institution; formed by Ukraine’s parliament, it is subordinate and accountable to it. It examines key state institutions of Ukraine for the effectiveness and legality of spending of the budgetary funds they manage.⁵² In June 2018, the Accounting Chamber published its report into the efficiency of the defence housing system in 2016-2017. Poor governance was identified as the cause of over UAH 600 million (approximately \$22 million) being ineffectively used or misappropriated, and likely embezzlement schemes as resulting in over UAH 32 million (approx. \$1.2 million) being stolen.⁵³

The 2018 Accounting Chamber report contains over 10 references to the fact that previous recommendations had been ignored. This suggests that not only has the MOD not been prepared to implement the recommendations, but also that other state institutions have not pressed for reform in a crucial area.⁵⁴

At the MOD level, the Accounting Chamber has concluded that plans aiming at reforming the housing system were not either formulated or overseen in a way that would prevent or tackle

⁴⁸ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, pp. 27-28.

⁴⁹ The lack of effective, needs based planning is compounded by loose adherence to the MOD Quality regulations. See Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, pp. 13, 29, 34, 38, 42, 50, 54.

⁵⁰ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 33.

⁵¹ At the time of writing, NAKO had met with the Head of the MQD and was told that upon formal request information would be provided regarding the number of persons relieved from duty as well as the MQD’s formal response to the Accounting Chamber’s report. A formal request has been filed.

⁵² Criticism of the Accounting Chamber included possible bias in selection of cases and close ties to stakeholders within the government. It was raised, for example, by individuals identified in the report, as well as the Head of Ukraine’s Public Council at the Ministry of Defence during a news brief at UNIAN 5 July 2018 (available at <https://bit.ly/2BGq1i2>; verified January, 2021); by an independent expert G. Mohilniy in interview 15 November 2018, and by the former Acting Minister of Health, Ulana Suprun (‘They are looking for something that they can use to open a criminal trial against me,’ 12 September, 2019, <http://bit.ly/2LXRd0X>, verified January, 2021). It is difficult for this research to judge the objectivity of these claims.

⁵³ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, pp. 24-25.

⁵⁴ Elsewhere, recommendations from audit bodies see a higher rate of implementation by government departments. For example, the US Government Accountability Office (GAO) reported that between 2014-2017, the Department of Defense implemented 67% of its recommendations, below the government-wide rate of 77% (see GAO, ‘Status of GAO Recommendations Made to the Department of Defense (Fiscal Years 2014-2017),’ 5 February 2019, available at <https://www.gao.gov/products/gao-19-245r>, verified January 2021). In the UK, the National Audit Office reported that out of 8 recommendations on the National Equipment Plan 2017-2027, all have seen a degree of progress in implementation: 3 were assessed as ‘good’, ‘some’ progress was visible in 2 cases, and implementation of 3 was considered ‘limited’. See NAO, ‘The Equipment Plan 2018 to 2028. Report by the Comptroller and Auditor General’, 5 November 2018. Available at <https://www.nao.org.uk/wp-content/uploads/2018/11/The-Equipment-Plan-2018-2028-.pdf>, verified January 2021.

deficiencies in their implementation. For example, the plans did not name the persons responsible for their implementation; one of the key departments responsible for implementation – the Department of Capital Construction (DCC) – was disbanded; officials who had abused office were not held accountable; and systemic problems in the used of funds had not been addressed.⁵⁵

In 2015, six MPs from the Committee on Preventing and Combating Corruption formally addressed the then Prosecutor General V.M. Shokin with an inquiry into why the recommendations of the Accounting Chamber issued in June 2015 had been ignored.⁵⁶ The MPs' inquiry referred to an estimated total of damages of UAH 117.7 million, which, according to the report, were caused by possibly criminal activities, from falsification of contracts, acceptance of housing units that were unfit for habitation, falsification of documents, and allocation of apartments to MOD officials instead of service personnel.⁵⁷ Despite appeals to the Prosecu-

tor General and the Military Prosecutor General, no criminal investigations were opened.

These governance shortcomings create a system prone to inefficiencies, abuses, fraud and corruption. Two other issues exacerbate them. One is a matter of policy that is out of step with international best practice: the overall promise of permanent, free, generally accessible housing for service personnel.⁵⁸ The gap between the promise and reality leads to the promise itself becoming a remote mirage, while the refusal to reconsider it leads to the petrification of an inefficient system prone to abuses.⁵⁹

The second issue is that of possible external influence. Two out of the 17 Ministers of Defence who had held office since 1999 – Dmytriy Salamatin (8 February 2012 – 24 December 2012) and Pavel Lebedev (24 December 2012 – 27 February 2014) – have been indicted for treason in favour of the Russian Federation. Both have been connected to the selling off of MoD real estate and movable property.⁶⁰

POOR GOVERNANCE		CORRUPTION RISK
Lack of Capability and Needs-based planning	➔	Arbitrary Decision Making/fraud
Cumbersome Defence Housing Budgeting Process	➔	Delays in approval/Opportunities for Graft
Opaque and Unregulated Tendering	➔	Opportunity to Conspire/ Embezzlement
Frequent Institutional Restructuring and Personnel turnover	➔	Lack of accountability/Fraud
Lack of effective oversight/control/accountability	➔	Abuse of office and ability to embezzle

Table 1: Relation between Poor Governance in Ukraine's Defence Housing Related Real Estate and Corruption Risks

⁵⁵ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 8.

⁵⁶ This letter, dated November 2015, was provided to NAKO staff. While we could not find traces of it within its authors' registries, the existence of the letter was confirmed by MP Dobrodomov's office.

⁵⁷ In response to the inquiry into how highly-placed persons inside the MOD receive numerous apartments submitted separately by MP Dobrodomov in letter No. 946 dated 20 March 2018, the Deputy MOD Prosecutor General A. Matios denied wrongdoing (see Letter No. 10/2/1- 25315-15).

⁵⁸ NAKO, 'Poor Governance and Corruption in Ukraine's Defence Housing System,' p. 18.

⁵⁹ Some have argued that changes cannot be made without a revamping of the entirety of the 1983 Housing Code. This has been questioned by interviewees pointing out that adoption of sector-specific changes was possible. For example: Interview with former Deputy Minister of Defence, Leonid Polyakov, 18 September 2018.

⁶⁰ 'Salamatin became Minister because Yanukovich is Afraid,' Gazeta, 9 February 2012. Available at <http://bit.ly/2W29oWI> (verified January 2021).

