EASTERN CIRCLES

On May 16, in Paris, Eastern Circles in partnership with CCI France-Ukraine and NAKO (Ukraine's Independent Anti-corruption Commission) organized a conference on the Ukrainian government and civil society efforts to fight corruption and increase transparency in business and defense sectors, including within Ukraine's Ministry of Defense.

Our business sector speakers:

● Roman Waschuk, Business Ombudsman in Ukraine, former Ambassador of Canada to Ukraine,

● Iryna Zharonkina, Component Lead, Enforcement & Property Rights Protection, Expertise France, EU project Pravo-Justice,

● Nataliia Sichevliuk, Legal advisor, Transparency International Ukraine.

● Moderator: Gregoire Dattee, Managing Partner at Mazars Ukraine, CCEF.

● Introduction: Bertrand Barrier, President of France-Ukraine Chamber of Commerce.

Our defense sector reform speakers:

- Anastasiia Shuba, a business lawyer, member of Anti-corruption Council within the MoD and of NABU Anti-corruption Council and the Disciplinary Commission;
- Tetyana Nikolaenko, an investigative journalist with 20+ years of experience, now working for Censor.net, and as a member of the MoD Anti-corruption Council;
- Henri Seydoux, CEO of Parrot, French electronics manufacturer, working on FPV drones in Ukraine.
- Moderator: Anastasiya Shapochkina, President of Eastern Circles.
- Conclusion: Olena Tregub, Secretary General of NAKO.

Anti-corruption reform in defense sector
Creation of the Anti-corruption Council within Ukraine's Defense Ministry:

Ukrainian Ministry of Defense has been subject to several corruption investigations since February 2022. As a result of increased public sensitivity to defense corruption (since every Ukrainian citizen has family and friends in the front), the government reacted by creation of the Anti-corruption Council within the Ministry of Defense. The Council's primary mission is to work as a watchdog of MoD procurement to increase transparency and efficiency, improve quality, and prevent the misuse of funds. 15 Council members come from Ukraine's civil society and were elected by the citizens of Ukraine in open electronic vote. Most of them are anti-corruption activists. The Council is now working closely with NABU and NAPC to identify the corruption cases within the MoD, help investigate them, and develop safeguards. Its members work pro-bono, holding weekly meetings, analysing procurement contracts, serving as the place to call for whistle-blowers, and developing recommendations for rules and legislation for the government, which result in anti-corruption legislation.

Procurement reform, after and before the war: The Anti-corruption Council within the MoD is a watchdog over two types of procurement:

- non-lethal supplies (including equipment and food), which are now overseen by the State Operator of the Rear (DOT) and which is the priority of the Council's work;
- lethal supplies, now managed by the Agency of Defense Procurement (ADP, or "AOZ" in Ukrainian). The information access to ADP activities remains restricted due to the state of war. However the Council does coopete with ADP as well.

Prior to 2022, the Ministry of Defense managed all procurement, leading to potential conflicts of interest and corruption risks. In particular, direct contracts have been a source of controversy, with instances of biased selection processes and political connections of tender winners. The DOT and ADP were created as independent

agencies outside of the MoD control, charged with improving accountability and preventing abuse in defense procurement.

As part of post-Maidan reforms in 2014, the state revamped its procurement system and created Prozorro e-platform for government purchases. But Prozorro does not cover all types of state companies purchases, and it does not guarantee transparency in itself, with civil society control remaining essential for lowering corruption risks.

Other defense sector procurement actors since 2022 are civil society organisations, which supply drones and other equipment to the front (such as Prytula Foundation, Come Back Alive and Dignitas), and businesses, including those who do direct contracts with the government.

Fighting lessons from Ukraine's civil society:

1. The role of civil society as a watchdog is growing, with its presence in 67 executive state organisms, including anti-corruption committees in 12 ministries and 20 regional governments.

2. Need to focus on creating mechanisms to prevent corruption at middle and lower levels of government structures, where misuse can be harder to track. Transparency reforms, including within the EU accession negotiations, with civil society as a watchdog, have resulted in important savings, for example in food procurement, but challenges remain with procedure manipulation, where most of the Council's work is now focusing in cooperation with DOT.

3. Law enforcement agencies play a crucial role in monitoring and addressing procurement corruption. The role of NABU has been crucial in detecting and pursuing violations.

4. The new team at DOT (non-lethal procurement agency) has embraced the Anti-corruption Council's recommendations, leading to improved cooperation and alignment with civil society expectations.

5. The Council considers its main achievement advancing the state Anti-Corruption Strategy and Anti-Corruption Programme for 2023-2025 in defense, despite martial law

restrictions, including in information disclosure. 3 factors will define the program implementation:

a. An effective process management system at the level of ministries and agencies;

b. proactive monitoring by the public of system implementation;

c. adjustment of the implementation strategy wartime (information security).

6. More coordination is needed among ministries and agencies to increase efficiency, particularly in drone procurement.

Drones development:

The biggest surprise for Parrot in Ukraine, where it has operated for one year, has been the level of openness and access by the military administration in Kyiv. It takes only a few days to land a high-level meeting in Ukraine, compared to a few months elsewhere. It takes 2 months to organize technical tests, which can take up to a year to set up in a Western country.

Numerous actors are involved in drone production and procurement in Ukraine, from the Army to military companies, electronics companies, to non-military and non-electronic enterprises, to civil society and volunteers, to individual drone construction amateurs. The making of drones involves a high-tech industry, that is characterized by openness and accessibility rather than secrecy. This is why the spirit and the vibe within this up-and-coming industry is closer to that of an IT start-up hub rather than to the classical big military business atmosphere.

