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CORRUPTION RISKS IN THE CONSTRUCTION, RECONSTRUCTION AND RENOVATION OF CIVILIAN INFRASTRUCTURE FOR THE RECOVERY OF UKRAINE

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NATIONAL AGENCY ON CORRUPTION PREVENTION

**CORRUPTION RISKS
IN THE CONSTRUCTION,
RECONSTRUCTION AND RENOVATION
OF CIVILIAN INFRASTRUCTURE FOR
THE RECOVERY OF UKRAINE**

STRATEGIC ANALYSIS OF CORRUPTION RISKS
2025

NATIONAL AGENCY ON CORRUPTION PREVENTION

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List of abbreviations

- **Agency for Reconstruction** – State Agency for Reconstruction and Development of Infrastructure of Ukraine
- **AMCU** – Antimonopoly Committee of Ukraine
- **BIM technology** – Building information modelling technology
- **Fund** – Fund for Elimination of the Consequences of Armed Aggression
- **IWG** – Interdepartmental Working Group
- **Ministry of Development** – Ministry for Development of Communities and Territories of Ukraine
- **NABU** – National Anti-Corruption Bureau of Ukraine
- **National Agency** – National Agency on Corruption Prevention
- **R&D Support** – Research and Development Support
- **SIAUP** – State Inspectorate for Architecture and Urban Planning of Ukraine
- **STSU** – State Treasury Service of Ukraine
- **VAT** – Value-added tax

Disclaimer: Pursuant to Part 1, Article 62 of the Constitution of Ukraine, a person is presumed innocent of committing a crime and shall not be subjected to criminal punishment until their guilt is proved through legal procedure and established by a court verdict of guilty. The cases presented in this research are solely for the purpose of analysing corruption risks and are derived from publicly available official sources, such as law enforcement agencies, regulatory authorities and the Unified State Register of Court Decisions. Please note that the information provided may not reflect the most recent updates on the status of criminal proceedings, which are accessible only to authorised law enforcement agencies.



Research summary

The full-scale war presents numerous challenges for Ukraine's recovery. On the one hand, there is a severe shortage of financial and human resources as well as uncertainty and pressure caused by the mobilisation of workers for the armed forces. This limits competition in the market and pushes businesses involved in reconstruction into the shadow economy. On the other hand, there are shortcomings in public administration, such as the absence of a unified legislative approach to reconstruction, flawed prioritisation, vulnerable procurement mechanisms and weak oversight. These issues create corruption risks and a favourable environment for abuses. Without an adequate response, they may undermine trust in the reconstruction process and harm Ukraine's development prospects.

Experts from the National Agency on Corruption Prevention, in cooperation with the State Audit Service of Ukraine and the Basel Institute on Governance (Switzerland), carried out a comprehensive analysis of corruption risks in the areas of construction, reconstruction and renovation of civilian infrastructure as part of Ukraine's recovery. They identified the most significant corruption risks and developed practical recommendations to mitigate or eliminate them.

As a result, we have come to the following key conclusions:

1 The absence of clear criteria and excessive discretion in the selection and prioritisation of projects may result in inefficient allocation of funds and potential misuse

Currently, the procedures and criteria for selecting and prioritising projects for financing within Ukraine's recovery remain insufficiently regulated and lack transparency. The absence of clear criteria for assessment, ranking and decision-making on including projects in the list of priorities creates room for excessive discretion by those involved and complications in verifying the justification for decisions.

As a result, this increases the risk of ineffective spending of public funds and fosters conditions for corruption, including the unjustified favouring of certain projects. The lack of transparent standards also significantly limits both governmental oversight and public accountability. This ultimately reduces trust in the system of resource allocation during recovery.

2 The absence of a comprehensive legal framework for the recovery process increases the likelihood of misuse and subjective decision-making during the implementation of experimental projects

Recovery through approval of experimental projects has become common practice, enabling faster restoration of facilities damaged by armed aggression from the Russian Federation.



However, the absence of a standardised approach to selecting locations and setting priorities creates risks of subjective decision-making, which in turn may lead to corruption and inefficient use of public funds.

Experimental projects are carried out outside of standard legislative procedures, based on temporary special regulations often developed under tight deadlines and with limited background information. This reduces the transparency of the process and creates space for manipulation and misconduct by authorised institutions. The lack of a unified national recovery plan and approved regional development strategies increases these risks further, as there is no clear framework for coordinating and overseeing the implementation of experimental initiatives.

3 Weak oversight of project documentation quality can lead to unjustified inflation of construction costs and diminished competition

The absence of effective mechanisms for control and accountability regarding the quality of design documentation leads to the development of projects that do not meet technical, economic and regulatory requirements. The absence of oversight over design assignments allows for the inclusion of materials and technologies with limited availability, creating preconditions for collusion between designers and contracting authorities.

Due to the lack of comprehensive cost assessment and proper control over the design documentation process, as well as the limited capacity of many contracting authorities, documentation approval often becomes a procedural formality without substantive review. This, in turn, results in additional costs, delays and a decline in the quality of construction projects. Moreover, the lack of use of modern building information modelling (BIM) technologies hinders accurate control and monitoring, further increasing the risks of corruption and inefficient use of budget funds.

4 The absence of a legally defined procedure for analysing construction material prices, combined with insufficient oversight by procuring entities, may cause overestimation of recovery project costs

The absence of a legally defined procedure for analysing prices of construction materials, combined with insufficient oversight by procuring entities and the absence of an effective accountability mechanism, creates space for price manipulation during the preparation of cost estimates. Due to the discretionary powers granted to project owners regarding data sources and the method of price analysis, there are widespread cases of inflated projected material costs. This is directly impacting the overall cost of projects.

Such practices increase the risks of abuse of authority, submission of false data, favouritism towards certain suppliers and inefficient use of public funds. This is combined with the limited institutional capacity of most procuring entities and the absence of a unified system for monitoring average market prices. Together, these factors undermine transparency in determining the cost of recovery projects and increase the likelihood of corruption.



5 Deficiencies in the organisation of supporting services during construction projects can result in overpricing and misappropriation of public funds

The unjustified pricing of supporting services in construction, along with the lack of clearly defined requirements for their content, scope and quality, creates preconditions for the inefficient use of budget funds.

Payments for technical supervision and consultant engineer services depend on their approval of the construction works by way of a signed work completion certificate. This acts as a disincentive for objective oversight. It results in a superficial approach to quality control and the acceptance of deficient work.

Insufficient detail in service descriptions and the absence of standardised requirements for their accounting enable the inclusion of excessive or fictitious volumes in cost estimates. They also allow for payment for services that were either not actually provided or did not meet established standards. All of this increases the risk of collusion between contractors and oversight personnel, concealment of deficiencies and consequent losses to the state or local budget.

6 Legal uncertainty around requirements for justifying procurement without the use of an electronic system (direct contracts) fosters non-transparency and potential misuse of public funds

The absence of clearly defined and mandatory requirements for justifying the need to avoid competition and conclude direct/negotiated contracts during martial law creates preconditions for abuse of this procedure and non-transparent use of budget funds. Such legal uncertainty allows contracting authorities to carry out non-competitive procurement, citing urgent need without proper verification or documentary evidence.

This contributes to the risks of inflated procurement costs, unjustified selection of suppliers, reduced spending efficiency and a loss of trust in the system. In a context of limited resources and an urgent need for rapid but integrity-driven reconstruction, such practices significantly increase the likelihood of corruption and misuse.

7 Unjustified qualification criteria and barriers to accessing information reduce competition and facilitate the misuse of public funds

The imposition by public procurement/contracting authorities of unjustifiably strict or overly detailed qualification requirements (regarding experience, availability of specialised equipment, personnel or other resources), as well as the untimely or selective disclosure of the full scope of tender documentation (including design, cost estimate and technical information) significantly reduces the level of open competition.

Participants often lack the opportunity to assess the feasibility of participation in a timely fashion. This complicates the preparation of quality proposals and creates artificial barriers for new or integrity-driven suppliers. As a result, this fosters favouritism, leads to contracts being awarded to predetermined companies and increases the risks of uneconomical, inefficient and non-transparent use of public funds, particularly in construction and civil infrastructure restoration.



8 The absence of effective controls over the procedure for changing substantial terms of subcontract agreements may result in unreasonable expenditure of public funds and a decline in work quality

In relation to capital construction (i.e. the construction of fixed assets such as permanent buildings and facilities) financed by public funds, the absence of effective regulation of the process for amending substantial terms ("change orders") of contracts creates considerable corruption risks and contributes to the inefficient use of budget funds. Legislation provides for a limited list of grounds for such amendments. However, in practice, these requirements are often ignored or interpreted arbitrarily, opening opportunities for abuse.

Specifically, in the absence of a clearly defined procedure for analysing and approving contract amendments, contractors may initiate changes that lack sufficient justification. This includes changes to contract price, cost, scope or composition of works or materials. This leads to a significant increase in project implementation costs without proper documentary support, complicating control and accountability. Moreover, the low quality of standard contracts and the absence of detailed procedures for reviewing changes create conditions for a formalistic approach by contracting authorities.

Particular concerns relate to the lack of centralised monitoring of contract amendments and digital systems that would allow verification of the market conformity of prices for material resources. As a result, contract changes might be approved without confirming that the price aligns with market conditions or comparable completed projects. Such an approach facilitates unjustified budget increases, lowers the quality of completed works and raises the risk of contractors evading responsibility for breaching contract terms.

9 The absence of an integrated electronic accounting system for recording payments for completed construction works creates opportunities for overestimating costs, unjustified VAT inclusion and manipulating payment sequences

The absence of an adequate electronic system for recording construction works and payments facilitates the inclusion of unperformed or inflated works in terms of actual volumes and/or material costs for payment. It also facilitates the unjustified inclusion of VAT in payment amounts and manipulations with the sequence of payments. The use of paper-based documentation makes automated verification of work volumes and costs impossible, complicates the accounting of the actual value of projects and creates preconditions for falsifications and non-transparent decisions.

Discretion in determining the priority and sequence of payments, which is often exacerbated by delays or uneven disbursement of budget funding, allows contracting authorities to delay or accelerate settlements with specific contractors. This violates the principle of equal treatment and could be used as leverage to extract undue benefits. Combined with vague requirements for supporting documentation, this creates financial risks for the budget and reduces the attractiveness of participation in projects for integrity-driven contractors.



10 The absence of state architectural and construction supervision over the implementation of reconstruction projects increases the risk of violations of construction standards and potential corruption and abuse

During martial law, a moratorium is in place on state architectural and construction supervision, along with other inspection functions. This significantly limits the government's ability to oversee compliance with urban planning legislation and building codes. As a result, there is an increased risk of unauthorised construction and the implementation of projects that violate design documentation and technical requirements. This directly affects the safety of future infrastructure users and the quality of recovery in affected areas.

Moreover, the absence of effective oversight creates conditions for corruption, particularly in construction projects funded by the state budget or international funds. This raises concerns about the legality of public spending and undermines donor confidence. Under these circumstances, it is essential to restore effective, transparent and independent supervision at all stages of reconstruction projects even during martial law, at least in the form of risk-based or unannounced inspections.



Introduction

Since the onset of the Russian Federation's full-scale invasion of Ukraine, the aggressor has inflicted substantial damage on tens of thousands of residential, social, transport, industrial and energy infrastructure facilities.

Annual reports on the Rapid Damage and Needs Assessment in Ukraine, conducted jointly since 2022 by the World Bank, the Cabinet of Ministers of Ukraine, the European Commission and the United Nations, indicate a consistent increase in reconstruction needs. This directly reflects the ongoing damage sustained by Ukraine as a result of Russia's armed aggression.

According to the latest Rapid Damage and Needs Assessment (RDNA4) report, covering nearly three years from 24 February 2022 to 31 December 2024, direct damages in Ukraine have reached USD 176 billion, with total reconstruction and modernisation needs estimated at USD 524 billion. On average, across all assessed sectors, direct damages have grown by approximately USD 24 billion compared to USD 152 billion reported in the RDNA3 assessment published in February 2024. The most affected sectors include housing, transportation, energy, trade, industry and education.¹

The most significant losses are observed in residential buildings (USD 60 billion) and transportation infrastructure (USD 38.5 billion).²

In this research, the "recovery sector" is defined as addressing specific needs to eliminate the effects of armed conflict, including civil construction in various forms: new construction, reconstruction, restoration, renovation of residential infrastructure, social facilities, etc.