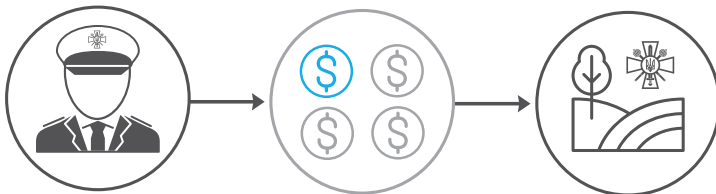


SECTION 2: COMMON CORRUPTION SCHEMES IN DEFENCE HOUSING AND REAL ESTATE

The defence sector is often seen as one of the most corruption-prone areas of government activity, with complexity, large budgets, and widespread secrecy all facilitating corrupt schemes. One estimate of the worldwide cost of defence corruption points to a minimum of \$20bn a year being lost through corrupt schemes.⁶¹ Defence housing, with many high-value transactions such as acquisition/sale, rental agreements, construction and maintenance projects, can be exposed to major corruption and fraud risks. Directly and indirectly, real estate corruption and fraud schemes negatively impact the national security of the state, its institutions, people, internal culture and international perceptions.⁶²

The Norwegian MOD's Centre for Integrity in the Defence Sector has identified 12

common corruption risks affecting the housing sector; its material have been used by the Ukrainian MOD's Internal Audit Service to structure training and awareness raising.⁶³ While this list is not an exhaustive one – NAKO has encountered other possible schemes in the course of its research, especially related to attempts to take advantage of currency fluctuations to disadvantage contractors – it nonetheless pinpoints the most common ways in which corruption can affect defence housing, and is reflected in cases analysed here. To better reflect realities in Ukraine, 3 of the 12 schemes (schemes no. 7, 8, 9) have been fine-tuned to Ukraine's legislative and systemic realities, and scheme no. 2 has been substituted in its entirety as it was not applicable to Ukrainian system.⁶⁴



SCHEME 1. A key decision-maker in the defence sector uses his/her position to acquire real estate sold by an entity within the defence sector at a price significantly below real market value.

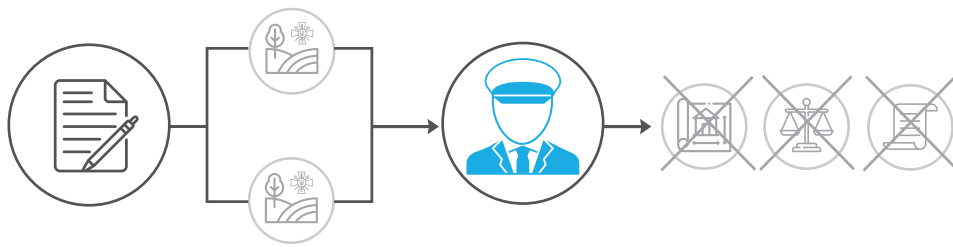


⁶¹ Transparency International, '70% of Governments Fail to Protect against Corruption in the Defence Sector', 29 January 2013. Available at <https://bit.ly/2NLq7Kj>; verified January 2021.

⁶² CIDS, 'Guide to Good Governance No.5.'

⁶³ CIDS, 'Guide to Good Governance No.5.'

⁶⁴ In scheme 7, the word 'decision-makers' has been added; in scheme 8, 'or (indirect) beneficiaries' has been added, and in scheme 9, 'decision-makers' has been added. The original language of Scheme 2, 'An entity in the defence sector owns a land plot at a suitable location for military units. An entity in the defence sector needs a land plot in connection with the establishment of a new military base. The decision-maker influences the acquisition process so that his/her land plot is acquired by the entity in the defence sector at a price significantly above normal market price' has been changed to: 'Contracts on joint construction of housing on defence land and other sections of MOD Structures, which do not belong to the real estate of the MOD, are entered into by (unauthorized) officials who approve construction projects that grossly violate the requirements of land and urban development legislation, state building codes, standards and rules.'



SCHEME 2. Contracts on joint construction of housing on defence land and other sections of MoD Structures, which do not belong to the real estate of the MoD, are entered into by (unauthorized) officials who approve construction projects that grossly violate the requirements of land and urban development legislation, state building codes, standards and rules.



SCHEME 3. Decision-makers in the defence sector are offered and accept compensation in the form of cash, goods, services and/or job offer from private construction firms in order to influence the award of contracts regarding the construction or demolition of buildings for entities in the defence sector.



SCHEME 4. Decision-makers in the defence sector **request and are given** compensation in the form of cash, goods, services (e.g. construction services at the private houses of the decision-makers) and/or job offer from private construction firms in order to influence the award of contracts regarding the construction or demolition of buildings for entities in the defence sector.

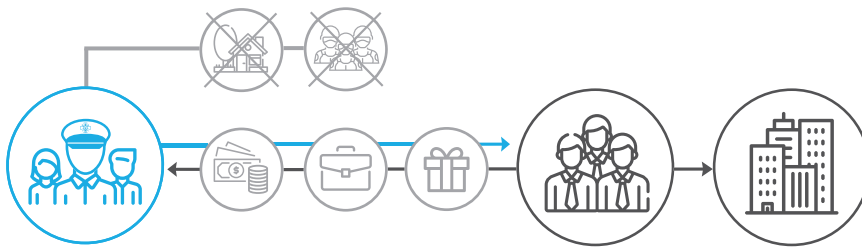


SCHEME 5. Decision-makers in the defence sector **are offered and accept** compensation in the form of cash, goods, services and/or job offer from private service providers in order to influence the award of contracts regarding maintenance and/or other facility management services rendered to entities in the defence sector.

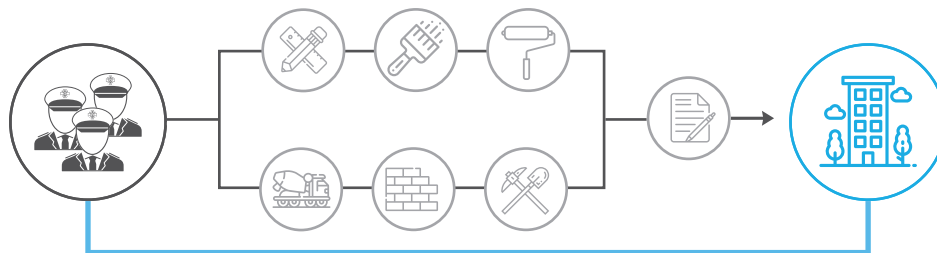




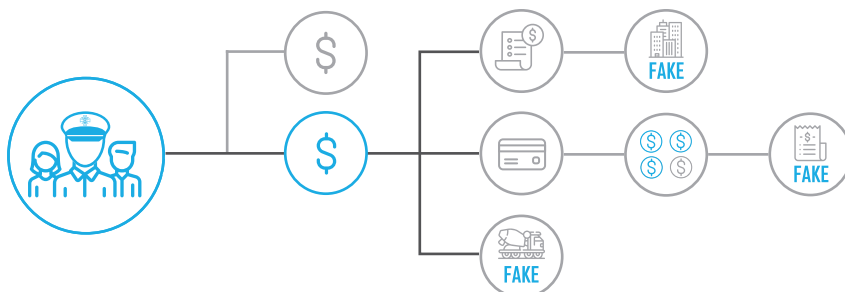
SCHEME 6. Decision-makers in the defence sector **request and are given** compensation in the form of cash, goods, services and/or job offer from private service providers in order to influence the award of contracts regarding maintenance and/or other facility management services rendered to entities in the defence sector.



