

TYPOLOGICAL STUDY

LAUNDERING OF PROCEEDS OF MISAPPROPRIATION OF FUNDS AND PROPERTY OF STATE-OWNED ENTERPRISES AND OTHER ENTITIES FUNDED FROM STATE AND LOCAL BUDGETS

2019



State Financial
Monitoring Service of
Ukraine

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Typological study
“Laundering of proceeds of misappropriation of funds
and property of state-owned enterprises and other entities
funded from state and local budgets”

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Opinions stated in this report may not coincide with the official position of the OSCE Project Co-ordinator in Ukraine

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LIST OF ABBREVIATIONS

SFMS	State Financial Monitoring Service of Ukraine
AMCU	Antimonopoly Committee of Ukraine
SAS	State Audit Service of Ukraine
USR	Unified State Register of Legal Entities, Individual Entrepreneurs and Public Formations
AML/CFT Law	Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds of Crime, Financing Terrorism and Financing the Proliferation of Weapons of Mass Destruction"
Law on Registration of Persons	Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Formations"
UBO	Ultimate beneficial owner
CC of Ukraine	Criminal Code of Ukraine
LEA	Law Enforcement Agencies
BE	Business entity
IE	Individual entrepreneur

INTRODUCTION

Today's societies are challenged by various risks that significantly affect the performance of both private enterprises and public authorities, as well as local governments. An effective system of public administration is one of the main factors of state competitiveness and a prerequisite for European integration of Ukraine.

Public Sector is a vital area of economic relations directly connected with the process of formation, distribution, and control of budget spending. The legitimacy of these relations depends on the effectiveness of the implementation of state social programs aimed at meeting the basic needs of the population and ensuring proper living conditions.

At the same time, the budgetary system of Ukraine remains attractive enough for illegal encroachments. Crimes in this area play a significant role in the structure of economic crime. Detection of crime related to misappropriation of funds and assets of state enterprises and other entities financed by the state and local budgets, is complex and requires rapid response and coordinated effort of all government and law enforcement agencies participating in the anti-money laundering system.

Exploring different ways of committing crimes in the public sector, unravelling corrupt relationships, highlighting modern ways of preparing for and concealing these crimes will help develop an effective mechanism for combating crime in the area of misuse of public funds.

The aim of this study is to analyze and summarize risks in the public sector, define common schemes and mechanisms of money laundering in relation to theft and misuse of public funds.

The typological study uses cases of SFMS and other participants of the national financial monitoring system.

SECTION I.
REVIEW OF PUBLIC
PROCUREMENT
LEGISLATION

1.1. Basic Public Procurement Law

Relations that arise in the sphere of procurement of goods, works and services to meet the needs of the state and the territorial community are regulated by the Law of Ukraine “On Public Procurement”.

The law regulates the state regulation and control over procurement, general procurement requirements, issues of public bidding, the issues of competitive dialogue and negotiation procedure, basic requirements to the procurement contract and responsibility in the field of public procurement.

1.2. State public procurement regulation and oversight authorities

The Ministry of Economic Development, Trade and Agriculture of Ukraine

(hereinafter referred to as the Ministry of Economy) is the central executive authority directed and coordinated by the Cabinet of Ministers of Ukraine.

The Ministry of Economy is the primary central executive authority, tasked with ensuring formation and implementation of the state policy in the field of government and public procurement.

The main functions of the Ministry of Economy are: development and approval of the legal acts necessary for the implementation of the Law of Ukraine “On Public Procurement”, analysis of the functioning of the public procurement system, summarizing procurement practices, including international ones, study, synthesis and dissemination of international experience, liaising with the public on improving the public procurement system, organizing procurement meetings and seminars, and international co-operation in the procurement field.

The State Treasury Service of Ukraine (hereinafter - STSU) is empowered to control compliance of budget managers and recipients, as well as other clients with the requirements of the procurement legislation the field of procurement in terms of availability, compliance and correctness of the paperwork. In this context, it is the annual procurement plan, the report on the results of the procurement procedure and the procurement contract.

Article 7 of the Law of Ukraine “On public procurement” provides that the prior to registration of the contract and its subsequent payment the STSU is required to verify documents for availability and compliance with the law by way of reviewing these documents in an e-procurement system.

The State Audit Service of Ukraine (SAS)¹

On January 27, 2018, the Law No. 2265-VIII dated December 21, 2017 “On Amendments to the Law of Ukraine “On Public Procurement” and other laws of Ukraine regarding procurement monitoring” came into force.