The scope of reconstruction and restoration encompasses a variety of institutional mechanisms and regulatory frameworks. This research emphasises key challenges related to project prioritisation and the application of public procurement instruments as mechanisms for implementing construction projects.

At the same time, the research did not examine issues related to assessing corruption risks in the implementation of public investments, public-private partnership projects, energy projects or the construction of protective structures, fortifications and defence facilities.

The recovery sector is highly susceptible to corruption risks. The absence of a unified legislative framework, uncertainty regarding fundamental principles of the reconstruction and recovery process at the legislative level, imperfect institutional organisation of responsible authorities and ineffective oversight create an environment conducive to corruption and abuse.

Ukrainian experience demonstrates that corruption schemes can impact all stages of recovery – from the selection of projects (facilities and activities) and public procurement to the supervision of completed works.

¹ <https://documents1.worldbank.org/curated/en/099052925103531065/pdf/P180174-93c8e8c1-83a2-487d-aaec-a8435f9db418.pdf>

² https://kse.ua/wp-content/uploads/2025/02/KSE_Damages_Report-November-2024-UA.pdf



On 6 June 2024, Ukraine ratified the Framework Agreement with the European Union concerning special mechanisms for implementing EU funding in Ukraine. This agreement governs the interaction procedures between the parties under the Ukraine Facility.³

The core principles guiding the recovery process within the EU's Ukraine Facility include the objectives of rebuilding "better than before", ensuring financial sustainability and promoting transparency and accountability throughout recovery, reconstruction and modernisation efforts.

Experts from the National Agency, in collaboration with the State Audit Service of Ukraine and the Basel Institute on Governance, conducted a comprehensive analysis of corruption risks that hinder and significantly impair recovery efforts. They identified the most prevalent corruption vulnerabilities.

The authors share the conclusions of the RDNA4 assessment regarding the need for further work on national strategic planning and sectoral plans to support project identification, as well as on refining and more rigorously applying prioritisation criteria.⁴

Based on this analysis, strategic recommendations have been proposed to improve regulatory frameworks, management systems and inspection procedures. Implementing these measures will mitigate key risks, enhance the transparency and efficiency of recovery projects and address Ukraine's urgent needs in social and civil infrastructure sectors that have been severely damaged.

The research was prepared using information from open sources and data obtained from government authorities, law enforcement agencies and public organisations or associations.

The research "Corruption Risks in the Construction, Reconstruction and Renovation of Civilian Infrastructure for the Recovery of Ukraine" conducted by the National Agency may serve as a foundational document for the Verkhovna Rada of Ukraine, the Cabinet of Ministers, the Ministry for Development of Communities and Territories of Ukraine (hereinafter referred to as the Ministry of Development), the Agency for Reconstruction, regional military administrations, local self-government bodies and private enterprises. It aims to guide the development and implementation of measures to mitigate corruption risks during the recovery process. Additionally, the research could enhance awareness among civil society regarding these issues and the proposed solutions.

From a practical standpoint, implementing the recommendations provided in this report will help improve management decision-making, enhance transparency and validity of such management decisions, prevent corrupt practices and reduce reputational and financial losses for stakeholders involved in the recovery process.

³ https://zakon.rada.gov.ua/laws/show/984_008-24#Text

⁴ <https://surl.li/tfaubo>



Corruption risk 1



The absence of clear criteria and excessive discretion in the selection and prioritisation of projects may result in inefficient allocation of funds and potential misuse

RISK DESCRIPTION

In 2023, pursuant to Article 29 of the Law of Ukraine “On the State Budget of Ukraine for 2023”, the Fund for the Elimination of the Consequences of Armed Aggression was established as a component of the special fund of the State Budget of Ukraine. Its purpose is to address and mitigate the consequences – specifically humanitarian, social and economic – resulting from the armed aggression by the Russian Federation against Ukraine.

The Procedure for the Use of the Fund was approved by the Resolution of the Cabinet of Ministers of Ukraine No. 118, dated 10 February 2023 (hereinafter referred to as Procedure No. 118). It stipulates that projects (including facilities and activities) to be financed by the Fund are to be developed **with consideration of their prioritisation and the urgent needs of the population**.

In 2023 and 2024, in accordance with Procedure No. 118, the process for allocating resources from the Fund commenced with applications submitted by authorised entities, including central executive bodies and regional and Kyiv city state administrations (comprising regional military-civilian, military and Kyiv city military administrations).

Procedure No. 118 required that applications from local authorities be submitted to regional state administrations (military administrations). These administrations would review the applications for completeness and then prepare their own applications for fund allocation, including a list of projects (facilities, activities) by region, with relevant justifications, explanations as well as financial and economic calculations.

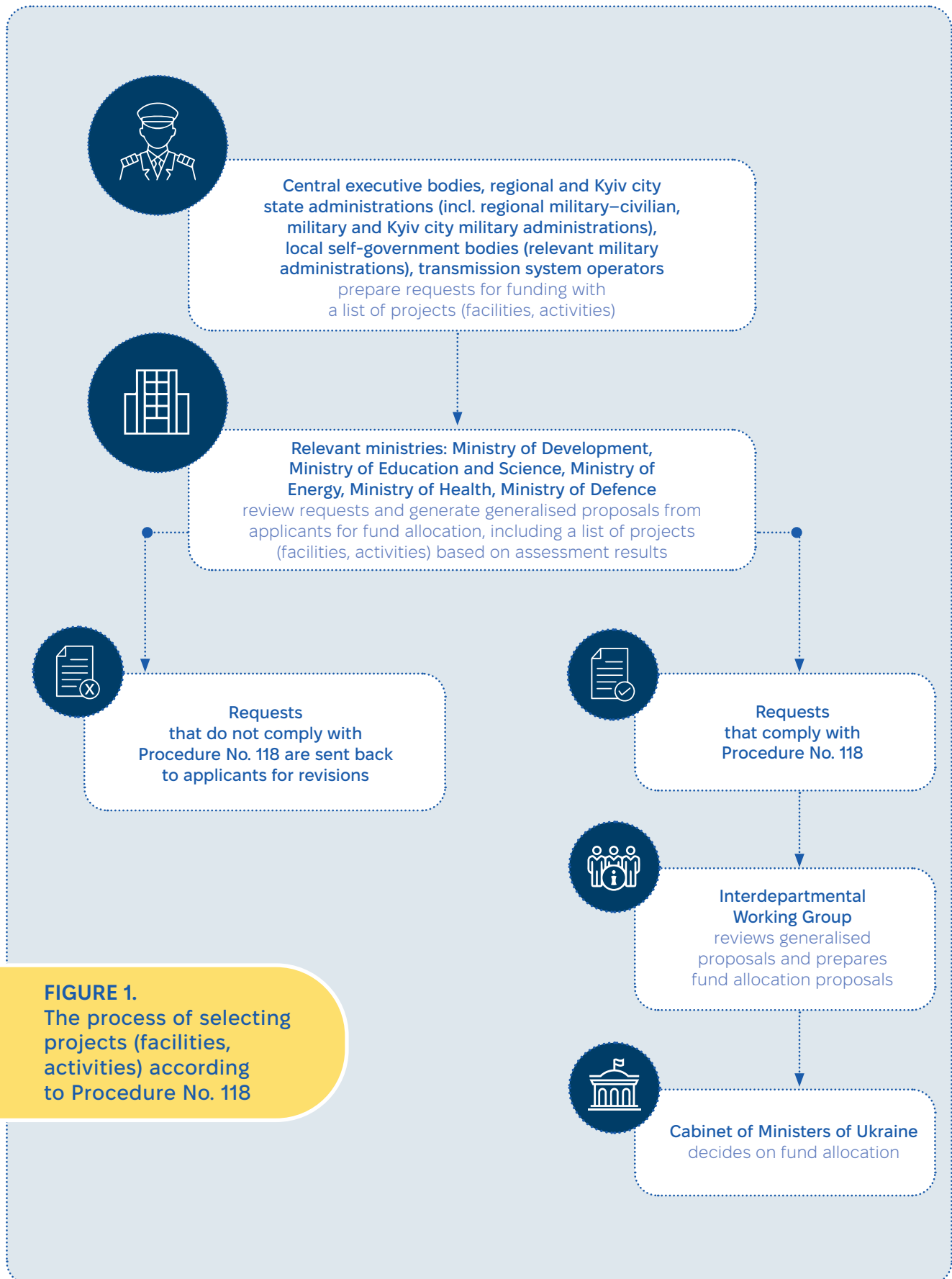


FIGURE 1.
The process of selecting
projects (facilities,
activities) according
to Procedure No. 118



However, Procedure No. 118 lacked clear criteria for prioritising the selection of projects (facilities and activities) to be financed by the Fund. It also did not establish procedures to promote objective decision-making and reduce the risk of corruption or abuse.

FOR REFERENCE:



On 20 October 2023, the Ministry of Development issued Order No. 964, which approved the Methodological Recommendations on Project Prioritisation for the Elimination of the Consequences of the Armed Aggression of the Russian Federation against Ukraine.

This occurred after the distribution of the Fund's resources among projects (facilities, activities) in 2023. Additionally, it should be noted that, by their legal nature, the Methodological Recommendations do not constitute a regulatory act and are merely recommendatory.

The selection of projects (facilities, activities) to be financed in 2023 and 2024 through the Fund was mainly the responsibility of the relevant line ministries, in collaboration with the Interdepartmental Working Group (IWG).⁵ The IWG was established in accordance with Clause 9 of Procedure No. 118 and was tasked with reviewing consolidated proposals submitted by the relevant ministries. These proposals outlined projects (facilities, activities) categorised by region. The IWG comprised representatives from these ministries, who had previously participated in the project selection process and subsequently presented the proposals for further consideration by the group.

The adopted regulatory framework led to subjective decision-making by the IWG regarding the prioritisation and approval of the allocation of state resources for financing various projects (facilities, activities), potentially at the expense of the Fund.

According to the Report of the Accounting Chamber titled "Results of the Audit on the Compliance of Funds Allocation from the Fund for the Elimination of the Consequences of Armed Aggression" approved by the decision of the Accounting Chamber No. 32-3 of 3 July 2024, the allocation process in 2023 did not effectively prioritise the distribution of the Fund's resources in accordance with designated strategic directions. More than half of the allocated financial resources (54 percent) were directed without using the established general mechanisms for project selection and prioritisation.

The unsystematic and discretionary allocation of funds caused the state's financial resources to be spread across many projects (facilities, activities) with a long implementation timeline (2–3 years).