SCHEME 7. Decision-makers and/or personnel involved in the allocation of housing to military personnel **request and receive** compensation in the form of cash, goods or favours for granting attractive or scarce flats/houses to specific individuals

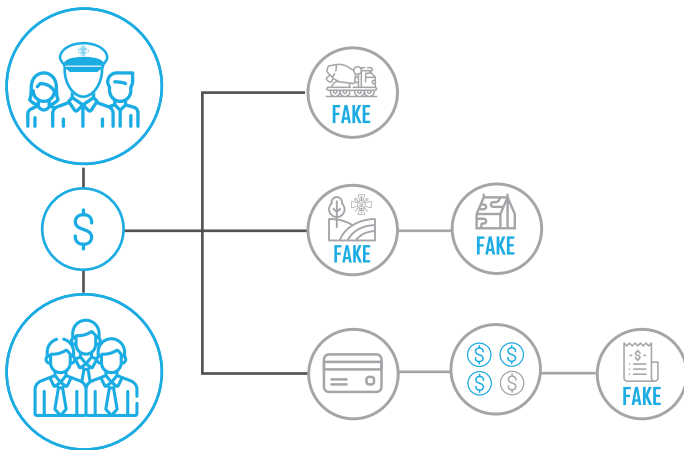


SCHEME 8. A small group of decision-makers involved in the procurement of construction or other real estate-related services enters into contracts with firms for which they in reality are the ultimate owners or (indirect) beneficiaries.

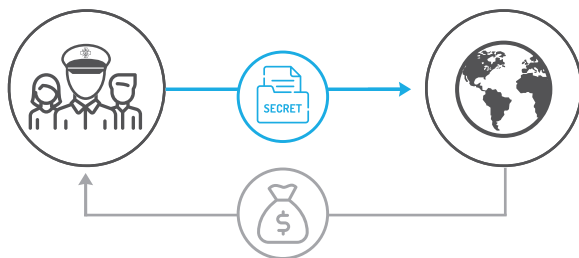


SCHEME 9. Decision-makers and/or personnel (e.g. in procurement or accounting) misappropriate assets by 1) Creation of, and payments to, fictitious vendors of construction and/or other real estate - related services or 2) Payment of inflated or fictitious invoices for real estate-related services or 3) Payment of invoices for real estate - related services not performed.

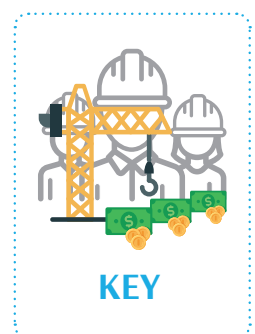
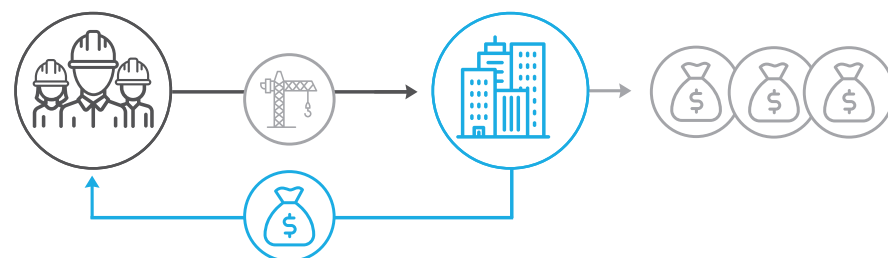




SCHEME 10. Decision-makers/employees in collusion with vendors or third parties misappropriate assets by: 1) Payment of inflated or fictitious invoices for real estate-related services or 2) Payment of invoices for real estate – related services not performed or 3) Using buildings or land owned by the defence sector for personal gain (e.g. renting a warehouse owned by the defence sector to a private company and keeping all or parts of the revenues).



SCHEME 11. A small group of decision-makers involved in the procurement of construction or other real estate-related services enters into contracts with firms for which they in reality are the ultimate owners or (indirect) beneficiaries.



SCHEME 12. An employee involved in construction projects is compensated by an external construction firm for allowing the firm to use the construction project as part of money laundering activities.

The table below shows, **how the schemes identified in this section can be enabled by governance gaps, identified in Section 1.**

POOR GOVERNANCE/SYSTEMIC CORRUPTION RISK	CORRUPTION RISK	SCHEME
Lack of Capability and Needs-based planning	Arbitrary Decision Making	2, 7, 9, 10, 12
Cumbersome Defence Housing Budgeting Process	Delays in approval/ Opportunities for Graft	1, 7, 9, 10, 12
Opaque and Unregulated Tendering	Opportunity to Conspire/ Embezzlement	1, 2, 3, 4, 5, 6, 8, 9, 10, 11, 12
Frequent Institutional Restructuring and Personnel turnover	Lack of accountability/Fraud	2, 4, 6, 8, 9, 10, 11, 12
Lack of effective oversight and control	Lack of accountability/abuse of office to embezzle	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12

Table 2: Relation between poor governance, corruption risks and defence real estate corruption risks.



SECTION 3: CASE STUDIES

The 3 case studies analysed in this section illustrate some of the main corruption risks in the defence and security sector, and show how collusion within corrupt networks involving MOD officials and private-sector entities can take advantage of governance weaknesses in order to divert resources and enrich groups and individuals at the cost of the state's budget. **Case 1**, , focused on the 'Noviy Rozdil' development in the Lviv region, shows how remote locations and dilapidated buildings have come to

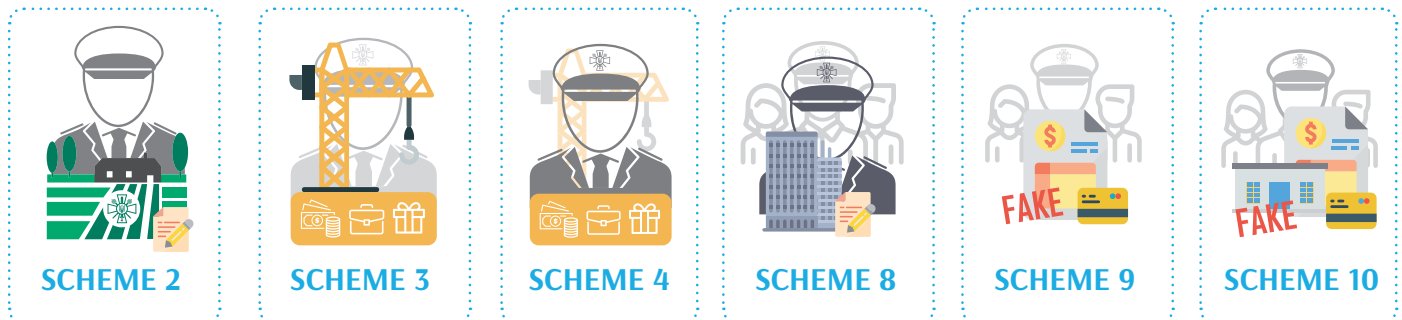
be used as potential service housing. In **Case 2** 'Budkapitals', a private company, and the MOD have been at odds due to an apparently fraudulent signing of acts resulting in the MOD receiving incomplete housing. The case also draws attention to potential conflicts of interest within the system, as the owner of the 'Budkapitals' company has been represented on civic bodies working on housing while also performing work for the MOD. **Case 3**, 'Artema', flags issues related to lack of control over MOD land, which will be a subject of further research. In all three cases, criminal proceedings and/or parliamentary inquiries have been opened, and all three have been analysed by the Ukrainian Accounting Chamber.

