

SAFEGUARDING UKRAINE'S RESTORATION:

Anti-Corruption Progress and the Path Ahead



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This document takes stock of recent progress (July 2023 to February 2024) in strengthening Ukraine's anti-corruption ecosystem with a view to safeguarding Restoration projects. It covers:

1. Progress in enforcement, with the exposure of three corruption cases.
2. Mitigating corruption risks in the Remediation Fund and other Restoration funding mechanisms, including prioritisation, project selection and budget allocation.
3. Increasing Restoration project transparency through the DREAM system.
4. Connecting Restoration projects with wider strategic planning.
5. Strengthening auditing oversight over the Restoration process.
6. Development of the public procurement system, including by increasing the share of competitive procurement, making direct contracts more transparent, and strengthening audits and controls.

It is a joint publication of Transparency International Ukraine and the Basel Institute on Governance. A forthcoming sister publication will provide an overview of anti-corruption progress and gaps not directly related to the Restoration.

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Restoration progress

The seven months that have elapsed since our [last update](#) in June 2023 have been tumultuous ones for Ukraine on and off the battlefield. Russia's continued bombardment of civilian infrastructure means that the **total estimated cost of Restoration¹ in Ukraine has increased to USD 486 billion** over the next decade, and is likely to increase further.

Despite severe funding limitations, Restoration started to gain some momentum and became the defining civilian focus of Ukraine's Government and the donor community. Energy, water supply, housing and transport infrastructure have been central concerns of Ukraine's infrastructure-related agencies.

The continuous Restoration of this infrastructure has been – and will continue to be – critical to Ukraine's remarkably vibrant economic and social life even during wartime.

During the second half of 2023, the main funding vehicle for Restoration projects was the Fund for Remediation of the Consequences of the Armed Aggression. This "Remediation Fund" selected more than **300 Restoration projects** over successive project competition rounds. **A total of UAH 58.2 billion (approximately CHF 1.33 billion)** was allocated to various Ministries and Agencies.

Among many worthy projects, this included the construction of protections for 22 electricity substations and 63 substation components solid enough to withstand hits from drones and shell fragments.

Restoration and anti-corruption: What's new?

The second half of 2023 saw a significant focus on the establishment of a system for the accountable and transparent Restoration of Ukraine. A dynamic multi-stakeholder effort emerged to monitor Restoration funding, assess corruption risks and mitigate them. This included:

- Reviews of the selection and awarding of Restoration projects.
- Registering these projects in the transparent project tracking database DREAM.

¹ **Restoration** is the English term we generally use for the rebuilding of infrastructure and buildings destroyed in Russian attacks, both during and after the war. The terms "Reconstruction" and "Recovery" are also sometimes used, though we believe Restoration better reflects the ongoing nature of the rebuilding works and the goal of "building back better".

- Strengthening internal accountability mechanisms in the agencies involved.
- Readyng law enforcement for the inevitable Restoration-related corruption cases.

This emerging system was tested thoroughly at the end of the year, when political tensions in Ukraine and funding uncertainties from key donors shifted the established funding assumptions and demanded exceptional savvy from supporters of integrity.

Important lessons of the last months include:

Enforcement works. The new Director of Ukraine’s Anti-Corruption Bureau NABU quickly moved against attempts to subvert infrastructure funding. In a politically sensitive sting operation, NABU partnered with the Ministry of Infrastructure and Agency for Restoration’s top leadership to thwart three separate attempts at high-level bribery.

Significant improvements to the Remediation Fund were adopted that boost the system’s transparency and accountability. However, Restoration funds were subsequently moved to a different budget structure. It is critical to [adopt robust and flexible control measures](#) for Restoration funding, no matter which administrative avenue the funds flow through.

DREAM project tracking: The Digital Restoration Ecosystem for Accountable Management (DREAM) online project tracking tool emerged as a key innovation. It has the potential to be as crucial to Restoration integrity as Prozorro has been for wider public procurement.