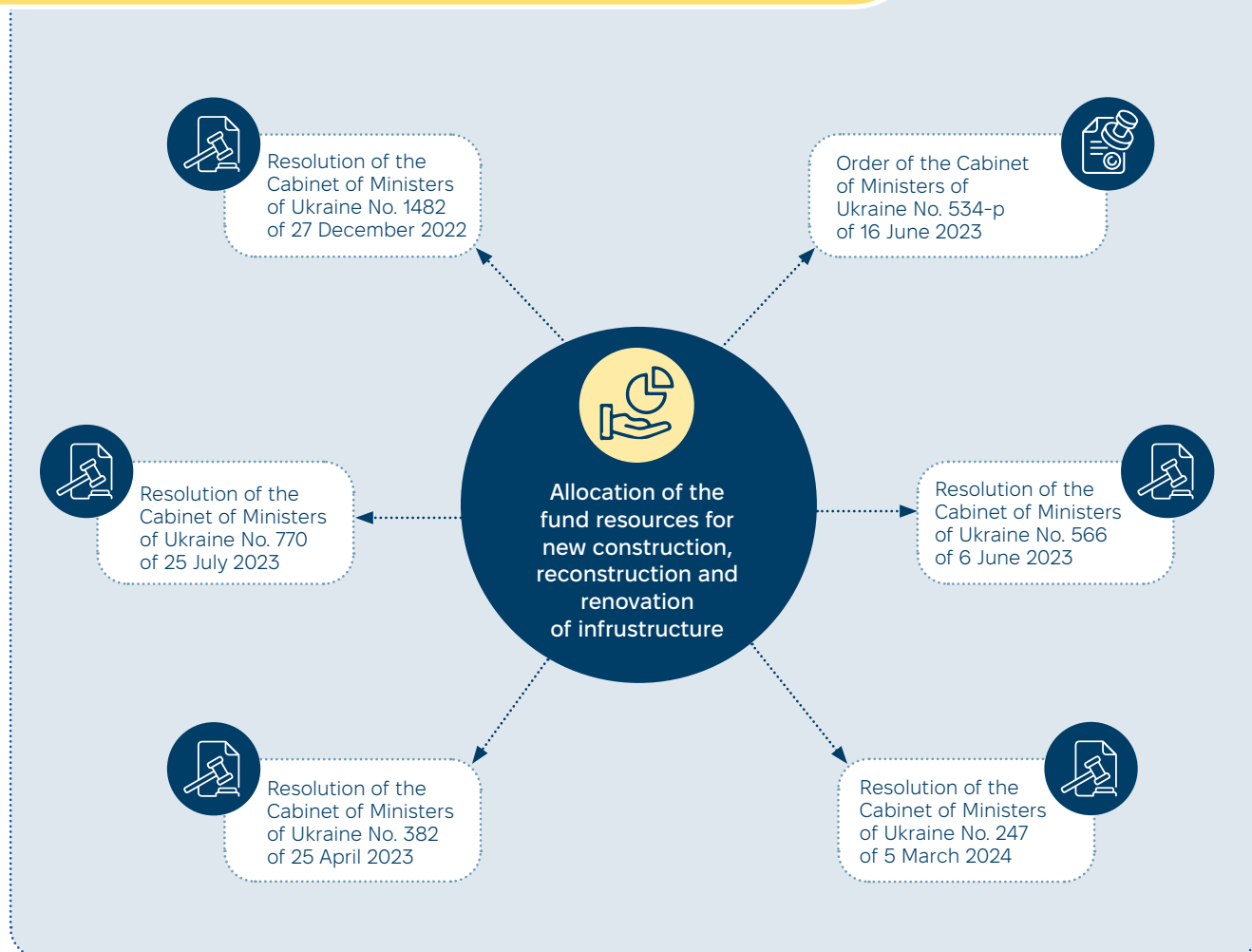
This indicates that the process is not designed to take urgent and immediate action to eliminate the consequences of armed aggression. It also introduces risks of unjustified use of additional funds to complete the experimental projects already started in the preceding budget periods.⁶

⁵ Resolution of the Cabinet of Ministers of Ukraine No. 412 of 25 March 2023, "On the Establishment of an Interdepartmental Working Group to Consider Generalised Proposals from Applicants and Prepare Proposals for the Cabinet of Ministers of Ukraine on the Allocation of Resources from the Fund for Elimination of the Consequences of Armed Aggression"

⁶ https://rp.gov.ua/upload-files/Activity/Collegium/2024/32-3_2024/Zvit_32-3_2024.pdf



FIGURE 2. The regulatory framework for allocating the resources of the Fund towards the construction, reconstruction and renovation of facilities dedicated to recovery efforts⁷



Improper planning and ineffective control by budget managers and contracting authorities have delayed project completion (facilities, activities) by at least a year.

Thus, in accordance with the Order of the Cabinet of Ministers of Ukraine No. 534-p of 16 June 2023, the Ministry of Development was allocated UAH 9.28 billion for development expenditures on a new budget programme to provide subsidies from the state budget to local budgets for implementing projects (facilities, activities) aimed at eliminating the consequences of armed aggression.

⁷ [Resolution of the Cabinet of Ministers of Ukraine No. 1482](#) of 27 December 2022 "On the Implementation of an Experimental Project for the Construction, Repair, and other Engineering Measures to Protect Critical Infrastructure Facilities in the Fuel and Energy Sector of Critical Infrastructure."
[Resolution of the Cabinet of Ministers of Ukraine No. 382](#) of 25 April 2023 "On the Implementation of an Experimental Project for the Restoration of Settlements Affected by the Armed Aggression of the Russian Federation."
[Order of the Cabinet of Ministers of Ukraine No. 534-p](#) of 16 June 2023 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of Armed Aggression."
[Resolution of the Cabinet of Ministers of Ukraine No. 770](#) of 25 July 2023 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of Armed Aggression."
[Resolution of the Cabinet of Ministers of Ukraine No. 566](#) of 6 June 2023 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of Armed Aggression for the Implementation of an Experimental Project for the Construction of Main Water Pipelines in Connection with the Need to Eliminate the Negative Consequences Associated with the Destruction of the Kakhovka Hydroelectric Power Plant."
[Resolution of the Cabinet of Ministers of Ukraine No. 247](#) of 5 March 2023 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of Armed Aggression."



Meanwhile, some projects (facilities, activities) had already started and were supposed to be finished in 2023, but they were added to the list of projects to be funded in 2024 with new completion dates.

A similar situation exists with the Resolutions of the Cabinet of Ministers of Ukraine No. 770 of 25 July 2023 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of the Armed Aggression"⁸ and No. 247 of 5 March 2024 "On the Allocation of Funds from the Fund for the Elimination of the Consequences of the Armed Aggression".⁹ These resolutions authorised the allocation of UAH 3.60 billion (development expenditures) from the Fund to the Agency on a non-repayable basis for a new budget programme supporting the construction and restoration of infrastructure, residential and public facilities, public buildings and structures.

In view of this, there is a risk that a large portion of these projects (facilities, activities) will stay unimplemented.

FOR REFERENCE:



During the IWG meeting to review proposals for allocating Fund resources in 2024 to projects (facilities, activities) financed in 2023 from the Fund for the Elimination of the Consequences of Armed Aggression (Minutes of Meeting No. 1 of 9 February 2024), further funding for 62 projects selected in 2023 was not approved, as their implementation (construction) had not actually started in 2023.¹⁰

According to the report of the Accounting Chamber on the results of the performance audit titled "Territorial Communities during the War: Restoration of Social and Critical Infrastructure", approved by the decision of the Accounting

Chamber No. 55-2 dated 10 December 2024 (hereinafter referred to as the Accounting Chamber Report No. 55-2), the Department for Regional Development allocated a subsidy of UAH 1.5 million for the development of design and estimate documentation for a facility. However, this work was carried out in violation of urban planning legislation. As a result, the State Inspectorate for Architecture and Urban Planning (SIAUP) denied permission to proceed with construction, preventing the project from commencing in 2023. Additionally, the project was not included in the list of projects to be financed by the subvention in 2024, leading to its indefinite postponement.

It should also be emphasised that the Fund's resources were allocated to individual construction projects initiated prior to the full-scale invasion by the Russian Federation. These funds were not used for projects (facilities, activities) specifically aimed at eliminating of the consequences of armed aggression.

⁸ <https://zakon.rada.gov.ua/laws/show/770-2023-%D0%BF#Text>
⁹ <https://zakon.rada.gov.ua/laws/show/247-2024-%D0%BF#Text>
¹⁰ <https://surl.li/ubwyka>



CASE



In City N, a preschool facility is currently under construction, with funding of UAH 50 million provided by the Fund. Construction of this facility began in 2021.

Local authorities justified the need for the new kindergarten by stating that it will be the only facility of this kind in the neighbourhood, which is seen as promising for families with children. The construction of a radiation shelter was included in the project to qualify for subsidies from the special fund.

However, it is evident that the completion of the kindergarten does not fall within the scope of projects and measures related to the response to armed aggression. The primary objectives of this budget programme are to rebuild and strengthen the protection of critical infrastructure and to compensate individuals whose homes have been damaged or destroyed.¹¹

FOR REFERENCE:



In accordance with the recommendations issued by the Accounting Chamber, the Cabinet of Ministers of Ukraine has approved amendments to Procedure No. 118. These amendments specify that any funds remaining unused as of 1 January 2025 may only be allocated towards the completion of restoration projects initiated in previous years.¹²

The Law of Ukraine No. 4225-IX of 16 January 2025 "On Amendments to the Budget Code of Ukraine Regarding the Updating and Improvement of Certain Provisions"¹³ has amended the Budget Code of Ukraine. Notably, it establishes that the distribution of state budget funds for the preparation and execution of public investment projects and programmes shall be managed by the Interdepartmental Commission on the Allocation of Public Investments with consideration of the prioritisation of relevant projects

and programmes included in the unified public investment project portfolio of the state and their readiness for implementation in the manner established by the Cabinet of Ministers of Ukraine (Part 5, Article 33-1 of the Budget Code of Ukraine).¹⁴

In accordance with the aforementioned provisions of the Budget Code of Ukraine, the Cabinet of Ministers of Ukraine issued Resolution No. 232 of 28 February 2025, "Certain Issues of Public Investment Allocation".¹⁵ This resolution approved the Procedure for the Allocation of State Budget Funds for the Preparation and Implementation of Public Investment Projects and Programmes, and also the Regulations on the Interdepartmental Commission on the Allocation of Public Investments and Its Composition (hereinafter referred to as the Procedure and Regulations, respectively).

¹¹ <https://dasu.gov.ua/ua/news/5307>

¹² <https://rp.gov.ua/PressCenter/News/?id=2517>

¹³ <https://zakon.rada.gov.ua/laws/show/4225-20#Text>

¹⁴ <https://zakon.rada.gov.ua/laws/show/2456-17#n3452>

¹⁵ <https://zakon.rada.gov.ua/laws/show/232-2025-%D0%BF#Text>



At the same time, an analysis of the provisions in the Procedure and Regulations indicates that issues similar to those encountered with Procedure No. 118 may arise during the process of distributing state budget funds for public investment projects and programmes.

The legislative framework governing the implementation of public investment projects is currently under development. Additionally, procedures for utilising budget funds for these projects and allocating funds among regions are being approved.



SOURCES OF RISK

- **The absence of clear and transparent criteria for selecting projects** (facilities, activities) and proper administrative procedures.
- **Inadequate planning and ineffective oversight** by budget managers and contracting authorities.
- **The absence of a comprehensive nationwide plan for territory reconstruction** and few opportunities for public participation in its development.



Corruption risk 2



The absence of a comprehensive legal framework for the recovery process increases the likelihood of misuse and subjective decision-making during the implementation of experimental projects

RISK DESCRIPTION

Recovery through the approval of experimental projects has become widespread, as it enables faster rebuilding of facilities damaged by Russia's armed aggression. The nature of an experimental project allows it to be executed outside standard procedures defined by law, particularly regarding project selection and prioritisation of recovery sites.

Experimental recovery projects are pilot initiatives carried out at the level of a specific community or region to test new approaches to post-war recovery. Such projects allow the government, international partners and local authorities to trial new solutions in real conditions by establishing special regulations for individual projects.

The absence of a unified approach to selecting recovery sites and mechanisms for prioritising them creates conditions for subjective decision-making, which can lead to corruption and inefficient use of budgetary funds.

Experimental projects allow authorised entities, mainly central executive authorities or military administrations, to act as contracting authorities for recovery projects and establish procedures for using budgetary funds to carry out such projects.

However, these acts are temporary and are often adopted under conditions of limited time and information, which does not ensure the sustainability of the recovery process regulation. This creates opportunities for corruption and manipulation by responsible parties.

At the same time, it should be noted that the legal basis for implementing experimental projects is Paragraph 2 of Section II "Final Provisions" of the Law of Ukraine "On Amendments to Certain Laws of Ukraine Regarding Powers in the Field of Environmental Protection".¹⁶ It states that the Cabinet of Ministers of Ukraine shall ensure the adoption of decisions on issues requiring legislative regulation, except in cases specified in Article 92 of the Constitution of Ukraine¹⁷ regarding the conduct of experiments in areas under the Cabinet's responsibility, such as ecology, public administration and health care, for a period not exceeding two years.

Essentially, any experimental project that may be implemented under this legal basis involves practical research (within the time frame specified by law):

¹⁶ <https://zakon.rada.gov.ua/laws/show/2362-19#n65>

¹⁷ <https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#n4537>



- on the effectiveness and practicality of certain methods of regulating social relations that are either not regulated (but should be) by law; or
- on legally regulated relations that require adjustments, aiming to identify the most effective methods for further strengthening the tested regulation at the legislative level.

If each new act that introduces similar approaches to regulating the same legal relations is labelled as a separate experimental project each time, doubts arise about how well this approach aligns with the concept of this Law regarding conducting experiments and adhering to the specified time limits for their implementation.

