

Conference Report

Securing the Integrity and Resilience of Ukraine's Financial System

Daryna Dvornichenko

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Royal United Services Institute
for Defence and Security Studies
Whitehall
London SW1A 2ET
United Kingdom
+44 (0)20 7747 2600
www.rusi.org
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Securing the Integrity and Resilience of Ukraine's Financial System

The Centre for Financial Crime and Security Studies (CFCS) at RUSI, RUSI Europe, the Better Regulation Delivery Office (BRDO), the Centre for Democracy and Rule of Law, the Centre for Economic Strategy, the Institute of Legislative Ideas, the Open Data Association, StateWatch, the Independent Association of Banks of Ukraine, the Kyiv School of Economics, RISE Ukraine, Bihus.Info, the Kyiv Independent and the National Endowment for Democracy (NED) convened a conference on Securing the Integrity and Resilience of Ukraine's Financial System. The event took place in London on the eve of the Ukraine Recovery Conference in June 2023 co-hosted by the UK and Ukrainian governments. The event is part of the Supervising and Monitoring Ukraine's Reconstruction Funds (SMURF) Project, a CFCS-led initiative in partnership with BRDO in Ukraine. SMURF aims to empower Ukraine's 'second line of defence', civil society, to gather the expertise and tools that will enable it to monitor the proper allocation of funds and discourage kleptocracy and corruption. The project was launched in November 2022 and is supported by the NED.

The conference gathered over 170 leading voices, in person and online. It included participants from the finance sector as well as representatives from civil society and high-profile Ukrainian, UK and EU policymakers. There were two main panel events, seven one-on-one discussions and two presentations. This report summarises the main findings of the discussions related to the integrity and resilience of Ukraine's financial system.

Conference Overview

The event aimed to address an issue that was absent from the wider Ukraine Recovery Conference agenda discussions related to reconstruction, namely the importance of integrity and resilience in Ukraine's financial system to combat

potential corruption-related money laundering connected with the flow of reconstruction funding. Addressing the specific weaknesses identified across public and private sectors at the national level, the event created an opportunity to demonstrate the progress, impact and effectiveness of the ongoing efforts in Ukraine by civil society, the banking system and government to ensure the integrity and resilience of the financial system in Ukraine.

The first panel session, entitled 'Promoting Financial Integrity and Resilience in Ukraine Reconstruction', focused on the policy responses and the role of international donors and the Ukrainian public and private sectors. The debate addressed the issue of how the international community and Ukrainian policymakers see each other's roles in implementing fundamental reforms for Ukraine's recovery and further integration into the EU. There was a consensus among speakers on the important role of the global anti-financial crime watchdog, the Financial Action Task Force (FATF), and the FATF-style regional body to which Ukraine belongs, MONEYVAL, in supporting the integrity and resilience of the financial system in Ukraine in the face of financial abuse. It was noted that MONEYVAL's report from 2017 needs to be urgently updated. However, most participants agreed that much work remains to be done inside Ukraine to ensure the financial system has the necessary integrity and resilience to effectively implement Ukraine's recovery project. Among the challenges identified, both public and private sector representatives pointed to the restriction of access to state electronic registers and non-transparent spending of public and donor funds in Ukraine. As one of the solutions, digitalisation was named as an element that will play a critical role in promoting transparency and protecting public procurement.

The second panel of the conference, entitled 'Perspectives from Civil Society', included several insightful discussions on the role of the banking sector and civil society to make the recovery process transparent. The panellists agreed that the integrity of the financial system depends on the synergy of public, private and civil society sectors, and reforms must embrace all three of these groups. There was broad consensus on the need to actively involve civil society in financial risk assessments at the same level as other sectors and ensure a productive dialogue among these three groups.

The one-on-one conversations with members of the UK and Ukrainian Parliaments, representatives of the National Bank of Ukraine, National Agency on Corruption Prevention (NACP) and civil society organisations offered an opportunity to deep dive into specific topics related to: the particular challenges Russia poses to the integrity of the global financial system; open data and access to open electronic registers; international perspectives on Ukraine's financial integrity and resilience; the FATF's capacity to respond to the threats posed by its members

to the integrity of the global financial system; the current state of Ukraine's banking system; and engagement of civil society in the recovery process.