Now, procurement is monitored by the **SAS** and its territorial branches by monitoring public procurement throughout all its stages: from announcement to conclusion of the contract, as well as its execution. The procurement is monitored during the procurement procedure, the conclusion of the procurement contract and its execution. It should be noted that the procurement is not monitored for compliance of the tender documentation with the requirements of part four, Article 22 of the Law of Ukraine “On Public Procurement”.

The decision to initiate procurement monitoring is taken by the head of the public financial control authority or his / her deputy on one or more of the following grounds:

- 1) data from automatic risk indicators;
- 2) intelligence received from state authorities, local governments, on possible signs of breach of the public procurement legislation;
- 3) media reports containing information on possible signs of breach of the public procurement legislation;
- 4) uncovering evidence of breach of public procurement law by the financial intelligence unit in the data published in the electronic procurement system;
- 5) intelligence received from the public formations about possible signs of breach of the public procurement legislation, as detected as a result of public control in the field of public procurement pursuant to Article 9 of the Law of Ukraine “On Public Procurement”.

The following can be used to analyze data pointing to possible breach of public procurement law:

- information published in the electronic procurement system;
- information contained in unified state registers;
- information in databases accessible by the central executive authority tasked with implementation of the state policy in the field of public financial control;
- data of public authorities, local governments, enterprises, institutions, organizations, customers and participants of procurement procedures, obtainable by state financial control authorities in the manner established by law.

¹ In December 2019, the Government launched a reform of the State Audit Service of Ukraine by transforming it into the Financial Control Office.

The Antimonopoly Committee of Ukraine

The Antimonopoly Committee of Ukraine is a body of appeal. The procedure for appealing procurement procedures is defined in Article 18 of the Law of Ukraine “On Public Procurement”.

Complaints are considered by the Permanent Administrative Board on Complaints of Violations of the Public Procurement Legislation of the Antimonopoly Committee of Ukraine, which consists of three state commissioners. Any complaints in the context of public procurement shall be submitted solely in the form of an electronic document through electronic platforms in the ProZorro system.

The Accounting Chamber of Ukraine

In accordance with the powers provided for in Article 7 of the Law of Ukraine “On the Accounting Chamber of Ukraine”, the Accounting Chamber shall carry out financial and efficiency audits with respect to state budget revenues in the form of taxes, fees, compulsory payments and other revenues, spending of the state budget, and procurement using state budget funds and as part of state earmarked programs, investment projects, public contracts, provision of state aid to business entities using state budget funds, etc.

Article 13 of the Law of Ukraine “On the Accounting Chamber of Ukraine” provides detailed insight into state external financial control (audit) in relation to public contracts and public procurement.

In carrying out the state external financial control (audit) of the efficiency of use of the state budget funds earmarked for government contracts, the Accounting Chamber of Ukraine examines and evaluates the system of legal, organizational and financial rationale of the public contract, efficiency of its formation and delivery.

The state external financial control (audit) of procurement involving use of public funds is conducted by the Accounting Chamber of Ukraine for all stages of the procurement process and includes verification and analysis of the legality and efficiency of procurement, compliance with required procedures, timeliness of receipt of goods, services and works, as well as analysis of the state of transparency and adherence to established procurement principles..

SECTION II.

GENERAL TRENDS

2.1. Public procurement in numbers

According to the Ministry of Economy, Trade and Agriculture of Ukraine from February 2016² and as of the end of 2018, a total of 35,000 procurement organizers and over 210,000 procurement participants have been registered in the electronic procurement system³.

2.7 million procurement deals announced with an estimated value of almost **UAH 2.1 trillion**, of which:

- **458,000** above-threshold procurements with an estimated value of **UAH 1.6 trillion**;
- **784,000** sub-threshold procurements with an estimated value of **UAH 235 billion**;
- **1,488 million** reports on concluded contracts worth **UAH 210 billion** were published.

2018

According to the e-procurement system, **1,252 million** procurement announcements were made in 2018, including:

- 230.6 thousand (18%) above-threshold procurement announcements;
- 237.5 thousand (19%) sub-threshold procurements;
- 783.7 thousand (63%) contract conclusion reports published.

Thus by number, sub-threshold procurements accounted for 82% of all procurements announced in the electronic procurement system in 2018.

Overall, the number of procurement announcements has increased by 22% compared to 2017. At the same time, the share of open bidding announcements increased by 38%, number of concluded contract reports increased by 36%, while the number of sub-threshold procurement announcements decreased by 14%.