CASE 1:

Noviy Rozdil⁶⁵ Chornovola 14a

NEW CHAPTER, BUT SAME OLD STORY?

LIKELY SCHEMES:



Scheme 2 – Signed contracts violate legislation, codes, standards and/or rules.

Scheme 3 – MoD decision-makers are offered and accept compensation from private construction firms.

Scheme 4 – MoD decision-makers ask for, and accept, compensation from private construction firms.

Scheme 8 – Decision-makers involved in procurement of real estate related construction/services enter relationships with firms of which they are owners/beneficiaries.

Scheme 9 – Assets are misappropriated by decision-makers/personnel.

Scheme 10 – Assets are misappropriated by decision-makers/personnel in collusion with third parties.

⁶⁵ In Ukrainian 'Noviy Rozdil' means 'New Chapter' or 'New Section.'

The Noviy Rozdil case illustrates the impact of rushed tenders, a failure to set requirements and standards, arbitrary decision-making, and collusion between actors in government institutions and the private sector on the MOD's ability to deliver desirable, high-quality housing projects. The process featured a number of red flags:

- Short bidding timelines: an MOD call for bid for a purchase of new apartments throughout Ukraine was published on 31 July 2015 in Ukraine's National Army Newspaper. The overall value of the call was UAH 915,365,062.⁶⁶ It requested bids to be delivered by 10 August 2015, a very short term later described as 'odd' by courts.⁶⁷
- Agreed unit price: the call included an invitation to construct 30 apartments in Lot#25 in the Lviv oblast (region). Lot #25 was awarded to a private company, LLC Yantar, which proposed to deliver 30 apartments at a total cost of UAH 15,847,425 excluding VAT, which amounted to UAH 10,450/m². This was at odds with two assessments of apartment value in this area around the time that the tender was published: the Lviv Chamber of Commerce determined a price between UAH 8050-8561/m² for *newly constructed apartments in Noviy Rozdil*,⁶⁸ a subsequent 2018 assessment by the Accounting Chamber

pegged the price at UAH 5600/m².⁶⁹ Depending on the assessment, the price requested by Yantar LLC contained a markup between UAH 2400 and 9,542/m².

- Classification of the apartments: as indicated in the decision of the Shevchenkivsky District Court of Lviv dated 11/27/2017, the MOU in a statement on its official website described the notion 'secondary market' in this case as 'newly constructed apartments owned by the bidding company.'⁷⁰ However, the apartments in question were not new. The building, constructed in 1964, had been written off by the Noviy Rozdil city council as derelict and unfit for human habitation, and sold in July 2006 to a LLC EvroStil for a total of UAH 606,454. Less than two years later, EvroStil sold the building to LLC Yantar for a total of UAH 450,000. In December 2012, the Noviy Rozdil City Council authorized LLC Yantar to register the real estate as residential real estate – but only after its reconstruction.⁷¹ Formally, this in itself should have disqualified LLC Yantar as the apartments did not satisfy the notion of 'secondary market': they were not newly constructed, they were reconstructions. The true nature of the 'reconstructed' apartments was apparently concealed by MoD decision-makers within the Western Territorial Defence Housing Directorate.⁷²

⁶⁶ Announcement in the 'Narodna Armia' magazine (оголошення у газеті «Народна армія» від) №227/1/2226-HEP, 31 July 2015, №72 (5407). Available in Narodna Armia Archive: <http://bit.ly/38ypo79> (Verified June, 2020); see also <http://bit.ly/2W2gcmQ> (Verified January, 2021).

⁶⁷ Decision of the Shevchenko District Court, City of Lviv) (Ухвала суду № 71888840, 30.01.2018, Шевченківський районний суд м. Львова). Available at: <http://bit.ly/2P6xii2> (verified January, 2021).

⁶⁸ Decision of the Shevchenko District Court, City of Lviv) (Ухвала суду № 71888840, 30.01.2018, Шевченківський районний суд м. Львова). Available at: <http://bit.ly/2P6xii2> (verified January, 2021).

⁶⁹ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 13.

⁷⁰ Court Case (Справа) 466/9887/16-к, Shevchenko District Court City of Lviv. Available at: <http://bit.ly/2W2gcmQ> (verified January, 2021).

⁷¹ Nowy Rozdil City Council Decision No. 451. See Court Case (Справа) No. 466/9887/16-к <http://bit.ly/2W2gcmQ> (verified January, 2021).

⁷² Announcement in the 'Narodna Armia' magazine No. 227/1/2226-HEP (оголошення у газеті «Народна армія» від), 31.07.2015 №72 (5407). Available at Narodna Armia Archive: <http://bit.ly/38ypo79> (verified January, 2021); see also <http://bit.ly/2W2gcmQ> (Verified January, 2021).

Despite these red flags and the overall lack of demand for military housing in the area, the leadership of the Ministry of Defence concluded 30 contracts with YANTAR LLC for the purchase and sale of real estate on the secondary market.⁷³ The criminal inquiry into the Noviy Rozdil case concluded that persons employed by the MoD, working both in Kyiv and Lviv, and employees of the LLC Yantar, had conspired to embezzle budgetary funds allotted to the purchase of defence housing and, in turn, misappropriated UAH 5,071,175.⁷⁴

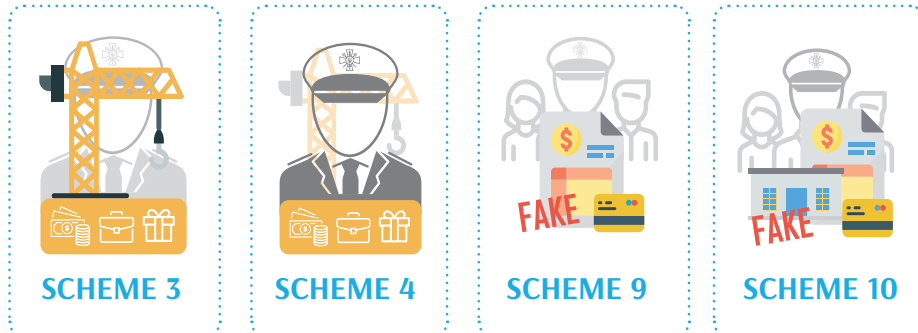
'From the materials of the criminal proceedings it is seen that ... the officials of LLC "Yantar" illegally received part of the funds (over UAH 13 million) from the Ministry of Defence

*of Ukraine. These sums were transferred to the accounts of individuals-entrepreneurs.'*⁷⁵

The Noviy Rozdil criminal case hinges on the possible violation of Article 410 (3) of Ukraine's Criminal Code, i.e. seizure of military property by a service person through fraud and abuse of office. These offences carry a penalty of 3-8 years in prison, or 5-12 if committed within a 'special period' outside of martial law, such as the period following the occupation of Crimea and Donbas. At the time of writing, verdicts are yet to be issued. However, in the summer of 2018 another criminal case involving Yantar LLC was opened, this time pertaining to the attempt to offer a bribe of \$5,000 to a military prosecutor in the first case: the individual in question was fined a mere UAH 8500.⁷⁶

CASE 2: BUDKAPITALS AND CONFLICT OF INTEREST

LIKELY SCHEMES:



Scheme 3 – MoD decision-makers are offered and accept compensation from private construction firms.