The public remains vigilant: According to a [survey](#) commissioned by Transparency International Ukraine, corruption (75%) and embezzlement (79%) remain the top two concerns of Ukrainians with regard to the Restoration process. Concerns about integrity have increased since the last survey.

Enforcement: Exposure of three corruption cases

Remarkably, [three major Restoration-related corruption cases](#) were disclosed near the end of the year. These involved the efforts of private-sector and state-owned enterprise representatives and parliamentarians attempting to bribe the top leadership of the Ministry of Infrastructure and Agency for Restoration in exchange for project benefits.

Law enforcement, under the leadership of the National Anti-Corruption Bureau of Ukraine (NABU), is providing a robust response. In more detail:

- **NABU exposed MP Andrii Odarchenko for committing bribery using cryptocurrency.** The MP and member of the Rada Committee on Anti-Corruption Policy offered

Mustafa Nayyem, Head of the Agency for Restoration, a bribe in Bitcoin amounting to USD 50,000. This is the first cryptocurrency-related illicit benefit documented to date by anti-corruption authorities. In late November, the High Anti-Corruption Court (HACC) arrested the MP in the courtroom. He was subsequently released on bail and expelled from the Sluha Narodu party, while investigations are ongoing.

- **NABU and the Specialized Anti-Corruption Prosecutor's Office (SAPO) exposed a current MP in an attempt to bribe a Deputy Prime Minister for Restoration.** The MP is also the owner of a large construction and agricultural business. According to the investigation, in August 2023 he approached a top official of the Ministry for Infrastructure with a request to provide his company with contracts for the Restoration of infrastructure facilities worth UAH 1 billion (USD 27.4 million). For this, he promised a "reward" of 3–5% of the value of each contract.
- **NABU-SAPO exposed the owner of a private company offering a bribe to a top official of the Ministry of Infrastructure.** The bribe was in the form of real estate totalling 5,200 sq m of new buildings he had built. Their estimated value was over UAH 170 million (USD 4.67 million).

As we had predicted in previous updates, large-scale funding related to Restoration will inevitably attract corrupt behaviour. Ukraine is working to address this by a) **empowering law enforcement bodies** to respond with full competence and independence; and b) **mitigating the systemic weaknesses** that wrongdoers are seeking to exploit, including those spotlighted below.

Mitigating corruption risks in the Remediation Fund and other Restoration funding mechanisms

The first major Ukrainian Restoration efforts were in 2023 routed through the Remediation Fund, managed by the Ministry through Government Resolution No 118 of 10 February 2023. The Fund was, at the time, financed from the following two sources:

- **Frozen assets seized by Ukraine** under the Law of Ukraine "On the Bases of Expropriation in Ukraine of Assets of the Russian Federation and its Residents" and Law of Ukraine "On Sanctions"; and
- **50% of the passive profit of the National Bank of Ukraine** under the Law of Ukraine "On the National Bank of Ukraine".

In 2023, UAH 61.8 billion (approximately USD 1.6 billion) [were allocated](#) to the Fund, with the majority (UAH 58.2 billion) assigned to projects before the end of the year.

The Remediation Fund received new Procedures in April 2023, which led to the submission of several hundred projects. These projects are reviewed by the Ministry of Infrastructure for compliance and subsequently approved by a session of a dedicated government commission (which, in an important transparency measure, is broadcast online).

As the implementation has now run through several cycles, several reform items became apparent. One was enabling communities to submit projects without the filter of the regional administrations. This recommendation was subsequently implemented in January 2024 through Government Resolution No 79.

Another was the need for **easily accessible project regulations and selection criteria for applicants**. Project selection procedures should also be clearly spelled out and where deviations from these procedures take place, these need to be **transparently documented**.

In parallel, both the Ministry of Infrastructure and the Agency for Restoration strengthened their internal accountability systems, with numerous documents (Anti-Corruption Strategies and Action Plans, Codes of Ethics, etc.) being adopted that enable the implementation of anti-corruption objectives.