Customers and procurement participants

The number of customers who were active and completed their procurements in 2018 was over **28 thousand**.

The largest number of customers is concentrated in the Kyiv region and the city of Kyiv, Dnipropetrovsk, Donetsk, L'viv, Odessa and Kharkiv regions, while the smallest – in Chernivtsi, Luhansk, Volyn and Ternopil regions.

Overall in 2018 there were about 148 thousand active participants (this number grew by 16% in comparison with 2017).

² Resolution of the Cabinet of Ministers of Ukraine dated February 24, 2016 No. 166 Access at: <https://bit.ly/379vXNp>

³ Ministry of Economic Development, Trade and Agriculture of Ukraine, Public Procurement Report for 2018 Access at: <https://bit.ly/2KMWgAo>

Analysis of participants' activity by procurement method in the announced procurements in 2018 shows that the largest proportion of them participated in open bidding procedures (37,613 participants) and in sub-threshold procurements (31,817 participants), excluding participants with direct contracts (122,646).

Table. Procurement Participants by Procurement Method

Procurement procedure	Procurement procedure	Increase in participants in 2018 in comparison with 2 017
Reporting a contract	122 646	21%
Open bidding	37 613	14%
Sub-threshold procurement	31 817	-8%
Negotiation procedure	11 869	23%
Open bidding with publication in English	5 649	-1%
Negotiation procedure (for defense purposes)	1 141	11%

In 2018 the largest number of participants was concentrated in the Kyiv region and the city of Kyiv – 27,200 active purchasers, regions of Dnipropetrovsk – 10,196, Kharkiv – 9,219, L'viv – 7,385.

Participation of foreign companies in Ukrainian procurement procedures

The share of contracts with foreign participants in 2018 amounted to 0.1% (850 contracts) of the total and 9% (UAH 59.1 billion) of the total amount of contracts concluded in 2018.

In total, more than 40 countries have participated in public procurement in Ukraine, with the largest number of contracts going to Czech Republic - 124, Federal Republic of Germany - 85, People's Republic of China - 70, United Kingdom - 65, Russian Federation - 61 and the United States - 60.

In addition, the top three countries by contract value in 2018 were the People's Republic of China with over UAH 26.5 billion, the French Republic – UAH 18.4 billion and the United States of America – UAH 2.2 billion.

2.2. Spending units and budget holders

The State Treasury Service of Ukraine forms and manages a Unified Register of Spending Units and Budget Holders and a Database of Spending Units and Budget Holders.

As of December 03, 2019, the State Treasury Service of Ukraine has included in the Unified Register of Spending Units and Budget Holders some **72,530** institutions (organizations) funded from the state and local budgets⁴.

Table. Number of institutions and organizations included in the Unified Register of Spending Units and Budget Holders as of December 03, 2019

MDST-SU Code	MDSTSU Name	Number of institutions (organizations)						Total
		State budget	including		Local budgets	including		
			Spend-ing units	Budget holders		Spend-ing units	Budget holders	
01	MDSTSU in the Autonomous Republic of Crimea	655	553	102	1 861	1382	479	2 516
02	MDSTSU in Vinnytsia region	432	409	23	2 945	2017	928	3 377
03	MDSTSU in the Volyn region	302	276	26	1 774	1011	763	2 076
04	MDSTSU in Dnipropetrovsk region	643	590	53	4 105	1716	2389	4 748
05	MDSTSU in Donetsk region	812	715	97	4 582	2219	2363	5 394
06	MDSTSU in Zhytomyr region	588	535	53	2 522	1564	958	3 110
07	MDSTSU in the Transcarpathian region	291	270	21	1 491	1058	433	1 782
08	MDSTSU in the Zaporizhzhya region	421	395	26	2 650	1387	1263	3 071
09	MDSTSU in Ivano-Frankivsk region	386	358	28	2 359	1381	978	2 745
10	MDSTSU in the Kiev region	528	477	51	2 748	1942	806	3 276
11	MDSTSU in the Kirovograd region	325	300	25	1 699	1242	457	2 024
12	MDSTSU in the Luhansk region	501	463	38	2 320	1670	650	2 821
13	MDSTSU in the L'viv region	587	535	52	3 635	2220	1415	4 222
14	MDSTSU in the Nikolaev area	411	385	26	1 463	1044	419	1 874
15	MDSTSU in the Odessa region	669	628	41	2 481	1565	916	3 150
16	MDSTSU in Poltava region	456	429	27	2 514	1613	901	2 970