Scheme 4 – MoD decision-makers ask for, and accept, compensation from private construction firms.

Scheme 9 – Assets are misappropriated by decision-makers/personnel.

Scheme 10 – Assets are misappropriated by decision-makers/personnel in collusion with third parties.

⁷³ Announcement in the 'Narodnia Armia' magazine No. 227/1/2226-HEP (оголошення у газеті «Народна армія» від), 31.07.2015 №72 (5407). Available in Narodna Armia Archive: <http://bit.ly/38ypo79> (verified January , 2021); see also <http://bit.ly/2W2gcmQ> (verified January , 2021).

⁷⁴ Decision of the Shevchenko District Court, City of Lviv) (Ухвала суду № 71888840, 30.01.2018, Шевченківський районний суд м. Львова). Available at: <http://bit.ly/2P6xii2> (verified January , 2021).

⁷⁵ Court Case Справа № 466/9887/16-к <http://bit.ly/2W2gcmQ> (verified January , 2021).

⁷⁶ Court Decision № 71888840, 30.01.2018, Shevchenko District Court City of Lviv; Case (Справа) No. 466/9887/16-к, Shevchenko District Court City of Lviv. Available at: <http://bit.ly/2W2gcmQ> (verified January , 2021).

<http://bit.ly/2W2gcmQ> (verified January , 2021). It should be noted that fines in Ukraine are generally rather low, thereby negatively impacting their deterring purpose.

The second case study focuses on 109 apartments just over 30km East of Kyiv in a town called Mykhailivka-Rubezhivka, built by BUDKAPITALS LLC.⁷⁷ BUDKAPITALS submitted an offer to build the apartments in response to a 2014 MOD tender. The real estate was paid for in tranches between 2014–2015, and, despite not being finalised, the apartments in question were received as ‘complete’ by the MOD in March 2015.⁷⁸

The contract and the work remain disputed; they have been the topic of inquiries from the Audit Chamber (2015) and from members of parliament, the latter addressed to the Prosecutor General.⁷⁹ The process has raised a number of red flags as both the MOD and the private company have claimed damages and disadvantages from the process. For example, the Accounting Chamber has concluded that the contracts have cost the Ukrainian taxpayers about UAH 41.6 million in damages, plus litigation fees.⁸⁰ BUDKAPITALS has asserted damages in the order of about UAH 800,000.⁸¹ Company representatives have asserted that despite the building now being on the account of the MoD and no longer belonging to BUDKAPITALS, the company continues to pay for the unfinished building’s upkeep in order to prevent it from deteriorating without heat and security, and to prevent the MoD from claiming that BUDKAPITALS had fallen short in their duty of care, which could cause further losses.⁸²

To date, the building remains unfinished, deteriorating without ever having been inhabited.

While the MOD has sued BUDKAPITALS over the state of the buildings, the courts continue to side with the company, arguing that the MOD had formally accepted the ‘completed’ apartments and ownership had formally been transferred, making the MOD the owner of the real estate in question. In addition, the Accounting Chamber noted in 2018 that while the MOD has sued BUDKAPITALS in court, it had not moved to investigate these cases internally or to have the ownership transfer declared invalid.⁸³

The BUDKAPITALS case illustrates the following **governance gaps and resulting corrupt practices**:

- Falsifying documents and accepting unfinished deliverables: In March 2015, the MoD authorities signed an act accepting the apartment building as complete and received it as such. However, an MQD technical control carried out on 2 February 2018 registered 96 apartments as 87% complete, and 13 apartments 99% complete.⁸⁴ The Parliament’s Accounting Chamber has found that at the time of its issuance the object in question had not even been constructed.⁸⁵ The MOD did, however, transfer a total of UAH 32.4 million in 2014–2015 and an additional UAH 1.7 million in 2016 for the supposedly obtained apartments.⁸⁶

In addition, the MOD not only did not attempt to rescind the false agreements and certificates of completeness – although, according to the agreement with BUDKAPITALS, this could

⁷⁷ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 10.

⁷⁸ In an interview with the owner of LLC BUDSKAPITAL, the tendering process was also identified as problematic, one in which fake tenders were submitted in order to qualify. Interview conducted on 18 April 2018 in Kyiv.

⁷⁹ Letter No 946-02/313 from 20 March, 2018 addressed to Ukraine’s Prosecutor General by Ukrainian MP D. E. Dobrodomov. This letter, dated November 2015, was provided to NAKO staff.

⁸⁰ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 11 (Contract No 1/360П).

⁸¹ Decision of the Court №910/9512/17 dated 26.07.2017 available at: <http://bit.ly/31GQXrs> (verified January, 2021).

⁸² This information was asserted numerous times during NAKO interviews with representatives of BUDKAPITALS in the spring and summer of 2019. See also: Decision of the Court №910/9512/17 dated 26.07.2017 available at: <http://bit.ly/31GQXrs> (verified January, 2021).

⁸³ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 11 (Contract No 1/360П).

⁸⁴ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 12.

⁸⁵ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, p. 10.

⁸⁶ Accounting Chamber, ‘Assessment of the Level of Efficiency,’ 2018, pp. 10 & 11.

have enabled it to receive some of the apartments free of charge – but it concluded a subsequent contract for the purchase of 13 additional apartments.⁸⁷ These decisions, made in apparent disregard of previous failures of the company to deliver on its contractual obligations, have been made against the background of frequent staff turnover and instability: both contracts with BUDKAPITALS were signed by acting heads of the MQD, staff members posted to the MOD rather than permanent officials.⁸⁸ This likely impeded the formulation and use of institutional memory and facilitated abuses: the Accounting Chamber has concluded that officials most likely colluded with companies to facilitate the signing of false documents and overriding of the conditions of original tender requirements.⁸⁹

- Price increases: between the 2014 and 2015 contracts, the price per square meter for apartments in the same area appears to have increased by UAH 4,000, and concluded that this opened additional opportunity for the company to make a profit.⁹⁰ The company, however, has claimed that this increase reflected the fluctuations in the value of Ukrainian currency. In addition to inflation, fluctuations in currency can affect prices; suppliers therefore frequently tie

the prices of the contracted work and material to the exchange rate of the US dollar,⁹¹ while Ukraine's Law on Public Procurement allows for fluctuations in inflation and currency value to be indexed.⁹² In the period between the 2014 call for tenders and the date of the last payment from the MOD, the Ukrainian hryvnia fell about 50% in relation to the US dollar; according to BUDKAPITALS, this sharp fall of the Ukrainian currency, and the resulting rise in prices, impeded the timely construction of the buildings.