Prioritisation and project selection

As the number of proposals will certainly exceed the finances available, **accountable and transparent prioritisation remains crucial to Restoration**. Robust prioritisation procedures can safeguard against political or subjective influence on the decision-making process.

The [methodological recommendations](#) approved by the Government in October 2023, and developed with extensive civil society input, fulfil these requirements. An important further step would be to make **this methodology mandatory and anchor it in law**.

In late January 2024, the Cabinet of Ministers granted itself the authority **to allocate funds from the Remediation Fund for urgent financing of any projects** related to reversing the consequences of armed aggression **purely at the request of the applicant**.

Such a request may not meet the requirements for mandatory information (direction of use of funds, their amount, justification and calculation of funding, list of projects). It will not be subject to review by the relevant Ministry and approval by the government commission.

This is a significant step backward in ensuring transparent and high-quality selection and prioritisation of Restoration projects. Exceptions from the rules might be necessary in emergency situations, but the arguments for each exception need to be clearly and publicly articulated along with the person responsible for recommending this exception.

Budget allocation

In the State Budget for 2024, the budget allocation for restoring the country from the consequences of the full-scale invasion was significantly reduced. The Remediation Fund received no additional state budget funding. After the 2023 funds are depleted, it will be left with only one source of financing – seized Russian assets.

This is currently an unreliable source of financing, since the Law on Sanctions contains administrative obstacles to the sale of confiscated assets.²

From an anti-corruption perspective this represents a setback, as significant efforts had been invested into addressing corruption vulnerabilities observed in earlier rounds of the Remediation Fund.

Early indications are that alternative **administrative channels for funding Restoration projects do not yet have the same level of transparency and accountability.**

Recommendations

- **Anchor the requirements for project prioritisation** at the level of the law, and the methodology for its implementation at the level of a by-law approved by the Government.
- **Adopt the project selection methodology as obligatory for Restoration project selection** with state funding, with exceptions from established procedures subject to full transparency and extensive justification.
- **Amend the Law on Sanctions to remove administrative obstacles** that currently prevent the sale of confiscated assets, to ensure the Remediation Fund remains a major channel for funding Restoration projects.
- **Ensure that any new funding mechanisms for Restoration undergo a thorough and independent anti-corruption risk assessment** and implement mitigation measures fully.

² According to the Law of Ukraine "On Sanctions", confiscated assets can be sold if they belong to residents of states that carry out armed aggression against Ukraine. This jeopardises the sale of confiscated assets for at least two reasons: a) assets no longer belong to residents after confiscation, but to the state; b) the term "resident" in the Law «On Sanctions» is used in the meaning provided by another law and defines residents solely as legal entities carrying out their activities a) in accordance with the legislation of Ukraine; b) on its territory; c) whose founder (participant, shareholder) or beneficiaries are directly or indirectly the state of Russia. This significantly limits the range of entities whose confiscated assets can actually be sold.

Restoration project transparency (DREAM)

The DREAM system is starting to be used to submit Restoration projects for budget financing under the Remediation Fund. Based on initial experiences, we recommend that the use of DREAM become mandatory for all Restoration projects and that this requirement is enshrined in law.

The [DREAM](#) ecosystem is an innovative digital project administration tool that will be a crucial prerequisite for transparency and accountability in the Restoration process. It was created to manage Restoration projects under the principle of “everyone sees everything”. The system collects, organises and publishes open data at all stages of Restoration projects, from planning and approval to financing, procurement, construction and commissioning.

To date, **over 2,100 Restoration projects with confirmed funding of UAH 131 billion** (around USD 3.4 billion) have been included in the system. It quickly became a requirement to register projects submitted to the Remediation Fund in DREAM. This requirement would be more solid if it were anchored in law.

Recommendations

Currently, the system continues to operate as a pilot project, which is implemented based on the relevant government decree. To ensure that DREAM can live up to its potential, and based on lessons learned during the pilot so far, we recommend:

- **Mandatory use of the DREAM system** must be enshrined in law, irrespective of the funding stream for Restoration used by the government.
- **Minimum requirements are needed for project information** entered into the system, covering completeness and reliability.
- **Liability should be established for non-compliance** with the requirements.