⁴ According to the Unified Register of Spending Units and Budget Holders

MDST-SU Code	MDSTSU Name	Number of institutions (organizations)						
		State budget	including		Local budgets	including		Total
			Spend-ing units	Budget holders		Spend-ing units	Budget holders	
17	MDSTSU in the Rivne region	337	315	22	2 150	1210	940	2 487
18	MDSTSU in Sumy region	368	350	18	1 813	1256	557	2 181
19	MDSTSU in Ternopil region	414	390	24	1 882	1287	595	2 296
20	MDSTSU in Kharkiv region	672	629	43	2 259	1353	906	2 931
21	MDSTSU in the Kherson region	462	439	23	1 798	1171	627	2 260
22	MDSTSU in the Khmelnytsky region	359	336	23	1 974	1458	516	2 333
23	MDSTSU in Cherkasy region	398	374	24	2 175	1375	800	2 573
24	MDSTSU in Chernivtsi region	260	244	16	995	699	296	1 255
25	MDSTSU in Chernihiv region	353	322	31	1 658	1251	407	2 011
26	MDSTSU in Kyiv	1 037	718	319	1 393	533	860	2 430
27	MDSTSU in the city of Sevastopol	170	140	30	351	197	154	521
28	STSU	96	92	4	0	0	0	96
Total institutions (organizations)		12 933	11 667	1 266	59 597	36 821	22 776	72 530

For up-to-date information on the number of institutions and organizations included in the Unified Register of Spending Units and Budget Holders

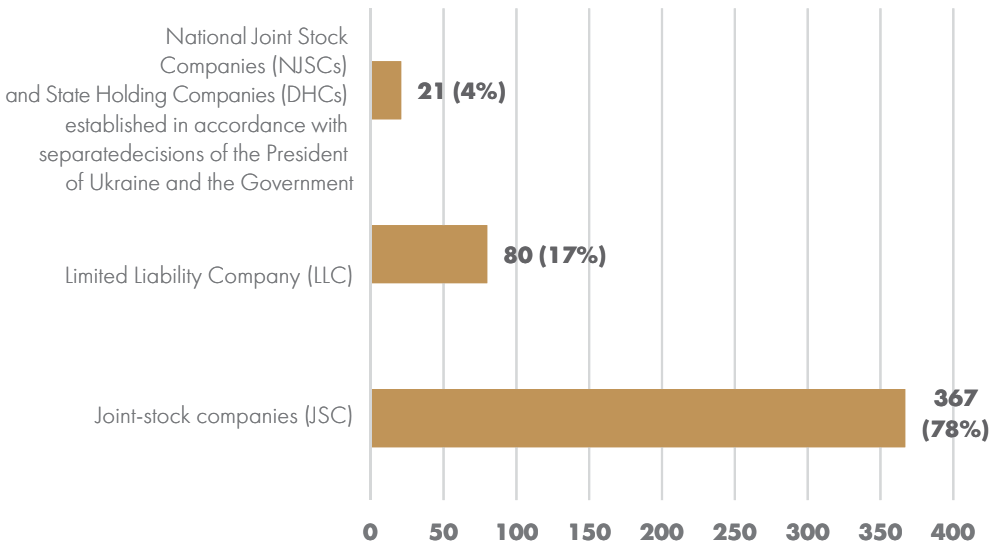
<https://bit.ly/2Mhcxy>

2.3. Management of corporate rights of the state

The State Property Fund of Ukraine (hereinafter - the Fund) in accordance with the Law of Ukraine "On Management of State Property", the Law of Ukraine "On the State Property Fund of Ukraine" and the resolution of the Cabinet of Ministers of Ukraine of October 29, 2003 No. 1679 "On the Formation and Maintenance of the Register of Corporate Rights of the State" ensures accounting of corporate rights of the state, and forms and maintains the Register of Corporate Rights of the State⁵.

As of January 1, 2019, the Register of Corporate Rights of the State has records on **468** companies with a state-owned share in the authorized capital.

The state, represented by the Government of Ukraine, the Fund, ministries and other central and local executive authorities, exercises management of the corporate rights of the state in the following entities:



The Fund manages **281** entities with corporate rights of the state (60.04% of the total number), of which 117 entities have the state share of 50% to 100%.

Ministries and other central and local executive authorities manage corporate rights in **187** companies (39.95% of the total), of which 139 entities have the state share of over 50%.