- Potential conflict of interest: at the same time as BUDKAPITALS was carrying out contractual work with the MOD, its director was a member of the Public Council at the Ministry of Defence. A consultative body tasked with bringing in public participation, enhancing civil control, and helping formulate policies within the Ministry of Defence,⁹³ the Council has long been plagued by accusations of incompetence, bias, and foreign infiltration.⁹⁴ BUDKAPITALS director has reportedly joined the Council before, during and after running into contracting problems with the MoD; given the Council's potential policy-making role, this could have created a conflict of interest.⁹⁵

⁸⁷ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 11(Contract No 1/360П).

⁸⁸ It is important to note that the qualification of the individual as 'non-staffer' seems to only apply to the BUDKAPITALS case. The same official, in his capacity as 'Acting Director,' entered into other questionable agreements on behalf of the MOD. See Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, pp. 35, 37.

⁸⁹ Noting the following companies: ТОВ «БУДКАПІТАЛІС», ПАТ «ХК «Київміськбуд», ТОВ «БОРИСПІЛЬ ПРОМІНВЕСТ», ТОВ «СОФІЯ БУД ГРУП», ПрАТ «Будівельний торговий будинок», ТОВ «ПГ ІНВЕСТ», ПАТ «ФК «СТС-ІНВЕСТ», ТОВ «ДОБРОБУТ+»). The issue of high staff turnover was also cited by the MOD's former anti-corruption adviser, Ruslan Trotstynsky. NAKO Interview with Ruslan Trostynskiy, November 2018, Kyiv.

⁹⁰ Accounting Chamber, 'Assessment of the Level of Efficiency,' 2018, p. 11.

⁹¹ Interviews with BUDKAPITALS representative, Yevhen Pinchuk, spring and summer 2019, Kyiv & Odesa.

⁹² Ukraine's Law on Public Procurement, Article 36 (7) allows for the indexation of contract prices. (Про публічні закупівлі 922-V111. Available at: <http://bit.ly/2Q28s2u> (verified January, 2021).

⁹³ Public Council Statute available at: <http://bit.ly/33TqhFz>, verified January, 2021.

⁹⁴ 'The Minister of Defence Confirmed Anti-Ukrainian Public Council at the Ministry of Defence,' Novynarnia, 3 August 2017. Available at: <http://bit.ly/2Mxc7nG> (verified January, 2021). See also: 'Scandal with elections to the Public Council at the MOD,' Tyzhden 3 February 2017. Available at: <http://bit.ly/2Nncqu4> (verified January, 2021); 'Be damned – how volunteers and ATO veterans are pushing out pseudo veterans from Ukraine's Budget,' Novynarnia, 14 April 2017. Available at: <http://bit.ly/2PWJrqf> (verified January, 2021).

⁹⁵ During interviews in the autumn of 2018 and spring and summer of 2019, NAKO researchers asked the BUDKAPITALS representative if he abused his power, or considered it a conflict of interest to be simultaneously an owner of a construction company building for the MOD and the representative of non-governmental organizations focused on defence housing on the Public Council of the MOD (which has insight and some impact on budgetary expenditures for defence housing). In interviews and later in written form, Pinchuk denies any conflict of interest, abuse of power and provides timelines of his leadership/involvement in civil society.

CASE 3: ARTEMA 24A**SOLD TWICE, RENAMED THRICE, OWNED BY NONE****LIKELY SCHEMES:**

Scheme 2 – Signed contracts violate legislation, codes, standards and/or rules.

Scheme 3 – MoD decision-makers are offered, and accept, compensation from private construction firms.

Scheme 4 – MoD decision-makers ask for, and accept, compensation from private construction firms.

Scheme 6 – MoD decision-makers request, and are given, compensation to influence the awarding of maintenance/management contracts.

Scheme 8 – Decision-makers involved in procurement of real estate related construction/services enter relationships with firms of which they are owners/beneficiaries.

Scheme 9 – Assets are misappropriated by decision-makers/personnel.

Scheme 10 – Assets are misappropriated by decision-makers/personnel in collusion with third parties.

The case of the ‘Artema 24a’ land plot in Kyiv illustrates some of the challenges related to the management of land controlled by the Ukrainian Ministry of Defence. Contested ownership and dodgy sales and acquisition procedures, facilitated by the MOD’s lack of effective control over its land, has led to litigation and years of stalled development in Kyiv’s city center, created corruption risks, and resulted in conflict between the MOD, local authorities, and private investors.

While this case is primarily related to the actions of one suspect within the MoD, whose abuse of power and official position within

a few short months racked up damages over UAH 91,300, 000 (est. \$17 236 220),⁹⁶ it is indicative of the grand scale of defence real estate problems caused by corrupt actors. The Artema 24a case is only one of 26 connected to the criminal activities of the same individual within the MoD, whose deeds were facilitated by gaps in the MOD’s real estate sales and valuation procedures, as well as its failure to properly plan for and control the actions of its officials. The court decision in this case was brought to the attention of NAKO anonymously; despite Ukraine’s legislation stipulating that criminal court decisions should be publicly available, this one is not.⁹⁷ NAKO reached out to the

⁹⁶ Shevchenko Criminal Court Rulings, Case No. 1 – 1081/2010 (accessed by researchers, not available online. See also Hearing of Shevchenko Region Court on 20 October, 2010; Criminal Case No. 12018100000000534 date registered 11.06.2018 13:24:28. Available at: <http://bit.ly/2Q0WxIF> (verified January, 2021).

⁹⁷ In apparent violation of Ukraine’s 2006 Law on Access to Court Decisions (<https://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=3262-15>). Open-source searches related to the 26 cases noted above was possible to find and verify all references made to each of the 26 cases in which Mr. Melnyk was found guilty of violating article 365 of Ukraine’s Criminal Code (“Excess of authority or official powers”).

court registrar in November 2019 with an inquiry as to why this particular case is not available online, and the answer that was given noted the lack of time and computers to post all criminal rulings online.⁹⁸

A month later, in December 2019, the criminal court decision was finally posted online.⁹⁹

On 3 October 2018, Mohammad Zahoor, a prominent international investor and former owner of Ukraine's independent, English-language newspaper, *The Kyiv Post*, publicly accused actors within Ukraine's MoD of real estate raiding: in collusion with a private company, Zahoor wrote, the MOD was attempting to 'snatch' a plot of land legally belonging to one of his companies.¹⁰⁰ Zahoor's predicament has its source in two transactions, one carried out in 2001 and the other in 2006, both selling the same plot of land, but to two different companies. In 2001, the MOD apparently sold the land to a company named 'Vyrobnycha Firma AgroPromService-A'; five years later, the same plot was sold to a LLC 'Ukrayina-Metal LTD.'¹⁰¹

Both sales were ostensibly related to the construction of defence housing, with the MOD divesting real estate to developers in exchange for a proportion of the apartments constructed on it (in this case, 10%) being made available to service personnel. In other words, MOD

real estate was transferred to a private company, which will then have the right to develop it on the condition that it delivers a certain amount of completed construction (in this case housing) for the MOD's use. In order to provide real estate to developers in exchange for completed housing, the MOD needs to make sure that the plot has been 'written off', or made eligible for sale; this decision has to be approved and registered by the Cabinet of Ministers. During the first sale in 2001, the plot in question had not been written off by the MoD; it was, however, written off in time for the second transaction in 2006.¹⁰²

However, the 2006 sale of the Artema 24A plot was unlawfully carried out by an official working within the MOD, Volodymyr L. Melnyk, acting at the time under power of attorney to decide upon real estate matters on behalf of 'Ukrobronbud,' a branch of the Central Specialized Construction Directorate (CSCD) at the MoD. Within three short months in 2006, Mr. Melnyk, 'acting in the interest of third, private parties,' abused his authority and signed away MoD real estate all over Ukraine, with the MOD losing UAH 91,300,000 in the process (est. \$17 236 220).¹⁰³ Notably, the Artema 24A plot is the only one related to the Melnyk case which actually had been written off at the time of the (second sale); none of the remaining 25 had even gone through the process.¹⁰⁴

⁹⁸ Based on the response of Shevchenkivskiy District Court of Kyiv №01-20/242/2019/K-301 dated 08.11.2019 to NAKO letter inquiry dated 04.11.2019.