For example, from 31 December 2022 to 31 December 2024, an experimental project for construction, repair and other engineering measures to protect critical infrastructure facilities in the fuel and energy sector was approved by Resolution of the Cabinet of Ministers of Ukraine No. 1482¹⁸ of 27 December 2022 (hereinafter referred to as experimental project No. 1482).

At the same time, Resolution of the Cabinet of Ministers of Ukraine No. 142¹⁹ of 7 February 2025, adopted a new experimental project concerning new construction, reconstruction, renovation, repairs and other engineering measures to protect critical infrastructure facilities in the fuel and energy sector. This project provides for procedures related to new construction, reconstruction, renovation, repairs and other engineering measures aimed at protecting critical infrastructure facilities within the fuel and energy sector, including facilities where protection work has not yet been completed.

Comparing the two experimental projects, it can be concluded that they are similar in content, meaning that pilot project No. 1482, which was due to end at the end of 2024, is effectively being continued.

In 2024, the National Agency conducted a strategic analysis of corruption risks during the implementation of the experimental project approved by the Resolution of the Cabinet of Ministers of Ukraine No. 382 of 25 April 2023 "On the Implementation of the Experimental Project for the Restoration of Settlements Affected by the Armed Aggression of the Russian Federation"²⁰ (hereinafter referred to as experimental project No. 382). This analysis identified the most probable corruption risks and provided recommendations for their reduction or elimination.²¹

According to the 2024 Report of the State Agency for Reconstruction and Development of Infrastructure of Ukraine, the infrastructure reconstruction and development services in the regions, as part of the implementation of experimental project No. 382, took measures to restore settlements in 2024. Specifically, project documentation was developed and reviewed for most of the recovery sites, procurement was conducted and contracts were signed with contractors for construction work on 239 sites, with work actually underway on 196 sites.

As of 31 December 2024, cash expenditures under budget programme 3111370, "Restoration of Settlements Affected by the Armed Aggression of the Russian Federation", totalled UAH 433.69 million.

Additionally, the Agency for Reconstruction reports that 540 recovery sites are currently in the experimental project, with construction completed on two sites according to the design decisions.

¹⁸ <https://zakon.rada.gov.ua/laws/show/1482-2022-%D0%BF#Text>

¹⁹ <https://zakon.rada.gov.ua/laws/show/142-2025-%D0%BF#Text>

²⁰ <https://zakon.rada.gov.ua/laws/show/382-2023-%D0%BF#Text>

²¹ <https://surl.li/jigioj>



FOR REFERENCE:



So far, there is no legally approved unified national plan for Ukraine's recovery, nor is there a plan for the restoration and development of its regions.

According to Article 7 of the Law of Ukraine "On the Principles of State Regional Policy", state regional policy is implemented based on specific guidelines derived from a set of interconnected documents for strategic planning and the execution of the country's regional policy.

The documents being developed for the recovery

and development of regions and territories affected by the armed aggression against Ukraine include:

- a plan for regional recovery and development;
- plans for the recovery and development of territorial communities.

In 2020, the Government approved the State Strategy for Regional Development for 2021–2027²² through its resolution. One tool for implementing this strategy is the plan for regional recovery and development, which has not yet been approved.



SOURCES OF RISK

- **Ineffectiveness of regulatory approaches, especially the absence of:**
 - a legal framework that governs the fundamental principles of Ukraine's recovery following the large-scale destruction caused by the Russian Federation's armed aggression, including clear and transparent criteria for selecting and prioritising projects (facilities, activities), along with measures to oversee the reconstruction and recovery process;
 - an approved recovery plan at both the national and regional levels;
 - a transparent process for allocating the Fund's resources to experimental projects.

²² <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#Text>



Corruption risk 3



**Weak oversight of project documentation quality
can lead to unjustified inflation of construction costs
and diminished competition**

RISK DESCRIPTION

According to the Law of Ukraine “On the Regulation of Urban Development”,²³ project documentation includes approved textual and graphic materials that specify urban planning, spatial planning, architectural, structural, technical and technological solutions, as well as estimates for construction projects.

The design assignment is a document that outlines the technical, aesthetic and economic requirements for the construction project. A low-quality assignment can greatly complicate the design process and may result in project documentation that does not meet the contracting authority’s actual needs or regulatory standards. This can lead to issues during project execution, such as budget overruns and delays.

An inadequately prepared design assignment may also allow designers to include specific materials or technologies in the project that are limited in availability, have no alternatives on the market or are supplied mainly by a single market participant. Consequently, this creates opportunities for corruption, including collusion between designers and contracting authorities when preparing project documentation to benefit a particular supplier, which can harm the project’s overall effectiveness.

Since the acceptance of design work is usually based solely on a positive expert report, there is a risk that this process will become a mere formality due to a simplified approach and the lack of effective substantive review. The contracting authority does not always have the organisational and human resources to properly assess project documentation, which can lead to the approval of poor-quality or irrelevant design solutions. This creates the potential for additional costs during project execution, such as adjustments, purchasing extra materials or performing unscheduled work.

Additionally, flaws in the design assignment enable parties to manipulate the scope and technical aspects of the work, which can cause a significant rise in project costs. These risks are heightened when designers, in collaboration with contracting authorities, enter into agreements that serve the interests of individual companies at the expense of economic logic and the project’s validity. Such actions result in inefficient use of funds, project delays and reduced quality of the construction.

²³ <https://zakon.rada.gov.ua/laws/show/3038-17#Text>



High-quality project documentation is essential for the successful implementation of a construction project. It helps prevent unnecessary budget overruns and delays while ensuring stability, compliance with regulations, durability and safety. However, the current system for developing project documentation in Ukraine has notable flaws that open the door to corruption schemes, mainly through the potential for overstating design costs and ignoring quality standards.

Moreover, legislation does not provide adequate mechanisms to regulate the development and quality control of project documentation, which unscrupulous contracting authorities and contractors often exploit for undue benefits.

A key issue is the absence of a comprehensive approach to cost assessment and oversight of the design process.

Ukraine has not yet made progress in implementing building information modelling (BIM) technology, which is an international standard in the construction industry. BIM technologies include collecting and comprehensively processing technical, architectural, design and economic information about a building, construction site and related elements, considering them as a unified whole. The use of BIM technologies simplifies analysing the impact of construction on the environment, infrastructure and landscape, providing a complete visualisation of the project's future functionality. This can help in streamlining and enhancing the quality of future construction expertise.

In 2021, the Cabinet of Ministers of Ukraine approved the Concept for BIM Implementation and its Action Plan, which details a gradual approach to introducing BIM technologies in Ukraine until 2025.²⁴

FOR REFERENCE:



The Verkhovna Rada has registered a draft law of Ukraine titled "On Amendments to Certain Legislative Acts of Ukraine Regarding the Implementation of Building Information Modelling (BIM) at All Stages of the Construction Project Lifecycle and Research & Development Support for Facilities, as well as Enhancement of Inspection Procedures for

Facilities Accepted into Operation in accordance with Legally Established Procedures".

The purpose of this draft law is to establish legal frameworks that facilitate the adoption of modern BIM technologies, which are considered essential tools for the ongoing reform, modernisation and digital transformation of Ukraine's construction industry.²⁵

²⁴ <https://zakon.rada.gov.ua/laws/show/152-2021-%D1%80#Text>

²⁵ <https://itd.rada.gov.ua/billinfo/Bills/Card/38508>



There is also no unified system for monitoring and updating data on the costs of labour, materials and resources, which creates opportunities for manipulation. Contracting authorities lacking sufficient knowledge and resources for quality control often rely solely on a positive expert opinion when accepting project documentation. This approach makes it difficult to detect hidden defects, leading to the need for modifications and additional expenses later on.

Significant risks are typical of projects executed under the “design–build” method, where contractors are responsible for both developing project documentation and implementing it, including examining the documentation and providing technical support. In such cases, the absence of effective regulatory oversight and quality control of design fosters opportunities for collusion and artificial inflation of project costs.

It should be noted that the formal responsibility for the quality of project documentation required by law is often not enforced in practice and remains declarative. The absence of effective mechanisms to hold designers and contracting authorities accountable for poor-quality decisions increases the risks of irrational project adjustments and unjustified cost increases.

Therefore, the current shortcomings in the project documentation development system – especially the lack of technology implementation and clear regulatory requirements for monitoring the process – pose significant corruption risks, hinder the restoration of critically important facilities and diminish construction quality.

Thus, preparing project documentation for construction is regulated by relevant laws and performed by specialised design organisations.

Identifying issues during construction requires updates to the project documentation, which can delay work and extend the overall project timeline, including approval processes and additional financing.

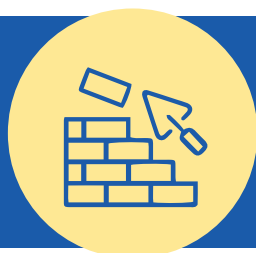


SOURCES OF RISK

- **Low level of oversight and accountability.** Contracting authorities lack qualified specialists and suitable tools to verify that project documentation meets regulatory standards. Additionally, the absence of proper oversight over project documentation or ineffective correction processes leads to the use of low-quality materials and technologies, which reduces the durability and safety of facilities, especially in socially critical areas like education or healthcare.
- **Deficiencies in project documentation,** such as overstated volumes of materials or services, lead to unjustified additional construction costs. This imposes a financial burden on the state budget and delays the progress of other critical projects.
- **The absence of requirements in current laws for mandatory monitoring of market prices for construction materials,** combined with the absence of a regulatory process for implementing such monitoring, creates a systemic gap. This gap prevents an objective assessment of the true cost of materials, allows artificial inflation of project expenses and obstructs effective oversight of expense legitimacy.



Corruption risk 4



The absence of a legally defined procedure for analysing construction material prices, combined with insufficient oversight by procuring entities, may cause overestimation of recovery project costs

RISK DESCRIPTION

Currently, the pricing regulations within the construction industry are governed by **Order of the Ministry for Development of Communities and Territories of Ukraine No. 281 of 1 November 2021 "On Approval of Estimated Standards for Construction in Ukraine"**. This order, hereinafter referred to as Guidelines No. 281²⁶, approves the following:

- **Guidelines for determining the cost of construction**²⁷, which establish fundamental procedures for applying cost estimates and pricing standards in construction. These guidelines are used to calculate the costs associated with new construction projects, reconstruction and renovation of residential, commercial and industrial buildings, structures of various purposes, their complexes and components, as well as linear engineering and transport infrastructure facilities.
- **Guidelines for establishing the costs related to design, research and development, exploration and expert review of project documentation**.²⁸ These guidelines outline the basic principles for applying cost estimates and pricing standards in order to determine the expenses for design, research and development, exploration, and expert review of project documentation.

Guidelines No. 281 set the basic rules for applying cost estimates and pricing standards in construction to determine costs related to construction, design, research and development, exploration as well as the expert review of design documentation. However, a large part of the total project cost comes from the cost of construction materials, which is determined based on the technical specifications outlined in the project documentation.

Thus, according to Clause 4.1 of the **Guidelines for Determining the Cost of Construction**, current prices for material resources in the investor's cost estimate documentation are accepted based on the procuring entity's data or, if requested, from other sources. The procuring entity must have the internal capacity, i. e. relevant specialists, to continuously monitor prices for construction materials, ensuring accurate and reasonable pricing to avoid potential overpricing.

Additionally, in accordance with Clause 4.9 of the **Guidelines for Determining the Cost of Construction**, current prices for material resources are accepted based on the procuring entity's analysis at a reasonable price not exceeding the average price for material resources at the time

²⁶ <https://zakon.rada.gov.ua/rada/show/v0281914-21#Text>

²⁷ <https://surl.li/dyyswk>

²⁸ <https://surl.li/rzaoer>



of developing the project documentation. The procedure for analysing current prices for material resources is determined by the procuring entity in the executive document.

Therefore, the procuring entity reviews current prices for basic building materials, products and structures. Monitoring these prices allows for the accurate calculation of the costs of construction, projects, expert reviews, contracts and procurement items.

If the procuring entity has discretionary powers, it may lead to abuse of official authority, providing false information about material costs, lobbying for third-party interests and artificially inflating material costs.

The primary source of this risk is the weakness of regulatory oversight and the absence of a legally defined procedure for price analysis. Currently, there is no statutory algorithm for monitoring prices of basic building materials and products. Instead, Clause 4.9 of the **Guidelines for Determining the Cost of Construction** states that the procuring entity is responsible for analysing prices according to internal procedures.