The drones production and procurement sector in Ukraine relies on close collaboration between the public and private sector actors, such as Ukrainian and foreign

entrepreneurs, associations, and NGOs. This collaboration is crucial for rapid response and innovation in drone technology, its testing and improvement.

Today, Ukraine is struggling to catch up with Russia in drone warfare, as Russia has unprecedented financial resources it pours into centralised production, perfecting few models it is developing at home and importing few more from abroad (Iranian Shahed drones), which it is also constantly perfect. Ukraine, on the other hand, has a decentralized production process with numerous actors which the state is trying to coordinate, and a wide spectrum of drone technology, 95% of which is imported. As a result, the ratio of Russian vs Ukrainian drones on the battlefield at present is 5:1, and Western drones have underperformed when faced with fast-paced Russian electronic warfare developments of the last 2 years.

Furthermore, the mismatch between the Ukrainian army needs and Western supplies highlights the importance of establishing military production in Ukraine despite war challenges, so that Ukraine has the weapons it needs for a long war.

Ministerial coordination ecosystem of drone production and procurement: 3 ministries are coordinating drones production and procurement in Ukraine:
1. **The Ministry of Digital Transformation** has been put in charge of The Army of Drones from the start of the war, providing support to drone manufacturers by allocating resources, testing facilities, training, and quality assessment. Ukraine developed a high level of technology for micro-drones thanks to a long-standing engineering tradition and well-developed high-tech and IT sectors.
2. **The Ministry of Strategic and Industrial Development (MinStratProm)** oversees the corporate reform of UkrOboronProm (now Ukrainian Defense Industry, or UDI), an

umbrella organisation uniting over 130 Ukrainian arms manufacturers. Drones is a newly created 6th key area of UDI production operations, within the reform. MinStratProm is in charge of bringing the Ukrainian military industry structure in line with Western corporate standards to facilitate international partnerships to meet the needs of the Army.

3. **Ministry of Defense:** signs all arms procurement contracts and non-lethal procurement (food, clothing, personal protection items), which are now managed by DOT and ADP. As a new wing of Ukraine's army, the Army of Drones also falls within the responsibilities of the MoD.

Anti-corruption in non-military business sector
International comparative standing: As a result of this work over the last 10 years, Ukraine has moved 152 to 64 place in the World Bank Doing Business Index between 2011 and 2020. Ukraine's current rank of 108 on Transparency International Corruption Perception Index shows 36 points improvement between 2022 and 2023 and places it on par with EU candidate countries such as Serbia and ahead of Turkey and Bosnia-Herzegovina.

Advanced anti-corruption mechanisms: Since 2014, with the support of international partners, Ukraine has been developing a new system of anti-corruption institutions, with a prominent role of civil society as a watchdog, and pushing for important administrative reforms. However, disparities in compensation between anti-corruption officers and other civil servants, such as customs officials, need to be addressed to ensure systemic balance and effectiveness. This rebalancing requires also an effective system of punishment for abuse.

Facilitating constructive dialogue: Efforts to combat corruption should promote constructive dialogue between civil servants and businesses to address procedural

errors. This approach aims to prevent the automatic suspicion or penalization of interactions between officials and companies, fostering a more transparent and cooperative environment.

Impact of digitalization: The ease of conducting business in Ukraine has notably improved since 2014, largely due to digitalization initiatives like the Prozorro platform for obtaining building permits, which enhances transparency and efficiency. But e-platforms alone do not ensure transparency. Civil society watchdog role is essential for further reforms, identification and prevention of abuse.

Reform of state asset and public enterprise management: Ukraine is undergoing comprehensive reforms in managing state assets and public enterprises, shedding soviet legacy structures and replacing them with Western corporate structures. The new corporate governance law and the transition to digitalisation and updated operational procedures across the public sector mark significant steps towards increased accountability and transparency. A successful reform example is banking sector reform, with proven anti-corruption results.

Business environment evolution: Despite the simplistic discourse developed by Russia "Ukraine is a corrupt country. Period," based on the research since before the full-scale invasion by France Export, only 20% of creditors have confronted corruption and 40% have heard about it. Ukrainian business is aligning commercial standards with international norms, prompted by European accession negotiations. Contract compliance and compensation of partners for contract violation are key improvements needed, where international compliance standards is critical to Ukraine's business image. When a contract is violated, in their relationship with Ukrainian partners, foreign businesses come to the Business Ombudsman for mediation. The BO receives about 200 complaints a month, 60% of which are considered acceptable, and 2/3 of

which are resolved, resulting in 650 million euros of compensation to foreign companies since 2015. All three Business Ombudsmen of Ukraine have been foreign nationals, an unprecedented practice for a country.

Nevertheless, it remains a challenge for business to enforce compensation mechanisms, albeit bankruptcy procedure in place since 2019 has increased the level of credit reimbursement to creditors. New laws on preventive restructuring based on the EC guidelines and a law which allows for the liquidation of state companies are very important for future progress. It is the state who is the biggest debtor. Thus, while new laws on corporate governance and other reforms are useful, state organs, such as tax, pension service remain the biggest debtors in Ukraine due to war.

The work of NABU, SAPO, SBU and police, especially since 2022, and the public awareness of corruption, have increased preventive effect on corrupt practices, with a positive influence on business environment in Ukraine. Imprisonment of the head of the Supreme Court, the head of Ukraine's fiscal service, and of oligarch Igor Kolomoisky are good examples that previously untouchable members of Ukrainian society can find themselves behind bars, and that the rules of the game are changing.

Proposed measures to reduce corruption: (1) Continued international cooperation and leveraging expertise from countries like France is necessary to bolster anti-corruption efforts and share best practices; (2) **Improving administrative salaries, while establishing an effective system of punishment for violations,** is a key measure to mitigate corruption risks and ensure a motivated and honest workforce.