⁹⁹ Shevchenkivskiy District Court of Kyiv, Case No.1 - 1081/2020 (posted online in 17.12.2019, <https://bit.ly/2x9PpNs>).

¹⁰⁰ M. Zahoor, 'Think before you Invest,' *The Atlantic Council*, 3 November 2018. Available at: <https://bit.ly/2FBG0ln> (verified January, 2021).

¹⁰¹ Criminal Case No. 1201810000000534 date registered 11.06.2018 13:24:28.

¹⁰² Written communication with expert Georgiy Mohinly, dated 18 November, 2018, substantiated in the Shevchenko Criminal Court Rulings: Case No. 1 – 1081/2010, Hearing of Shevchenko Region Court on 20 October, 2010 (accessed by researchers, not available online), and Criminal Case No. 1201810000000534 date registered 11.06.2018 13:24:28.

¹⁰³ It has been argued that the then Minister of Defence was also behind the unauthorised sales. Minister Grytsenko denied any involvement, testified against Melnyk during the criminal trial and supported the guilty verdict. 'What the voter needs to know about Anatoliy Grytsenko' *Ukrainska Pravda* (Що треба знати виборцю про Анатолія Гриценка | Українська правда.) * February 2019. Available at: <http://bit.ly/2whoQln> (verified January, 2021).

¹⁰⁴ The analysis of the Melnyk case has led researchers to conclude that the real estate in question was the only plot that had actually been formally written off by the MOD. This "writing off" is an important step that should be taken by the MOD before effective control of the real estate is transferred away from the Ministry. This was not addressed directly by Criminal Case No. 1201810000000534, but reappeared during the 8 years of litigation by Zahoor.

As a result of Melnyk's activity, many of the companies listed in Table 6, subsequent purchasers of the real estate, and the MoD have been litigating one another for over a decade. At times the courts decide in favour of the MoD, and in others in favour of the company.¹⁰⁵

The Melnyk case also points to the occasional disparity between the estimated costs of the land prior to entering the equity participation deals and the actual damages that had been identified by the court (see Table 6). In one case, the difference was well over UAH 6 million (over \$1 million). Despite numerous attempts, it was not possible to ascertain which

institutions were responsible for the valuation prior to the sale by the MOD, nor how the sums were calculated. NAKO was also not able to obtain a clear explanation of how the valuations have been conducted.¹⁰⁶

The Artema case was enabled by the following gaps in MOD housing governance:

- Lack of oversight and institutional memory within the MQD, which resulted in arbitrary decisions being made and a failure to detect wrongdoing;
- The opaque and hard-to-analyse work of the expert valuation teams.

¹⁰⁵ *Narodni Blogi*, 'Corruption of Brave Traitor,' 12 April 2018, <http://bit.ly/39C3dOZ> (verified January , 2021).

¹⁰⁶ The manner in which the valuations are conducted and by whom calls for attention and further research, particularly as it appears that the MOD may be writing off and effectively selling more of its land in the near future, both due to the need to find additional resources for the MOD's defence real estate needs and the general opening of the land market.

Case	Location	Date	Value	Percent	Damages	Companies	Written off by MoD at time of contract?
1	Dnipropetrovsk Prospekt Pratsi 2-A (Area 64)	06/03/2006	1 750 000	136%	2 379 749	Leader-K	✘
2	Sevastopol vul. Khmelnytskoho 88 (Area B-26)	09/03/2006	520 000	117%	606 000	Alt-Media	✘
3	Zhytomyr vul. Chernikhivskaho 108 Inventory 239 (Area 80)	10/03/2006, потім 20/03/2006	18 650	3725%	694 784	Viktor	✘
4	Zhytomyr vul. Chernikhivskaho 108 (Inventory 247 & 248 Area 80)	20/03/2006	31 500	1220%	384 178		✘
5	Zhytomyr vul. Sayenka 54a (Area 109)	10/03/2006	168 000	262%	439 467	Auditorska Firma Ehergo-Audit Plus	✘
6	Zhytomyr (cmt)Huyeve (Area 81)	10/03/2006	272 000	152%	412 372		✘
7	Zakarpattia, (cmt) Mezhyhirya vul. Vatutyna 10	14/03/2006	168 500	250%	421 444	Sly	✘ ¹
8	Sevastopol vul. Istorychna 17 (Area B-39) <i>Later changed to 26A</i>	15/03/2006	170 000	544%	925 000	Private individual Tevzadze A.D.	✘
9	Sevastopol vul. Shchytova 40 (Area 503)	15/03/2006	1 100 000	-23%	254 320	Firma Esculap	✘
10	Sevastopol Vul. Naberezhna Nazukina & Berth #262	15/03/2006	310 000	539%	1 670 698	Obyednana Torhivelnna Hrupa	✘ ²
11	Odesa Silskohospodarskiy provulok 2 (Area 216)	15/03/2006	7 826 000	128%	9 993 607	Green Coin	✘
12	Kyiv Artema 24 (later renamed Artema 24a) (Area 43)	15/03/2006	7 258 697	269%	19 553 206	2001 "Vyrobnycha Firma "Agropromservice" Followed by 2006 "Ukrayina-Metal LTD"	✔ ³
13	Simferopol Vul. Mokrousova/Aksakova 4/15 (Area 23)	16/03/2006	310 000	489%	1 515 105	"Horniy"	✘
14	Simferopol Vul. Zaporizhzhka 2/8 (Zaporizhska 4.6) (Area 40)	20/03 2006	4 166 667	174%	7 243 634	"Sevtorko"	✘ ⁴