Meanwhile, most procuring entities lack approved procedures for analysing current prices for essential construction materials, products and structures, and also defining objectives, principles, methods and timelines for such analysis. The Estimate Norms of Ukraine set certain rules for accepting current prices for materials and resources: based on a price analysis (with similar quality), at a reasonable price for resources, which should not exceed the regional average, but they do not specify methodological approaches for conducting such analyses.

FOR REFERENCE:



The Law of Ukraine No. 3988-IX of 19 September 2024 "On Amendments to the Law of Ukraine 'On Public Procurement' Regarding the Publication of Information on Prices for Material Resources in the Electronic Procurement System during the Procurement of Services for Current Repairs and Construction Works (Transparent Construction)", (hereinafter referred to as Law No. 3988-IX) came into force on 23 October 2024.

In accordance with Law No. 3988-IX, Part 1, Article 41 of the Law of Ukraine "On Public Procurement" has been amended to include Paragraphs 3 and 4 specifying that the annexes to contracts for the procurement

of services for routine repairs, which include the development of project documentation, as well as construction works involving the development of project documentation, shall contain information regarding the prices of material resources. These annexes are attached after the contract price has been established and adjusted (agreed) based on the approved project documentation, with mandatory approval of the project documentation as required by law. The documents containing information on the prices of material resources shall include the following details: the name of the material resource (with its characteristics), its unit of measurement, quantity, selling price, transportation,



procurement and storage costs, as well as the country of origin for each item. Such documents might include additional information.

The Guidelines for Determining the Cost of Construction, which serve as an essential methodological framework for all participants involved in public procurement procedures, currently lack provisions that align with the aforementioned legislative amendments. Specifically, the Guidelines do not clarify which contract annexes are considered integral in the relevant cases, nor do they specify requirements for the content of documents that provide pricing information for material resources.

Although the Guidelines for Determining the Cost of Construction are not legally binding regulatory acts, they function as a key methodological resource for procurement participants. The absence of provisions consistent

with current legislation may lead to confusion among procuring entities and participants, who typically rely on the Guidelines. This situation poses potential challenges in accurately interpreting and practically applying new requirements concerning documents that contain information on prices for material resources. According to Report No. 55-2 issued by the Accounting Chamber, 14 procuring entities across 10 regions reported that average prices for material resources were not properly analysed during the design phase and the contract pricing process. Consequently, contractors submitted acceptance certificates for completed construction works, and procuring entities paid for construction materials and equipment at prices substantially exceeding regional averages. This misalignment resulted in a significant risk of inefficient expenditure of budgetary funds, amounting to UAH 124.9 million.

CASE 1



According to the Accounting Chamber Report No. 55-2, the contracting authority for the construction of four stages of the main water supply networks in city O included at least two items of construction materials in the investor's estimated cost at prices exceeding the regional average. Specifically, the prices for PE 100 SDR-17 polyethylene pipes (1000 mm in diameter, UAH 33,503.7 per meter excluding VAT) and natural sand (UAH 1,372.7 per cubic meter excluding VAT) were significantly higher than market prices on that date, by approximately 60 percent and 66 percent, respectively (UAH 20,972 including transport costs for pipes and UAH 824.1 including transport costs for sand). As a result, when paying for the acceptance of completed construction works based on aggregated indicators of the cost of works under a contract with a fixed price that matches the investor's estimated cost, the contracting authority paid more for material resources than the regional average.



CASE 2



According to information from NABU, a pre-trial investigation is underway in criminal proceedings regarding the theft of UAH 129 million allocated for restoring critical infrastructure in one of the regions.

The investigation found that, in 2022–2023, members of an organised criminal group won a tender and signed a contract with a municipal enterprise to reconstruct a water pipeline through a company they controlled.

The beneficial owner of the company was a well-known local entrepreneur who had influence over the head of the municipal enterprise and was also wanted by the FBI for property crimes. Most of the contract involved purchasing pipe products, which the tender “winner”, via its front company, bought from the manufacturer at market value and then resold to the municipal enterprise at more than triple the original price.

This criminal scheme was enabled by the absence of a clear and regulated method for estimating construction costs and conducting its examination.



SOURCES OF RISK

- **The absence of a unified electronic system for real-time data on market prices** for construction materials and designated authorities responsible for its operation.
- **The absence of legal requirements mandating price monitoring** to determine average market prices for materials when preparing cost estimates, agreeing on contract prices and providing documentation of such monitoring.
- **The absence of a clearly defined legal procedure for analysing current prices** for materials used in construction projects funded by the State Budget of Ukraine and local budgets.



Corruption risk 5



Deficiencies in the organisation of supporting services during construction projects can result in overpricing and misappropriation of public funds

RISK DESCRIPTION

Supporting services in construction projects can be mandatory or provided based on the contracting authority's needs. They should ensure quality control, compliance with regulatory requirements and effective organisation of the construction process.

Supporting services are supplied under a contract between the contracting authority and the contractor. Payment for these services is made according to acceptance certificates for completed work. Specifically, for each certificate prepared by the contractor working on the construction, an additional certificate is issued for supporting services. This certificate includes a calculation of the cost of supporting services, which is determined as a percentage of the total of sections 1–9 of the project estimate.

Therefore, the actual payment for supporting services depends on the volume of work performed and documented by the contractor.

Supporting services that support the implementation of construction projects include, in particular:



TECHNICAL SUPERVISION

This service is the contracting authority's main tool for ensuring compliance with design decisions, building codes and regulations. Technical supervision is necessary to complete a construction project and sign certificates of completion. It aims to verify that the work follows approved project documentation, meets quality standards and adheres to planned volumes.



RESEARCH AND DEVELOPMENT (R&D) SUPPORT

R&D support is allocated for projects that exhibit increased complexity or uniqueness, such as the construction of cultural heritage sites, technically sophisticated engineering structures or facilities situated in specific geological conditions. The primary objectives of R&D support are to address issues not covered by existing building codes and to mitigate risks associated with errors during the design and construction phases.



The scope of R&D support includes site surveying, R&D activities, monitoring the technical condition of structures, developing structural and technological solutions and analysing materials to ensure compliance with applicable building codes.

While R&D support is mandatory for certain categories of facilities, as specified by national building regulations, the designer is responsible for including this service in the project estimate.



CONSULTING ENGINEER SERVICES

A consulting engineer plays a crucial role in organising the construction process, particularly when the contracting authority lacks sufficient resources or expertise to manage the project effectively. A consulting engineer's responsibilities include:

- preparing technical and economic justifications;
- reviewing project plans and technical documentation;
- coordinating activities among all stakeholders involved in construction;
- overseeing procurement processes;
- entering into contracts with subcontractors and offering technical, economic and financial advice.

The consulting engineer engages in highly complex projects that require specialised knowledge, or performs functions beyond the capabilities of the contracting authority's internal team.

The expenses related to supporting services in construction are governed by the Guidelines for Determining the Cost of Construction. The Guidelines establish maximum permissible percentages of the project's estimated cost: 1.5 percent for technical supervision and R&D support and up to 3 percent for consulting engineer services. The combined costs for maintaining the contracting authority's service and supporting services are capped at 5.5 percent of the total project cost, as stipulated in Clause 4.32 of the Guidelines.

Nonetheless, despite these regulatory limits, the legislation concerning the calculation, content and quality standards of these services exhibits considerable deficiencies and gaps. These shortcomings introduce potential risks of misuse and corruption, which are outlined as follows.



Linking payments for technical supervision and consulting engineer services to acceptance certificates for completed works

Payment for technical supervision and consulting engineer services depends on the contractor signing the acceptance certificates for completed work. This system creates a dependency where technical supervisors and consulting engineers have little motivation to identify violations or stop construction due to poor work quality. For example, if a technical supervision specialist refuses to sign certificates because of issues in the contractor's work, their company automatically loses its payment. Similarly, if the technical supervisor recommends terminating the contract with an unscrupulous contractor, this also results in the loss of their compensation. This situation encourages a formal approach to quality control and can lead to the acceptance of substandard projects without proper oversight.



A universal method for determining the cost of supporting services, resulting in excessive payments for their provision

The regulation of the costs for the supporting services, as proposed in the Guidelines for Determining the Cost of Construction, presents several issues. In small projects, such funds might not be enough to attract qualified specialists, support laboratory research or carry out other key functions. Consequently, construction control becomes more formal, which can result in poor work quality and costs for incomplete tasks.

This regulation also creates a risk where technical supervision specialists and other contractors may do a minimal amount of work but still receive payment based on the same formula used for those performing a full range of tasks. This discourages contractors from maintaining a high quality of their services and can lead to corruption.

Additionally, it increases the risk of collusion between the contractor and the technical supervision provider, where the project contractor may give undue benefits to technical supervisors for signing certificates, despite the poor quality of the work performed.

In large projects, the problem is often the opposite: allocated funds may be excessive, leading to misuse of budget resources. Ignoring factors like the project's complexity or its risk level (liability) creates room for subjective judgments and potential abuse.

A consulting engineer handles many tasks, such as organising tenders, concluding contracts, reviewing projects and overseeing construction. However, the contracting authority does not always require all these services. For example, a simple construction project might only need some of these functions. Meanwhile, because there is no clear distinction between the costs of individual services, the contracting authority is required to pay for the entire package, even if only some tasks are completed. This causes overpayments and reduces the effectiveness of budgetary funds.



Shortcomings in how the supporting services are organised

The risks mentioned above are worsened by weaknesses in the legal regulation and organisation of providing supporting services, which open up more chances for abuse and irrational use of public funds.

Another major issue is the absence of a mandatory, standardised approach to defining the role of the technical supervision engineer, which should clearly specify the functions, duties and responsibilities of contractors offering supporting services. This includes a detailed list of tasks, a method for calculating payments for each function and a clear set of supporting documents. As a result, both contracting authorities and contractors have significant room for arbitrary interpretation of contract terms, making it harder to control the quality of services and increasing the risk of overcharging or payment for services not rendered.



The lack of effective reporting and control mechanisms for signing off acceptance certificates for completed work allows these to be confirmed without proper verification of service quality, worsening the problem. Contractors accepting unfinished or defective work can avoid consequences, fostering a tolerant attitude towards violations, encouraging concealment of defects and leading to corrupt agreements. Impunity and weak quality monitoring greatly diminish the effectiveness of construction oversight and create favourable conditions for corruption.

The existence of the aforementioned problematic issues, which pose a risk of corruption and unjustified expenditure of budget funds in the construction sector – particularly in determining the cost of supporting services – was identified by the State Audit Service during their audits: *“During the audits, specialists from the State Audit Service identified widespread instances of non-compliance with the project requirements (responsible parties are the design and construction supervision teams), poor-quality execution of project documentation and miscalculations (responsible parties are design and expert organisations), and payments made for work that was either not performed or poorly executed (responsible party is the technical supervision)”*.²⁹

CASE 1



According to Report No. 55-2 of the Accounting Chamber, four contracting entities involved in 13 recovery projects paid a total of UAH 656,100 for technical supervision services that were improperly provided, resulting in excess costs. This issue contributed to additional budgetary losses, of which UAH 119,100 was reimbursed during the audit.

CASE 2



The Ivano-Frankivsk Regional Prosecutor's Office found that the technical supervision engineer did not provide adequate oversight during the construction of a secondary school. The project cost over UAH 45.6 million. After finishing the first phase, he approved the contractor's reports that contained inaccurate information about the work scope. Consequently, over UAH 13 million was overpaid from the budget, as confirmed by the results of a judicial construction and technical examination.

*The pre-trial investigation is ongoing.*³⁰

²⁹ <https://dasu.gov.ua/ua/plugins/userPages/3891>

³⁰ <https://surl.lujxewrfv>



SOURCES OF RISK

- **Legal gaps in pricing**

The absence of clear legal requirements for documenting the amount of work done in providing supporting services reduces transparency. Acceptance certificates for completed work are often based only on a fixed percentage for supporting services, making it impossible to determine the actual volume of services provided.

- **The absence of effective mechanisms for enforcing liability for accepting substandard work**

The legislation does not include effective mechanisms for holding contractors of supporting services in construction accountable when signing certificates with deficiencies or overstated work volumes. This leads to a tolerant attitude towards violations, encourages concealment of deficiencies and fosters conditions for corrupt agreements.