Notably, the conference also provided the occasion to demonstrate the latest developments in ensuring integrity in the management of reconstruction funds which have become possible thanks to the launch of the Digital Restoration Ecosystem for Accountable Management (DREAM) that was showcased to the audience. By using a single data exchange standard, the ecosystem aims to implement open interaction between all components. DREAM could become not only a control tool, mitigating corruption risks but will also help to improve the quality of projects by ensuring they consider inclusivity, energy efficiency and other important factors that embrace sustainability and transparency.

Challenges Identified

As for the challenges to the global financial system, there was strong consensus that Russia poses a key challenge to the integrity of the international financial system given the extent to which – as reiterated that very week by the FATF¹ – it is engaging in terrorist financing and the financing of proliferation activities. Therefore, the discussion focused on available instruments to address these activities. Blacklisting Russia by the FATF was regarded as one such instrument. According to one of the participants, a consolidated position of the international community is necessary to confront Russia's threat to the integrity of the global financial system and force it to abandon gross violations of international norms and FATF standards. The FATF has the mandate to impose penalties on Russia, namely by adding the country to its blacklist, which in itself can be seen as an incentive, rather than as a 'punishment', for the affected country to take the necessary measures to eliminate its shortcomings and formally alert the global community to the threats Russia poses.²

As for the challenges to Ukraine's financial system, participants from both public and private sectors also voiced concerns over access to open data. First, under the Resolution of the Cabinet of Ministers of Ukraine dated 6 March 2022 No. 209, access to most registers crucial for economic activity, such as the business register, has been closed. This complicates the work of authorities, businesses and public organisations; endangers transparent and accountable reconstruction; and reduces the trust of international partners. Second, unified state registers are still not fully systemised, there is a lack of validation and interoperability

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1. The Financial Action Task Force, 'Outcomes FATF Plenary, 21-23 June 2023', <<https://www.fatf-gafi.org/en/publications/Fatfgeneral/outcomes-fatf-plenary-june-2023.html>>, accessed 4 July 2023.
 2. For more on this discussion see Tom Keatinge and Gonzalo Saiz, 'Maximising Awareness of Russia's Threat to Global Financial System Integrity', RUSI Conference Report, June 2023.

of datasets, and there is no control over data quality to prevent the entry of unreliable information. Consolidated efforts of the government, parliament, the National Bank of Ukraine, the judicial system, civil society and business are needed to tackle this issue.

Most participants also acknowledged that the further exemption from the obligation to submit e-declarations on the income and property of persons authorised to perform the functions of the state or local self-government, introduced in March 2022, poses a serious challenge for further monitoring of the recovery process. The weakening of responsibility for non-submission or inauthenticity of e-declarations during the recovery process may become a serious obstacle in monitoring the allocation of funds aimed at Ukraine's reconstruction. Both representatives of Ukrainian civil society and foreign experts expressed solidarity with the idea of restoring e-declarations submitted by public officials in Ukraine as well as reinforcing the powers of the NACP to control and verify these declarations.

An important issue in ensuring the integrity of Ukraine's financial system is the institutional capacity of the National Anti-Corruption Bureau of Ukraine, the Specialised Anti-Corruption Prosecutor's Office and other institutions to expose money laundering schemes and corrupt activities, in particular to ensure effective fulfilment and compliance with the 2022 anti-corruption requirements related to Ukraine's EU candidacy status. Some participants also raised concerns about the effectiveness of the Bureau of Economic Security (BES) of Ukraine, established in 2021, and entrusted with the task of identifying and countering internal and external threats to economic security in Ukraine. The non-transparent appointment of the BES head, a former tax police officer prone to political influence, resulted in the selection of BES employees with multiple violations of procedure, understaffing and undertraining, and lack of will and skills to systematically address the largest economic crime schemes to make an impact.