Case	Location	Date	Value	Percent	Damages	Companies	Written off by MoD at time of contract?
15	Sevastopol Liubymivka village Vul. Fedorovska 45	20/03/2006	45 000	311%	140 417	PP "Filippov Kyrylo Dmytrovych"	✘
16	Zhytomyr Vul. Kyivska Shose 42 (Area 109)	20/03/2006	181 900	310%	564 247	"Vikkor"	✘
17	Dnipropetrovsk Vul. Furmanova (Area 12)	21/03/2006	1 242 000	170%	2 106 430		✘
18	Dnipropetrovsk Vul. Symferopolska 2 (Area 11)	21/03/2006	2 157 000	300%	6 461 490	"Triada"	✘
19	Dnipropetrovsk Vul. Lyash- ko-Popelya (Area 14)	21/03/2006	4 979 000	225%	11 190 020		✘
20	Sevastopol (Area 296) Sevastopol South Shore Zone of Crimea No.3	23/03/2006	1 218 129	-9%	104 673,25 (kop.)	Chimrezerv- Krym	✘
21	Sevastopol Tavriyska Naberezhna Berth 248	24/03/2006	1 070 000	-79%	845 575	Vimpel	✘
22	Lutsk Vul. Vynnychenko 8 (Area 37)	24/03/2006	2 960 000	190%	5 636 039	"Zakhidna Produktova Kompania"	✘
23	Odesa Vul. Italiyskiy Blvd. 1 (Area 2)	10/05/2006	2 800 000	240%	6 723 809		✘
24	Odesa Vul. Dacha Kovalevskoho 128 (Area 234)	10/05/2006	1 950 000	339%	6 613 059	"Baletko"	✘
25	Odesa Vul. Astashikina 29 (Area 21)	10/05/2006	970 000	322%	3 127 471	"Vessa-yug"	✘
26	Dnipropetrovsk Ploshcha Zhovtneva 11 (Area 15)	27/05/2006	2 145 000	-61%	1 303 185,08	"Line-M"	✘
Total in UAH			45 788 043	199%	91 315 980,03		
Total in USD (at 5.3 exchange rate)			8 639 253	200%	17 236 220,65		

Table 6. The Melnyk Case: real estate and damages.

¹ Belonged to state enterprise of MoD "Viyzkova turystychna basa Mezhyhirya"

² Belonged to Balaklavskiy ship repair factory Metalist

³ Were in the "oblik" inventory of the Kyiv Quartering Directorate and were transferred to the balance of the Directorate of Capital Construction of the MoD in the quality of an object for joint development with a company identified as Vyrobnycha Firma Agropromservice. This notwithstanding, the object in question was transferred to "Ykrayna-Metal LTD"

⁴ Belonged "povnoho hospodarskoho vidannya State enterprise of the MoD "Krymviyskbud"



CONCLUSIONS & RECOMMENDATIONS

Reforming the Ukrainian defence housing and real estate system is a daunting task, and one that it does not seem possible to achieve without a fundamental policy change: a renegotiation of the social contract promising free housing to service personnel, with more flexibility on how to best secure individuals' interests. Given that this promise can be a significant draw to a sector with low wages and stalled careers, this would be difficult. However, since failing to fulfil these promises breaks service personnel's rights and further undermines their trust in the institutions they serve, it is also indispensable.

Even if the key policy change is achieved, plugging the governance gaps that enable bad outcomes is likely to take time, effort, and resources. But as the MoD continues to struggle with fallout from old cases and enters into new contracts, lessons from previous experiences are too important to be ignored. While any reform will need to be systemic and reach into all corners of the system, we suggest focusing first and foremost on the following issues:

1) Introduce long-term, needs-based planning. The cumbersome procedures and annual planning and budgeting system lead to situations in which buildings take unacceptably long periods to be completed and remain unfinished even as the construction of new ones commences. The Main Quartering Directorate (MQD) experts develop annual plans which spread the funds planned by the annual national budget into small amounts and to numerous facilities under (re)construction. Lack of long-term planning and resourcing not only leads to the MOD receiving substandard housing; it also enables arbitrary decision-making

that facilitates corruption, fraud, and embezzlement. **Long-term strategic plans, based on an audit of needs and availability of resources, need to be drafted carefully, with input from veterans' organisations, and made public wherever possible in order to enable Parliament and civil society to hold the MOD to account.**

2) Simplify and streamline the budgeting process. The budgeting mechanism (see **pic.1**) lays out a minimum of 11 steps necessary to approve a budget. The length and complexity of the process, in combination with planning and budgeting conducted in annual cycles, sets the MOD up for inefficient use of resources: by the time the funds are allotted, too little time remains to effectively finance and operationalize the MOD's own construction, let alone organize tendering and purchasing processes for obtaining defence housing on the secondary market and/or as part of equity share participation. **Improvements in the budgeting process should to some extent follow improvements in the planning process and the adoption of strategic plans, however, it is necessary to revise the processes themselves and consider introducing longer time horizons for budgetary processes and approvals.**

3) Strengthen the tendering and contracting process and make it more transparent. The current process has too many gaps, including the failure to set requirements, define the proportion of apartments in particular developments that need to be offered to the MOD, and define bid approval and rejection criteria. It also frequently omits the conditions

for contract amendment or close-out, as well as penalties for non-fulfillment of obligations. **The priority in this area is ensuring that tenders fully set up the conditions of bidding and contracting, and are clear about requirements the MOD has. In order to allow for greater transparency and oversight, an online tendering system such as Prozorro needs to be used, unless a clearly defined, national security-related exception applies. The tendering system should also demand the disclosure of information from companies that would enable officials to prevent conflict of interest.**

4) Reforming the MQD and fostering expertise, consistency and institutional memory. Ukraine's key body tasked with defence housing, the MOD's Main Quartering Directorate, is an office of mammoth size and riddled with dysfunctionality. Frequent restructuring and the mandating of 'acting' personnel to make key decisions increases the space for arbitrary decision-making not mitigated by experience or institutional memory, and therefore creates corruption risks. **Likely to be a long-term exercise, the size, shape and reporting structures of the MQD need to be amended in line with the analysis of Ukraine's strategic defence housing needs; an audit of its staffing levels, promotion policies, and staff retention measures could be the first steps**

toward greater stability and consistency.

5) Strengthening oversight and accountability, internally and externally. In many cases, staff members implicated in corrupt schemes have not been held to account by internal MOD structures, while parliamentary scrutiny and justice in the courts were not demonstrated. In order to create accountability that could deter corruption, **MOD structures able to investigate breaches internally (such as the Main Inspectorate)¹⁰⁷ might need to be involved, or new bodies created. Externally, the Parliament and its Accounting Chamber need to consistently and persistently demand on the MOD to formulate reform plans, plan strategically, and police itself.** The Accounting Chamber reports are one of the key tools to identify shortcomings and equip Parliament to push for changes, but it is not clear to what extent their recommendations are implemented. **The Chamber should utilise international good practice in tracking the percentage of recommendations that have been implemented, while Parliament needs to insist that government departments being assessed at least respond to the recommendations. Unless warranted by a clearly defined national security exemption, both the reports and the responses need to be publicly available.**

¹⁰⁷ See the Ukraine MOD's Main Inspectorate web page: <http://www.mil.gov.ua/ministry/struktura-aparatu-ministerstva/gimou.html>, verified June y 2020.



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**CORRUPTION IN THE REAL ESTATE SECTOR
OF THE MINISTRY OF DEFENSE:
RISKS AND RECOMMENDATIONS**

**INDEPENDENT DEFENCE
ANTI-CORRUPTION COMMITTEE**

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