Connecting Restoration with strategic planning

An important debate is taking place regarding the **synchronisation of strategic planning and Restoration policy**. This is linked to open discussions launched by the Government in February 2024 on the Concept for Updating the Structure of Planning Documents.

State funding of projects to restore critical social and public infrastructure commenced in 2023. The primary focus was on individual projects submitted, which had to comply with local planning efforts. However, once the process starts moving from emergency repairs to fulfilling the objective of “building back better”, Ukraine would benefit from a **national-level strategy outlining the objectives and approaches to Restoration**.

The absence of such a guiding document could result in an uncoordinated and thus inefficient allocation of limited resources. Corrupt actors seeking to profit from Restoration funding could more easily take advantage of the lack of such a strategy to seek funding for projects that would profit them personally while being of little use to Ukrainians.

Such a Restoration master plan must be developed in **close collaboration with communities** throughout the country, first and foremost those who have suffered the greatest damage.

While we appreciate that this is a momentous undertaking, and its time might not yet have come, the development of such a document should be a **prerequisite for moving from emergency repairs to wholehearted, complex Restoration**.

Recommendations

- In line with the above recommendations on project transparency and the mandatory use of the DREAM system, **establish minimum requirements for the completeness and quality of information about Restoration projects**, covering the amount of approved funding, sources of funding, construction documentation, list of contracts and contractors, current status of project implementation, etc. This would introduce a unified approach that will help in the strategic planning and assessment of the Restoration and make the process more transparent.
- **Develop guiding documents** for local recovery planning, including complex projects.
- Launch a process to develop a **strategic Restoration plan** together with the most affected communities.

Strengthening auditing oversight over the Restoration process

Along with the growing budget expenditures for Restoration, which come from both international and domestic sources, the **role of auditing and financial controls** over Restoration financing is also growing.

Ukraine's Accounting Chamber is the country's supreme audit institution (SAI), tasked with monitoring the receipt and use of state budget funds. Unfortunately, the Accounting Chamber is operating under significant restrictions which so far limit its ability to play a major role in monitoring Restoration funds.

1. The Accounting Chamber's first and key restriction pertains to its independence. To date, the Verkhovna Rada (Parliament) retains **significant political influence over the Accounting Chamber**, especially its appointment processes. These do not currently meet the high standards set by selection processes for other anti-corruption agencies in Ukraine (including during wartime). Nevertheless, it is important to note that SAI independence is a complicated topic and there are numerous SAIs that function under the aegis of parliaments, yet retain their professional independence through well-established procedures.
2. The Accounting Chamber has a very **limited mandate to audit the use of funds from local budgets and the budgets of state-owned enterprises**. This limits the SAI's ability to fulfil its authority to pursue state funds wherever they are spent, contradicting Principle 3 of the [INTOSAI-P10 Mexico Declaration on SAI Independence](#). *Unfortunately*, the elimination of this shortcoming requires an amendment to the Constitution of Ukraine, which will only be possible after martial law ends.
3. There is a **lack of clear delineation** between the authorities and functions of the Accounting Chamber and the State Audit Service. This causes inefficiencies and inconsistencies.

In addition to these restrictions, there is a need to further **strengthen the quality of audit reports and their recommendations, as well as their implementation**. Most of these restrictions ought to be tackled in the draft law under consideration.

Recommendations

- **Improve the procedure for selecting Accounting Chamber members** by aligning it with the successful example set by anti-corruption agencies (specifically, through the creation of a commission with international experts to transparently assess candidates for integrity and competence).

- **Provide for open competitive selection**, which will ensure equal access of candidates to vacant senior positions in the units of the Accounting Chamber, as well as positions of heads of audit groups and public auditors.
- **Improve the quality of audit reports and recommendations**, including by implementing methodologies that comply with international auditing standards.
- **Strengthen monitoring and control** (including clear procedures for parliamentary oversight) over the implementation of recommendations.