⁵ State Property Fund of Ukraine Performance Report for 2018. Access at: <https://bit.ly/2PSFlhp>

Of the total number of companies with a state share in the authorized capital:

- **256** companies (54.70% of the total) have a state share in the authorized capital of more than 50%, which gives the state the right to control their activities (controlling stake), of which 145 companies (30.98% of the total) have the state share of 100%;
- **104** enterprises (22.22%) have a state share in the authorized capital ranging from 25% to 50% (blocking stake);
- **108** companies (23.07%) have a state share in the authorized capital of less than 25%.

2.4. State owned entities of strategic importance

The list of state-owned entities of strategic importance for the economy and security of the state, approved by Resolution of the Cabinet of Ministers of Ukraine dated March 04, 2015 No. 83 “On approval of the list of state-owned properties of strategic importance for the economy and security of the state”.

The list contains the scope of the entity’s activity, the region of the entity, name of the entity and the code according to USREOU.

The Ministry of Economy has published on its website a list of officially approved documents by the Government, which collectively highlight the strategic vision regarding management of state-owned enterprises under central authorities. The so-called “triage” determines which SOEs should remain in public ownership, be conceded, privatized, or liquidated in the long term.

The site has a complete list of **3,241** SOEs, divided into relevant groups⁶.

A complete list of state-owned properties by groups according to the activity monitoring data;
 List of potentially leasable properties (vacant non-residential buildings and unused premises, as well as integral property complexes of state enterprises);
 List of state-owned entities, whose material and technical base is located in the area of anti-terrorist operation, which prevents them from exercising their principal activities;
 List of state-owned entities that are recommended for termination by reorganization or liquidation;
 Basic principles of implementation of property policy in relation to economic entities of the public sector of the economy;
 List of state-owned entities to be privatized in 2018 – 2020, including those that can be privatized after amendments to legislation;
 List of state-owned properties, to be conceded, including those that may be conceded after amendments to legislative acts that prevent these properties from being subject to concession;
 List of state-owned entities, whose material and technical base is located in the temporarily occupied territory, which prevents them from exercising their principal activities;
 List of state-owned entities to be kept in state ownership and of state enterprises.

This approach is the basis for continuing state property management reform and one of the commitments undertaken by Ukraine within the framework of agreements with the International Monetary Fund.

⁶ Access at: <https://bit.ly/2PpwzID>

SECTION III.
ANALYTICAL TOOLS
FOR MONITORING
AND CONTROL

3.1. System of risk indicators for procurement inefficiency or restricting competition

The **dozorro.org** portal has introduced innovative tools to strengthen procurement monitoring – artificial intelligence algorithms and automated risk indicators.

A system of indicators (**risk.dozorro.org**) allows you to quickly assess the risk of inefficient procurement and whether competition is restricted.

Risk indicators cover all procurement procedures with the Completed status, announced starting January 1, 2016, with an estimated cost of UAH 1 million.

All indicators are broken down by type of risk:

- problems in bidding conditions;
- suspicious bidders;
- suspicious bidding;
- suspicious contract delivery;
- negative feedback or poor communication.

The list of possible risks is given in the table. It should be noted that the above list is not exhaustive and is constantly updated.

No.	Name of the risk
1	No documents are available
2	Negative feedback on the terms
3	Multiple document downloads
4	Unanswered questions
5	Negative feedback
6	Risk factors in questions
7	Negative review feedback
8	Negative feedback on the implementation of the AMCU decision
9	Cancellation on condition of complaint
10	A similar tender was canceled
11	Short time before delivery date
12	Non-detailed classifier code
13	Procurement is close to thresholds
14	The warranty exceeds statutory limits
15	Extraordinary participant did not reduce the price
16	Extraordinary participant without competition

No.	Name of the risk
17	Participant with atypically low results
18	Offers are submitted within an hour
19	Participants' contact information is cross-related
20	Youcontrol: links between parties
21	Youcontrol: links between parties and the customer
22	Negative decision feedback
23	Clarification requests
24	An extraordinary winner
25	Systemic participant disqualified
26	Mass disqualification
27	The winner was not reducing the price
28	Delayed publication of the contract
29	The contract was published in advance
30	Reduced purchase volume
31	Price reduction agreed
32	Improving quality of the procurement item
33	Price change per item
34	Changes in third-party metrics
35	Extension of the contract
36	Price change due to changes in tax rates and fees
37	Extension of the contract for the next year
38	Monitoring of the State Audit Service

3.2. Public procurement monitoring by the State Audit Service of Ukraine



The State Audit Service of Ukraine has started monitoring ProZorro procurement for risk with indicators implemented based on the recommendations by Transparency International Ukraine. To enable procurement monitoring as a way to ensure implementation of state financial control in the area of public procurement, the SAS passed the order No. 196 dated September 11, 2018 "On approval of methodology for determining automatic risk indicators, their list and application procedure". The order establishes a mechanism for determining

automatic risk indicators and the procedure for their application.