- **Unjustified state budget expenditures on low-quality services or services that were not delivered**

Gaps in legal regulation create opportunities for falsely inflating indicator volumes in acceptance certificates, even if the work was poorly done or not completed at all. As a result, the government loses funds for services that were not delivered or do not meet contractual quality standards.



Corruption risk 6



Legal uncertainty around requirements for justifying procurement without the use of an electronic system (direct contracts) fosters non-transparency and potential misuse of public funds

RISK DESCRIPTION

The Law of Ukraine “On Public Procurement” establishes the legal and economic framework for purchasing goods, works and services to fulfil the needs of the state, territorial communities and united territorial communities.³¹

The specifics of public procurement for these goods, works and services, as outlined by Law of Ukraine “On Public Procurement” during the period of martial law in Ukraine and for 90 days after its termination or cancellation, are outlined in the Resolution of the Cabinet of Ministers of Ukraine No. 1178 of 12 October 2022 (hereinafter referred to as Specifics No. 1178).³²

Specifics No. 1178 establish the procedures and conditions for public procurement of goods, works and services for procuring entities specified in the Law of Ukraine “On Public Procurement”, ensuring the protection of such entities from military threats during the legal regime of martial law in Ukraine and for 90 days after its termination or cancellation.

Public procurement of goods, works and services for new construction, reconstruction and renovation of building structures is a vital part of Ukraine’s recovery process.

The conditions of martial law impose stricter requirements for swiftly implementing recovery projects, especially when eliminating the effects of destruction.

Therefore, the government approved Specifics No. 1178, which **include mechanisms for simplified public procurement, such as direct contracts in urgent situations.**

Simplified public procurement can be carried out by signing a procurement contract without open bidding and/or without using an electronic catalogue (hereinafter referred to as simplified procurement) when purchasing goods. This simplification is allowed, especially in cases of urgent needs to make a purchase due to objective circumstances that make it impossible to meet open tender deadlines and/or use an electronic catalogue, and such circumstances shall be documented by the procuring entity. Therefore, Clause 13 of Specifics No. 1178 states that procuring entities shall purchase:

³¹ <https://zakon.rada.gov.ua/laws/show/922-19#n1284>

³² <https://zakon.rada.gov.ua/laws/show/1178-2022-%D0%BF#Text>



- goods and services (except routine repair services), if the cost is equal to or more than UAH 100,000;
- routine repair services, if the cost is equal to or more than UAH 200,000; and
- works, if the cost is equal to or more than UAH 1.5 million.

However, because there are no clear reasons for simplified procurement, procuring entities often use this method without proper justification. This violates public procurement principles, especially the principles of fair competition among participants and transparency at all procurement stages.

The aforementioned opens the door to corruption involving the use of state budget funds.

It should also be noted that procurement remains a priority issue on the path to European integration and the harmonisation of national legislation with EU laws (EU *acquis*). According to the conclusions of the European Commission's "Ukraine 2024" report of 30 October 2024, the Commission's recommendations from last year have only been partially implemented and are still relevant. In 2025, Ukraine should, in particular:

- make progress towards adopting EU-*acquis*-compliant laws on public procurement and on concessions and public-private partnerships (PPPs);
- draw up a road map for enhancing public procurement control by the State Audit Service, in line with the Ukraine Plan; and
- assess the relevance of the current exceptions to public procurement legislation under martial law and take measures to reduce them to the minimum.³³

At the same time, according to the results of the sociological expert survey "Corruption in Ukraine 2024: Understanding, Perception, Prevalence" conducted by the National Agency in 2024, public procurement of works and services for infrastructure projects is considered one of the most corrupt areas by the business community.³⁴

³³ https://enlargement.ec.europa.eu/ukraine-report-2024_en

³⁴ <https://zakon.rada.gov.ua/laws/show/4047-IX#Text>



FOR REFERENCE:



According to the information provided in the Report on the Activities of the AMCU Commission for the Consideration of Complaints about Violations of Public Procurement Legislation in 2024, the appeal body received 10,535 complaints, of which 7,461 were satisfied fully or partially.

For comparison, in 2023, these numbers were 10,967 and 7,474, respectively.

This suggests that violations were found in about 70 percent of the appealed procurements. Areas of economic activity, such as "Construction works and current repairs" and "Constructions and construction materials; auxiliary construction products (except electrical equipment)," rank among the top five in the number of complaints – 1,190 and 633, respectively. These areas are among the key ones in the field of reconstruction, which further confirms the importance of the identified risks at different

stages of the procurement process. The most common violations identified include:

- technical requirements for goods that are met by single product manufacturer; and
- additional (excessive) requirements that are inconsistent with the subject of the procurement.

It should also be noted that the Temporary Investigative Commission of the Verkhovna Rada of Ukraine for Investigating Possible Violations of Ukrainian Law in Public Procurement during Martial Law, in its Report No. 4047-IX³⁵ of 30 October 2024, concluded that it is necessary to revise the provisions of Specifics No. 1178 or eliminate them altogether to bring the public procurement system's operation closer to the rules that existed before martial law was imposed. This conclusion is drawn based on various problems and abuses that currently occur during public procurement.

CASE 1



Report No. 55-2 from the Accounting Chamber highlights deficiencies in adherence to procurement procedures and construction standards by local budget managers during project implementation. Competition in procurement processes was not maintained, as shown by numerous procurements with only one participant. This situation raises the risk of inflated contract prices and possible waste of public funds.

Auditors found isolated cases of violations of public procurement laws, including failure to disclose complete procurement information, incorrect definition of procurement subjects and non-compliance of tender offers with tender documentation, totalling UAH 258.6 million.³⁶

³⁵ <https://zakon.rada.gov.ua/laws/show/4047-IX#n12>

³⁶ https://rp.gov.ua/upload-files/Activity/Colegium/2024/55-2_2024/Zvit_55-2_2024.pdf



CASE 2



NABU detectives conducted a pre-trial investigation in criminal proceedings related to the misappropriation by an organised group, formed in 2022, of state funds and monies from Ukraine's international partners, which were meant for restoring critical infrastructure.

According to the investigation, the group's organiser, an influential businessman, colluded with the first deputy general director of a municipal enterprise to secure direct contracts with the companies he controlled for supplying tubular goods, windows and technical salt. The participants used martial law as a reason to avoid open tenders.

Subsequently, the "winner" purchased products from the manufacturer through several front companies and resold them to the municipal enterprise at more than twice the original price. Meanwhile, the municipal enterprise maintained direct business relations with the manufacturer.

As a result, the state incurred losses totalling UAH 128.2 million, which the perpetrators took and disposed of at their own discretion.



SOURCES OF RISK

- **The imperfection of the regulatory framework**, especially the absence of clearly defined grounds for simplified procurement, results in violations of fair competition principles and compromises openness and transparency throughout all procurement stages.



Corruption risk 7



Unjustified qualification criteria and barriers to accessing information reduce competition and facilitate the misuse of public funds

RISK DESCRIPTION

According to Article 16 of the Law of Ukraine “On Public Procurement”, the procuring entity requires participants in the procurement process to submit documented proof of their compliance with the qualification criteria. The procuring entity sets one or more of the following qualification criteria:

- the participant has the necessary equipment, materials, resources and technologies;
- the participant has employees with the appropriate qualifications, knowledge and experience;
- the participant has documented experience in completing a contract or contracts similar to the subject of the procurement;
- the participant has the financial capacity, confirmed by financial statements.

However, procuring entities often manipulate the process when setting these criteria during the preparation of tender documents. Below is a list of the most common abuses related to qualification criteria.



MATERIALS AND RESOURCES

Procuring entities may include in the tender documentation requirements for specialised equipment that is not essential for completing the work, or for equipment with unique characteristics or parameters that have no equivalents. Additionally, they may specify a large number of particular brands or models of equipment, which artificially limits the list of potential contractors.



SPECIALISTS WITH THE NECESSARY QUALIFICATIONS

Procuring entities may request an excessive number of documents to verify the availability of workers with highly specialised education or experience that is not required for completing specific tasks. This creates unnecessary bureaucratic hurdles, raises the chances of technical errors in the submitted proposal and often has a discriminatory nature.



EXPERIENCE IN PERFORMING WORK

Often, overly specific or unreasonable requirements for experience in performing work are set. For example, procuring entities may request experience in rare or low-demand types of work that are not actually necessary for completing a specific project. These requirements might also include experience related to objects that are not directly connected to the scope or nature of the procurement.

Additionally, procuring construction services and works has its own unique characteristics – it is a complex, multi-component process that differs significantly from procurement in other fields. To help participants prepare properly for tenders, they need access to a specific set of information, including:

- project documentation that includes drawings, technical solutions and construction plans, enabling assessment of the work's complexity and scope;
- a cost estimate section, which features calculations of the types and quantities of work, as well as the costs of materials and resources;
- the actual funding amount, along with a detailed description of the project budget, which enables an assessment of the financial feasibility of participating in the tender;
- the precise location of the facility, providing information about accessibility, logistical aspects and site features;
- the results of the site survey, including data on the technical condition of the territory or objects that impact the complexity of the work.

At the same time, the legislation does not clearly specify requirements for publishing complete cost estimate documents, results of technical surveys of damaged buildings or other essential details for construction work in the tender documentation. This allows procuring entities to selectively share information.

In practice, procuring entities often hide certain information or consider it optional to disclose. Individuals and legal entities planning to participate in the tender and accurately calculating the actual cost of the work must search for such data themselves. To do this, they submit requests through the electronic system, asking for additional documentation to be disclosed. There are many cases where this information is provided with a delay or remains unavailable.

This practice obstructs transparent competition, makes preparing tender proposals more difficult and increases the risk of contracts being awarded to favoured contractors for corrupt reasons.



FOR REFERENCE:



The Order of the Ministry of Economy No. 26335 of 21 November 2024 approved the Methodological Recommendations on the Specifics of Public Procurement of Construction Works during Martial Law in Ukraine and for 90 days after its Termination or Cancellation.³⁷

Clause 1, Subsection 1, Section III of these Recommendations states that to ensure maximum transparency and competition during procurement, to help potential participants prepare high-quality tender proposals within a limited time and to prevent abuses related to access to information, procuring entities are advised, when announcing a procurement for construction works, to include in the tender documentation the approved project documentation in full, along with other available information on the procurement subject, including:

1. Investor estimate documentation (including a list of construction works by sections, a summary list of resources and other sections of the investor estimate documentation) in the data exchange format of specialised electronic systems (.ibs, .idc (IBD-6.x), .bsdu, .bdcu (IBD-5.x),

etc.) and in .xls(x) format. Files provided in the formats of specialised electronic systems must be accessible for calculations by specialised software to determine construction costs.

2. A report on the survey results in accordance with Resolution of the Cabinet of Ministers of Ukraine No. 257 of 12 April 2017 "On Approval of the Procedure for Conducting Surveys of Construction Projects Accepted into Operation" (if available).
3. An expert report (a [positive] report on the findings from examining the design documentation for the construction of the facility), including any annexes, registered in the Unified State Electronic System in the construction field, or a link to it (if full text is publicly accessible).
4. A technical passport for the building (if available).
5. Any available photo and video materials.

However, this order is not a regulatory act and is only of a recommendatory nature.

³⁷ <https://surl.lubnzcip>



CASE 1



A specific example of restricting tender participants due to incomplete information is provided by a study conducted by DOZORRO, an initiative of Transparency International Ukraine.³⁸ The study found that some contracting entities publish tender documentation in formats that hinder analysis by potential participants, such as scanned PDF files instead of more accessible formats like Excel spreadsheets. This practice creates substantial barriers to entry, diminishes competition and may facilitate corrupt practices. The analysis demonstrates that such issues negatively impact construction tenders by reducing the number of participants and increasing the likelihood of favouritism.

CASE 2



NABU detectives conducted a pre-trial investigation into criminal proceedings regarding the misappropriation of state funds during the provision of technical inspection services for facilities damaged due to Russian aggression in one of the regions.

The investigation established that the head of one of the departments of the Regional State Administration, in collusion with the owner and manager of a private company, organised the inflation of the cost of technical inspections for 107 social infrastructure facilities (such as schools and hospitals) by more than 15 times and signed a contract worth nearly UAH 10 million. Consequently, the participants of the scheme misappropriated over UAH 7.7 million from the reserve fund of the Cabinet of Ministers of Ukraine.