Development of the public procurement system

Despite martial law-induced secrecy, most procurement transactions currently take place under tender procedures in the **Prozorro electronic procurement system**. This is an important retention of crucial transparency and accountability measures, since Prozorro-based procurements allow for greater public scrutiny.

In a recent development that underscores the relevance and robustness of Prozorro, the **system has now been accepted as conforming to the standards of international financial institutions**. The [World Bank](#), the Council of Europe Development Bank (CEB), the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD) have [committed](#) to increase their reliance on Prozorro for the procurement of projects in Ukraine under a certain threshold.

The Government also approved the Strategy for Public Procurement Reform for 2024–2026, and the Ministry of Economy continues to work on a new version of the Law on Public Procurement.

Increasing the share of competitive procurement

To restore the pre-war prominence of transparent bidding, in September 2023, **the Government reduced the list of types of procurement** in which direct negotiated contracts can be concluded instead of open tenders. This is a positive step. According to the Prozorro system, during 2023 the share of procurement costs attributable to competitive procurement increased. In the fourth quarter of 2022 it was 60.4%; in the corresponding period of 2023 it was 77%.

However, the list remains substantial and the conclusion of such agreements cannot be appealed to the Antimonopoly Committee. While this is certainly justified in sensitive and high security risk cases, we must recognise that the lack of transparency allows the re-emergence of corruption risks that Prozorro was designed to address. These risks now need to be mitigated in a different way.

In addition, the **low average number of participants in competitive procurement** remains a significant challenge. Among successfully completed tenders, only 35% have more than one bidder, making market competition-based price determination difficult to establish. Implementing reforms to increase the attractiveness of public tenders is vital for the effectiveness of the system.

During the studied period, the government **brought defence procurement to the public and competitive arena**. In May 2023, the Government [introduced](#) simplified procurement for defence procurement. In July 2023 these were [supplemented](#) with “open tenders with features” – a variation of simplified tenders that includes an appeal period – and procurement in the electronic catalogue. From 11 May 2023 to 31 January 2024, defence-related procuring entities announced successful simplified competitive procurement with an expected value of UAH 63.2 billion (USD 1.66 billion), as well as open tenders with features with a total expected value of UAH 10.2 billion (USD 267 million).

New complaints commissions

To counteract discriminatory tender conditions and illegal decisions, there is a **mechanism for appealing** the terms of tenders and procuring entities’ decisions to the Antimonopoly Committee of Ukraine. Two new [Commissions](#), formed in 2023, are functioning as the body of appeal, and six more specialists have to be selected via a competition.

From July 2023 to January 2024, 6,770 complaints were submitted, 69.5% of which were satisfied.

Transparency of direct contracts

The government is taking measures to increase the transparency of exceptionally concluded above-threshold, non-compete and direct contracts. Since September 2023, the Government has **obliged procuring entities to prepare and publish justifications on the basis of which** the contract was concluded without a tender. Procuring entities have also an obligation to publish the contract, including all annexes. Even for defence procurement contracts, there are special reporting rules in the Prozorro system.

However, there remain important blind spots, including the establishment of the expected value of the contract, a lack of clarity over what a “need for procurement” means in practice, and the day-to-day realities of implementing procurement contracts.

Strengthening audits and controls

The reporting period saw an effort by the Government and Verkhovna Rada to enhance controls in the field of public procurement. Of note, there has been a significant strengthening of the **State Audit Service's** authority. These include **criminal liability** for entities refusing to comply with its requirements, obfuscating its efforts and providing false information. The State Audit Service has also received the **right to monitor direct contracts**, as well as simplified competitive procurements, currently carried out by procuring entities in the field of defence.

In 2023, Prozorro developed 11 new risk indicators that can help make procurement audit selection risk-based. They are currently being tested, and require both technical improvement and legislative support.

Nonetheless, [weak spots remain](#), including the need for a greater focus on preventive controls, the detection of significant violations, the full introduction of risk indicators, greater access to information, and others.

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