A separate topic was the question of who should pay for Ukraine's recovery. According to a representative of Ukraine's public sector, the crimes committed by Russia in Ukraine should be paid for not by European or American taxpayers, but by Russia itself and its oligarchs. So far, only three countries – the US, Canada and Ukraine – have implemented a legal regime for seizure, forfeiture and transfer for the needs of Ukraine of assets held by a foreign state, individuals and entities that are sanctioned by these states in response to the Russian war against Ukraine. The Ukrainian speakers expressed concerns that the reluctance of other countries, including the UK, to follow the same example and introduce relevant legislation to make Russia pay for the damages in Ukraine, might impede not only Ukraine's recovery but also the whole idea of the rule of law. The introduction of the relevant legal framework to enable the seizure of assets

subject to sanctions would send a powerful signal to the aggressor and the international community about the inevitability of paying Ukraine compensation for the damage caused by the Russian invasion, as well as to other states that might contemplate such unprovoked aggression in the future.

There was less agreement among participants on whether it is feasible or appropriate to restore a lifetime status for politically exposed persons (PEPs) in Ukraine. According to the latest legislative amendments, adopted at the end of 2022, financial monitoring of PEPs is limited to a three-year period. While some speakers stressed that a robust PEP screening process is critical and necessary to be in place with no time limitation, others pointed out the practice common in many countries of the world, where the status of PEPs is not lifelong and the maximum period during which financial institutions are required to conduct controls is 7 or 10 years.

The decision adopted by Ukraine's Parliament, first in response to the Covid-19 pandemic and then to Russia's full-scale invasion of Ukraine, to pause the requirement for parties to submit their financial reports to the NACP poses another challenge to the financial system of Ukraine as it undermines its transparency and proper oversight of the financial activities of elites. Restoration of political party finance reporting and oversight by the NACP was named by representatives of civil society as vitally important for ensuring financial and political integrity.

These challenges give rise to major concerns for representatives from both public and private sectors, namely how to ensure transparency and accountability in the distribution and use of funds directed to Ukraine's reconstruction. With these concerns in mind, participants coalesced around the following recommendations.

Recommendations

In their commitment to overcome the identified challenges, participants put forth a series of recommendations that could become guiding points for all stakeholders involved.

- **Ensure full and open access to data:** this is a critical element in guaranteeing transparency and accountability in the distribution and use of funds directed to Ukraine's reconstruction. This will include not only opening access to as much public data as possible but also the systematisation of unified electronic registers, restoring the commitment to submit electronic declarations by public officials in Ukraine, and ensuring sharing of information among state authorities and other stakeholders.

- **Build illicit finance expertise and capacity:** there is a strong need for building the capacity of not only public institutions responsible for addressing illicit finance but also non-governmental organisations, media and independent experts. This community should be trained to conduct in-depth investigations, engage effectively with policymakers to propose legislative and policy enhancements, analyse thoroughly the economic feasibility of decisions made at the local and national level by public authorities, and oversee compliance both with the needs of communities at the local level and international standards and accepted best practice at the macro level. A more systematic and comprehensive approach in the work of investigative journalists and civil society addressing not only corruption but also other financial crimes, such as fraud, money laundering, terrorist financing, market abuse and tax evasion, is needed.
- **Raise international awareness of Ukraine's progress:** it is crucial to make sure that international financial institutions (IFIs), the foreign private sector and donor governments have an up-to-date understanding of all the progress and achievements made by Ukraine to ensure the integrity and resilience of its financial system. The decision whether to invest or not in Ukraine should not be made based on outdated assessments such as the 2017 MONEYVAL Mutual Evaluation Report on Ukraine. Such outdated information should be urgently refreshed.
- **Ensure legislative predictability and stability:** there is great demand for predictability among foreign investors as constant changes in regulation and legislation do not encourage a business-friendly environment. Rather than only prioritising the introduction of changes, IFIs and Ukrainian authorities should focus more on fostering regulatory certainty and predictability, to enable the development and growth of private business in general and of international investment operations in particular. It is not only important to focus on the areas that need change but to also identify those that can offer more stability and, as a result, more reliable incremental gains on investments.

In sum, participants argued that to achieve greater transparency and accountability in the distribution and use of funds directed to Ukraine's reconstruction, the Ukrainian government, domestic private sector, civil society as well as foreign investors and donors should work harder together, to strengthen the integrity of financial system oversight, supervision and enforcement. In turn, this should secure the financial commitments Ukraine needs for its recovery and reconstruction, and to ensure the long-term sustainability of Ukraine's vibrant democracy.

Daryna Dvornichenko is a visiting research fellow at the University of Oxford and the SMURF project manager at the Centre for Financial Crime and Security Studies at RUSI.