CASE 3



According to the Anti-Monopoly Committee of Ukraine (AMCU), the Commission for the Consideration of Complaints regarding Violations of Public Procurement Legislation (hereinafter referred to as the Commission) received a complaint from LLC "N" regarding a violation by the city council's education department of the procurement procedure No. UA-2025-01-20-016236-a, in which the complainant highlighted discriminatory requirements in the tender documentation.

The complainant alleged that the contracting authority mandated the submission of similar contracts along with supporting documents verifying the commissioning of completed projects.

After reviewing the complaint, the Commission issued Decision No. 2218-p/пк-пз of 13 February 2025. The Decision directs the education department to revise the tender documentation for the procurement process, which was announced on the web portal of the Authorised Body under No. UA-2025-01-20-016236-a, to address the violations outlined in the explanatory part of the decision.

³⁸ <https://surl.lj/0fxrhd>

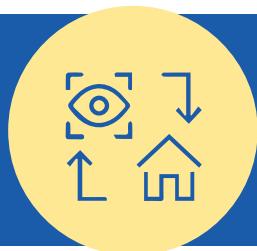


SOURCES OF RISK

- **Using unreasonable qualification criteria** limits the pool of potential tender participants, aiming to select only a predetermined winner. This results in:
 - inflated prices without the risk of getting a better offer from other participants in the procurement;
 - lower quality of work and services, which can lead to additional expenses for fixing defects or hiring other contractors.
- **The absence of legal requirements to publish a comprehensive set of documents** necessary for assessing all construction processes and their estimated costs during the tender and to publish these documents in a machine-readable format creates a non-transparent process for selecting the procurement winner.



Corruption risk 8



The absence of effective controls over the procedure for changing substantial terms of subcontract agreements may result in unreasonable expenditure of public funds and a decline in work quality

RISK DESCRIPTION

In the construction sector, effective contract management is crucial for delivering quality work, meeting deadlines and managing budget funds responsibly. However, in reality, this process is often marred by numerous violations, which foster corruption and abuse.

The lack of proper contract management introduces significant corruption risks and makes it harder to monitor work execution. There are cases where, after signing contracts, changes are frequently made without proper justification, affecting deadlines, costs, scope and quality of the work. Additionally, the absence of centralised monitoring mechanisms for contract amendments allows parties to avoid responsibility for breaches.

These changes may involve schedules, costs, scope of work and/or materials and quality of work and/or materials, often leading to lower-quality results and higher expenses.

The process for amending a construction contract is regulated by Ukrainian public procurement laws and relevant regulatory acts, particularly the Civil Code of Ukraine and subordinate acts that specify standard contract forms.

As a general rule, as defined in Part 5 Article 41 of the Law of Ukraine "On Public Procurement", the essential terms of a procurement contract cannot be changed after its signing until the parties have fulfilled their obligations in full, except in the following cases:

- Reduction in the volume of purchases, particularly considering the actual amount of the procuring entity's expenses.
- Increase in the price per unit of goods by up to 10 percent, proportional to the market price increase of such goods in case of fluctuations, provided that this change does not cause an increase in the amount specified in the purchase agreement – no more than once every 90 days from the date of signing the procurement contract or making amendments related to an increase in the unit price of goods.
- Changes in the price in the procurement contract due to alterations in tax and fee rates and/or changes in the conditions for granting tax benefits – proportional to the change in these rates and/or tax benefits.



- Extension of the term of the procurement contract and the deadline for fulfilling obligations related to the delivery of goods, execution of works or provision of services, in cases of documented objective circumstances that justify such extensions, including force majeure, delays in financing the contracting entity's expenses, as long as these changes do not increase the amount specified in the procurement contract.
- Changes in the consumer price index established according to legislation by state statistics agencies, changes in foreign currency exchange rates, changes in stock exchange quotes or Platts, ARGUS indicators, regulated prices (tariffs) and standards used in the procurement contract, if the contract specifies a procedure for adjusting the price.
- Extension of the contract term for a period sufficient to conduct the procurement or simplified procurement procedure at the beginning of the following year, not exceeding 20 percent of the amount specified in the initial procurement contract made in the previous year, provided that expenses for achieving this goal are approved according to the established procedure.

Clause 19 of Specifics No. 1178 outlines circumstances for modifying the essential terms of a contract. Currently, there is no regulatory limit on the maximum allowable percentage change in the price per unit of goods in a procurement contract due to market value fluctuations from the date the contract was signed or its last amendment regarding price changes per unit (unlike the Law, which sets a limit of up to 10 percent).

However, there are major issues with this process. Specifically, although the law permits amendments to the essential terms of a contract in certain situations, it does not define a clear procedure or mechanisms for making such amendments.

The absence of requirements for justification and proper documentation of contract amendments introduces significant manipulation risks. Deadlines for work completion may be altered without considering actual circumstances or verifying whether these circumstances truly impact the performance.

The absence of a unified approach to documenting changes enables contractors to initiate unjustified adjustments, such as increasing costs or reducing scope. This opens the door to overpricing, evasion of obligations or substandard work.

Corruption risks are increased because contracts, especially at the local level, often lack clear provisions on how to make changes, the contractor's liability for breaches and mechanisms for proper oversight. Consequently, contracting entities lack effective tools to hold contractors accountable for missed deadlines or poor quality work.

Thus, inadequate management of contract performance in construction, the lack of centralised monitoring of their performance and the absence of clear rules for amending contracts create significant corruption risks, reduce the quality of work performed and lead to unjustified expenditure of budgetary funds.



CASE



According to the Accounting Chamber Report No. 55-2, in one of the regional state administrations, amendments were made to the essential terms of the contract with LLC "M," concluded through an open tender process for the major renovation of a lyceum, without the grounds specified in Clause 19 of Specifics No. 1178 and Part 5, Article 41 of the Law of Ukraine "On Public Procurement". In particular, through an additional agreement, without altering the total value of the procurement contract (UAH 88,844,400), the contract price was revised with a new version that included a new composition, scope of work and equipment, which were not detailed in the technical specifications of the tender documentation. In total, more than 30 percent of the initial contract's work and equipment costs were altered.



SOURCES OF RISK

- **The absence of a clearly established process for analysing contractors' proposals** to modify the essential terms of contracts in the field of capital construction creates opportunities for contracting entities, especially organisations within the management sphere of the Agency for Reconstruction, to make unreasonable decisions on approving such amendments.
- **The low quality of standard contracts for capital construction**, which largely repeat the provisions of public procurement laws regarding how to make changes to key terms without explaining the decision-making process, creates opportunities for a formal approach to reviewing change proposals. This, in particular, allows avoiding a detailed verification of the validity of changes, including whether the prices for material resources align with market levels.
- **The absence of analytical resources** that gather information on historical costs, including those of material resources, from primary construction project documents, makes it impossible to compare price levels with projects that have already been completed or are underway.
- **The absence of proper oversight over changes to contract terms** enables contractors to unjustifiably increase the cost of work. This results in budget overspending, diverting funds from other projects or needs. Often, cost changes do not reflect market conditions, leading to price inflation.



Corruption risk 9



The absence of an integrated electronic accounting system for recording payments for completed construction works creates opportunities for overestimating costs, unjustified VAT inclusion and manipulating payment sequences

RISK DESCRIPTION

According to Clause 197.15, Article 197, Section V of the Tax Code of Ukraine, transactions involving the provision of construction and installation services for the development of affordable housing and housing financed with public funds are exempt from value-added tax (VAT).

Additionally, this provision is affirmed in the general tax guidance approved by the Order of the Ministry of Finance of Ukraine No. 397 of 9 August 2024. Accordingly, as per this guidance, the owner of affordable housing and housing financed with public funds is required to reimburse the general contractor for the VAT paid on goods (such as building materials and equipment) and services (including those provided by subcontractors), which were purchased with VAT and are intended for use, or are in the process of being used, in transactions exempt from VAT in accordance with Clause 197.15, Article 197, Section V of the Tax Code of Ukraine. These costs are included in the overall expenses related to the construction and installation works for the development of affordable housing and housing financed with public funds.

At the same time, in practice, there are abuses related to accepting and paying for construction works with an unjustifiably high amount of VAT, which causes additional unnecessary expenses to the state budget.

FOR REFERENCE:



According to the Accounting Chamber Report No. 55-2, six property owners involved in 54 housing construction projects paid contractors for the costs of construction and installation works, including VAT charges. This practice was in violation of Clause 197.15, Article 197, Section V of the Tax Code of Ukraine. As a result, unnecessary expenditures from the state budget amounting to UAH 44,061,800 were incurred, excluding the cost of construction materials.



Additional risks that lead to abuse and unjustified spending of the state budget during the delivery and acceptance of completed works and settlements include:

- the inclusion of incomplete construction works in the payment;
- the inclusion of hidden works in the payment without following proper procedures for confirming their completeness and quality;
- acceptance and payment of inflated costs for work resulting from overestimating the scope, materials and/or their costs (including payments to the contractor for work priced higher than the actual cost of work performed by the subcontractor), and equipment that has not been installed or is not in use.

To eliminate these corruption risks, it is necessary to establish transparent and accountable mechanisms for paying for completed construction work. This requires having appropriate electronic systems for interacting with the bodies of the State Treasury Service of Ukraine (STSU) based on certificates of acceptance for completed work signed by all responsible parties.

The absence of an obligation to enter complete information about finished construction works into electronic systems that track all stages of construction creates opportunities for falsification, since these processes are carried out using paper documents. As a result, the acceptance of completed works under relevant certificates, their verification, signing and payment are not automated or transparent. This also makes it more difficult to properly account for and collect data on the actual historical costs of construction project elements (such as materials, construction works, supporting services and labour), which hinders establishing an objective market value of construction objects.

Additionally, the contracting entity can control the payment priorities, choosing which contractors are paid first. This violates the principles of equality, fairness and transparency and significantly diminishes market participants' interest in recovery projects financed by state or local budgets.

Payments for completed construction work can be delayed, as confirmed by acceptance certificates signed by all responsible persons during treasury servicing. Consequently, contractors become reliant on contracting entities and STSU for payment for work performed and services provided, which opens up opportunities for corruption.

Therefore, according to Clauses 2.1 and 2.2 of the Procedure for Registration and Accounting of Budgetary Obligations of Budgetary Fund Managers and Budgetary Fund Recipients in the Bodies of the State Treasury Service of Ukraine³⁹ – approved by Order of the Ministry of Finance of Ukraine No. 309 of 2 March 2012, registered with the Ministry of Justice of Ukraine on 20 March 2012 under No. 419/20732 – budget managers must submit to the relevant Treasury authority registers of budget obligations of budget managers (recipients) along with the originals or certified copies of documents confirming the obligation assumption.

According to Clause 11.3 of the Procedure for Treasury Servicing of the State Budget for Expenditures⁴⁰ – approved by Order of the Ministry of Finance of Ukraine No. 1407 of 24 December 2012, registered with the Ministry of Justice of Ukraine on 13 January 2013 under No. 130/22662 – supporting documents shall be provided when advance payments or phased payments of registered budgetary obligations are required.

³⁹ <https://zakon.rada.gov.ua/laws/show/z0419-12#Text>

⁴⁰ <https://zakon.rada.gov.ua/laws/show/z0130-13#Text>



Payments aligned with registered budgetary obligations are made according to the requirements of the Methodological Recommendations on the List of Supporting Documents for the Registration of Budgetary Obligations and Making Payments⁴¹ approved by the Order of the State Treasury Service of Ukraine No. 68 of 29 April 2013. These recommendations specify the submission of a particular list of supporting documents for each payment stage to construction project contractors. Such documents, for instance for capital construction, include payment orders and documents confirming the actual receipt of goods, works and services, especially for advance payments:

- contract;
- acceptance certificate (Form КБ-2В);
- invoice (if the contract terms include purchase of construction materials, equipment, structures, etc., at the contractor's expense, with subsequent payment by the contracting entity).

The bodies of the State Treasury Service of Ukraine review the supporting documents submitted and have the right to refuse to accept and process the payment order if the payment does not match the registered budgetary obligations.

The Agency for Reconstruction, along with enterprises, institutions and organisations under its management and other participants in the recovery (construction) process, lacks an information and analytical system for organising contractual work electronically, agreeing to and signing acceptance certificates and making payments for completed construction work.

The process for approving completed work and making payments to contractors is still handled manually on paper. This does not facilitate a transparent and accountable process for settling with contractors, as it allows contracting entities, including when interacting with the bodies of STSU, to decide at their own discretion which contractors to pay first and which payments can be delayed.

Consequently, contracting entities and STSU bodies can deliberately delay payments to certain contractors to gain unfair advantages.

⁴¹ <https://zakon.rada.gov.ua/rada/show/v0068840-13#Text>



CASE



Under the procedural guidance of the Bucha District Prosecutor's Office, an indictment was filed in court against two company directors for misappropriation of property, abuse of office, forgery and the legalisation of property obtained through criminal means (Part 5, Article 191; Part 1, Article 366; Part 1, Article 209 of the Criminal Code of Ukraine).

According to the investigation, the defendants misappropriated budget funds allocated for renovating an apartment building damaged by military aggression from the Russian Federation.

When reporting on work performed under the contract signed in November 2022 with the Department for Regional Development, the contractors overstated the volume of work completed in the reporting documents.

These actions caused more than UAH 2 million in losses to the local budget.⁴²



SOURCES OF RISK

The absence of an integrated electronic system for managing the implementation of construction projects and processing payments creates opportunities for potential falsification, unjustified overpricing – such as including VAT in the price – and abuse in determining the payment schedule.

- **Paper-based documentation** for accepting completed work and settling with contractors increases the risk of misconduct during the acceptance process and payment procedures.

⁴² <https://surl.li/scdhvjv>



Corruption risk 10



The absence of state architectural and construction supervision over the implementation of reconstruction projects increases the risk of violations of construction standards and potential corruption and abuse

RISK DESCRIPTION

As stated in Article 10 of the Law of Ukraine “On Architectural Activities,” in order to ensure that architectural entities comply with approved urban planning and other project documentation as well as source data requirements during the development of territories, placement and construction of architectural objects, and also to protect the rights of consumers of construction products, state architectural and building inspection and supervision are carried out in accordance with the procedure established by law.

State architectural and building inspection is conducted by the bodies specified in Article 6 of the Law of Ukraine “On Regulation of Urban Development”.

SIAUP is the central executive authority, whose activities are directed and coordinated by the Cabinet of Ministers of Ukraine through the Deputy Prime Minister for Restoration of Ukraine/ Minister for Development of Communities and Territories. One of their main responsibilities is to exercise, within their legal powers, state architectural and building inspection to ensure that contracting entities, enterprises providing technical conditions for the engineering support of construction projects, architects, other designers, experts, expert organisations, responsible contractors, consulting engineers and owners of buildings and linear structures comply with legislation related to urban development, construction norms, standards and rules during the preparatory and construction phases.⁴³

According to Clause 1 of the Resolution of the Cabinet of Ministers of Ukraine No. 303 of 13 March 2022 “On the Suspension of State Supervision (Control) and State Market Inspections under Martial Law”⁴⁴ (hereinafter referred to as Resolution No. 303), scheduled and unscheduled state supervision (control) has been suspended during the martial law introduced by the Decree of the President of Ukraine No. 64 of 24 February 2022 “On the Introduction of Martial Law in Ukraine”.

At the same time, in cases where there is a threat that negatively impacts the rights, legitimate interests, life and health of individuals, the environment or the security of the state, as well as to fulfil Ukraine’s international obligations during martial law, unscheduled state supervision (control) measures may be carried out **based on decisions made by central executive bodies responsible for shaping state policy in relevant areas, such as the Ministry of Development.**

⁴³ <https://zakon.rada.gov.ua/laws/show/1340-2020-%D0%BF#Text>

⁴⁴ <https://zakon.rada.gov.ua/laws/show/303-2022-%D0%BF#Text>



FOR REFERENCE:



According to the Accounting Chamber Report on the Results of the Audit of the Compliance of the Functioning of the System of State Architectural and Building Inspection and Supervision, and the Performance of Licensing and Registration Functions in Construction, approved by the Decision of the Accounting Chamber No. 27-3 of 21 November 2023, the following was found: After amendments to Resolution No. 303 in December 2022, unscheduled supervisory measures were to be conducted only based on decisions of the central executive body responsible for shaping state policy in the relevant field and provided there were specific threats

of negative impact on human rights, legitimate interests, life or health of individuals. Following these rules, in December 2022, the Ministry for Development of Communities and Territories of Ukraine rejected and returned for revision the SIAUP's request to conduct an inspection, which was based on a complaint received in November 2022 from a citizen regarding whether the architectural and building inspection body of the Kyiv City Council (Kyiv City State Administration) adhered to legal requirements when issuing a permit to a developer for construction work. As a result, the inspection was only carried out at the end of June 2023.

At the same time, the failure to conduct state architectural and building inspection at construction sites leads to corruption and abuse, as well as an increase in the number of construction sites being built in violation of legislation related to urban development and construction standards. This also results in more unauthorised construction projects, which can reach enormous proportions across the country, potentially causing damage or destruction to property.

Therefore, the lack of government oversight in construction not only jeopardises the safety of construction sites and the quality of living conditions for citizens. It also raises doubts about the legality of using budget funds and donor funds allocated, in particular, for the recovery of regions of Ukraine affected by Russia's armed aggression.



SOURCES OF RISK

- **The moratorium on state supervision (control)** in the construction sector, imposed during martial law, prevents effective measures from being taken to oversee construction sites.



Conclusion

The process of rebuilding and recovering Ukraine following the Russian Federation's armed aggression has become one of the key areas of national policy. At the same time, reconstruction and recovery remain critically vulnerable to corruption risks. The analysis revealed systemic factors that contribute to abuse at various stages of reconstruction and recovery: from strategic planning and priority setting to project implementation and performance monitoring. These risks mainly stem from fragmented regulatory oversight and institutional weaknesses of contracting authorities in certain procurement areas.

Most notably, the lack of clear and mandatory criteria for project selection and prioritisation grants too much discretion to authorised entities. This complicates external control and public oversight and may lead to politically motivated or corrupt decisions. The issue is especially severe in experimental projects implemented outside standard legislative procedures using simplified regimes without proper justification of their feasibility.

Significant challenges also come from imperfect approaches to estimating the cost of construction. The absence of a unified methodology for price analysis, effective control over cost estimates and transparent mechanisms for holding responsible parties accountable for manipulative overestimations increases the risk of irrational budget use. Similar issues are present in the field of supporting services, where flaws in price determination, the absence of detailed requirements for auxiliary service content and a lack of incentives for quality control foster collusion between contractors and contracting entities.

Additional risks arise from legal uncertainty in simplified procurement, which lacks clear criteria and procedures for justifying the need to use a simplified process. This fosters conditions where contracting entities can bypass competitive procedures. Unjustifiably high qualification barriers, restrictions on access to complete tender documentation and selective disclosure of information decrease competition and promote favouritism. Without effective oversight of contract amendments, there is a tendency to unreasonably modify contractual terms, which then increases the work costs without proper justification.

An important factor that heightens the vulnerability of the entire sector is the moratorium on architectural and building inspection, which prevents the systematic oversight of the quality of work carried out. The absence of such oversight, even through risk-based inspections, raises questions about the legality of many projects and erodes the trust of both the public and international partners.

Therefore, to ensure sufficient transparency, integrity and effectiveness in recovery, it is crucial to adopt a framework law that unifies approaches to project prioritisation, implements effective mechanisms for independent oversight, digitises procedures and establishes clear standards for all participants involved in recovery and reconstruction. This will reduce losses, improve spending efficiency and strengthen the institutional capacity of the state and all other stakeholders involved in reconstruction and recovery.



Recommendations from the National Agency to mitigate corruption risks



FOR THE MINISTRY FOR DEVELOPMENT OF COMMUNITIES AND TERRITORIES OF UKRAINE:

Develop and submit to the Cabinet of Ministers of Ukraine a draft law that will define:

- legal and organisational requirements for the process of reconstruction and recovery of Ukraine following the extensive damage caused by the armed aggression of the Russian Federation;
- clear and transparent criteria for the selection and prioritisation of projects (facilities, activities);
- measures for monitoring and overseeing the process of reconstruction and recovery of Ukraine;
- mandatory digitalisation of procedures related to the implementation of projects (facilities, activities) at all stages of the reconstruction and recovery process;
- unified rules for contracting, including under the “design–build” method, and uniform requirements for payment processing and standardised rules for documentation (including full disclosure of all cost components) and financing of all expenses related to the objects subject to reconstruction.

Develop and approve, in accordance with established procedures, legal acts that should include provisions for:

- implementing a standardised approach to the role of the technical supervision engineer, including a detailed list of responsibilities, a mechanism for calculating payment for each function and a clear list of supporting documents;
- regulating the issues regarding the requirements for reporting by technical supervision engineers and consulting engineers, including the introduction of electronic reporting linked to geospatial data (locations) and mandatory inclusion of photographic evidence to verify the scope and quality of completed work.



FOR THE MINISTRY FOR DEVELOPMENT OF COMMUNITIES AND TERRITORIES OF UKRAINE AND THE STATE AGENCY FOR RESTORATION AND DEVELOPMENT OF INFRASTRUCTURE OF UKRAINE:

Develop and submit to the Cabinet of Ministers of Ukraine a draft law that will define:

- mandatory price monitoring to establish average market prices for material resources for the preparation of cost estimates and approval of contract prices, along with compulsory documentary evidence confirming that such monitoring has been conducted;
- unified electronic system providing real-time data on market prices for construction materials, as well as a single electronic platform for submitting primary work completion certificates during construction.

Develop and submit to the Cabinet of Ministers of Ukraine regulatory acts that will provide for:

- procedures for analysing current prices of material resources in construction projects funded by the state and local budgets;
- procedures for administering a unified electronic system with real-time data on market prices for construction materials;
- regular training sessions for the respective procurement specialists on methods of market price monitoring, primary data analysis and the use of electronic systems for collecting and processing price information to ensure the effective use of these tools.



FOR THE MINISTRY FOR DEVELOPMENT OF COMMUNITIES AND TERRITORIES OF UKRAINE AND THE MINISTRY OF DIGITAL TRANSFORMATION OF UKRAINE:

Consider completing the implementation of building information modelling (BIM) technologies in Ukraine;

If BIM technologies are adopted, initiate training sessions, briefings and the development of methodological guidelines for procurement specialists to ensure a consistent understanding of BIM principles at all stages of reconstruction project implementation.



FOR THE MINISTRY OF ECONOMY OF UKRAINE:

Develop and submit to the Cabinet of Ministers of Ukraine a draft amendment to the Resolution of the Cabinet of Ministers of Ukraine No. 1178 of 12 October 2022 "On Approving the Specifics of Public Procurement of Goods, Works, and Services for Procuring Entities under the Law of Ukraine 'On Public Procurement' for the Period of Martial Law in Ukraine and for 90 Days After Its Termination or Cancellation," which provides:

- clear and transparent grounds for conducting public procurements through contracts without open tenders and/or electronic catalogues;
- mandatory publication of the full set of documents that allow a comprehensive assessment of the construction project and its cost estimates before the start of bidding, including a requirement to make these documents available in machine-readable format;
- implementation of an automated system for analysing and verifying tender documentation to ensure transparency and fair competition.



FOR THE MINISTRY FOR DEVELOPMENT OF COMMUNITIES
AND TERRITORIES OF UKRAINE, THE MINISTRY OF FINANCE
OF UKRAINE AND THE STATE TREASURY SERVICE OF UKRAINE:

Ensure the adoption of legal acts of the government that will introduce:

- an electronic system for tracking payments for completed construction works that ensures proper oversight of payments and work execution, as well as integration with the relevant electronic systems of the State Treasury Service of Ukraine;
- electronic document flow supporting automated processing by software tools to prevent falsifications and enable independent assessment of the cost of completed works.



FOR THE MINISTRY FOR DEVELOPMENT OF COMMUNITIES
AND TERRITORIES OF UKRAINE AND THE STATE INSPECTORATE
FOR ARCHITECTURE AND URBAN PLANNING OF UKRAINE:

Develop and submit to the Cabinet of Ministers of Ukraine a draft amendment to Resolution No. 303 of 13 March 2022 "On the Suspension of State Supervision (Control) and State Market Inspections under Martial Law," specifically regarding:

- renewing the implementation of planned state supervision (control) activities, including state architectural and construction oversight at construction sites;
- authorising unscheduled state inspections in architecture and construction, based on decisions of the authority responsible for enforcing state policy on construction oversight.