The procedure for using indicators to form a queue for risky procurement procedures is as follows:

1. Risk system performs daily calculation of indicators on procurement procedures conducted by customers in the electronic procurement system, generates a queue and displays it in a personal office.
2. After one or more indicators are triggered for a procurement procedure, the risk system automatically calculates the total conditional weight of the indicators.
3. In case the indicator (s) are triggered by a specific procurement procedure (or a separate lot) and depending on the total conditional weight of these indicators, the procurement system automatically assigns one of the following risk grades to the procurement procedure:
 - risk grade 1 – high risk;
 - risk grade 2 – moderate risk;
 - risk grade 3 – low risk.

The range of values of the total conditional weight of the triggered indicators for each risk grade is set by the SAS subject to approval by the Ministry of Economy.

4. Within each of the risk grades, the procurement procedures for which the indicators have been triggered are ranked based on the total contingent weight.
5. For each procurement procedure for which the indicators have been triggered, the risk system assigns a weighted average conditional weight, which is determined taking into account the total conditional weight and the expected cost of the procurement procedure at the appropriate risk grade.
6. The risk-system enters a fixed percentage of procurement procedures with the highest weighted average conditional weight in the queue for each risk grade. The percentage of procedures to be displayed in the queue is set by the subject to approval by the Ministry of Economy.
7. The risk system automatically lines up procurement procedures in the queue in a proportionate manner, starting with procedures that are rated Risk Grade 1 and have the highest weighted average conditional weight, down to those that are assigned Risk Grade 3 and have the lowest weighted average conditional weight.

8. Whenever selecting procurement procedures for monitoring, the public financial control authority primarily selects procurement procedures that have the highest priority in the queue.

9. When reviewing the procurement procedure in the queue, in order for the decision to be made by a state financial control authority whether to pick the procedure for monitoring, it is possible to review the procurement procedure and the list of indicators that the procedure triggered in the personal account, create a draft procurement monitoring template in the electronic procurement system or move the link to the procurement procedure from the queue to the archive.

10. The reference to the procurement procedure is automatically removed from the risky procurement procedures queue and archived in the personal account in the following cases:

- procurement procedure monitoring started;
- contract delivery report published;
- procurement procedure canceled or considered void;
- all violations that triggered indicators rectified.

Using automatic risk indicators makes it possible to automatically select procurement procedures that are indicative of a breach of public procurement law.

3.3. Analytical tools for controlling and monitoring public procurement

Since the launch of ProZorro and the publication of a large body of open data, many tools and services have emerged in Ukraine to help analyze and monitor public procurement and its participants.

Up to date information on analytical tools for control and monitoring of public procurement is available at <https://dozorro.org/tools>.



Public module of procurement analytics

bi.prozorro.org

The public procurement analytics module bi.prozorro.org contains information on ProZorro procurement starting from 2015.

It allows public institutions to stay up to date with current procurements as well as procurements by subordinate institutions, find problems and ways to solve them.

Participants or potential participants will be able to evaluate the market, customers, competitors to make more effective decisions in the future.

BI ProZorro is an analytics module that shows all ProZorro purchases online.

BI ProZorro has a large list of criteria by which procurement, plans, suppliers / customers can be selected and consists of 4 applications:

1. Planning stage – allows one to perform an analysis of the annual procurement plan and annexes using the sample on the following statistical data: % of the plan completion, % plans with changes, parameters of performance, % of excluded plans (those with expected value of "0" and for which no procurement is planned, etc.).
2. Purchasing stage – allows one to perform analysis of procurements by: groups of products, bids, lots, organizers, suppliers, complaints.
3. Medical purchasing – allows one to perform analysis of purchases of medical equipment, pharmaceuticals etc.
4. Incorrect items of the plan - allows for analysis of incorrect items of annual procurement plans and annexes using the samples of the following data: incorrect delivery date, incorrect expected value, incorrect announcement date, incorrect procurement subject, no ECEC (Economic Classification of Expenditures Code).



Professional module of analytics

<http://bipro.prozorro.org>

Bipro.prozorro.org professional analytics module allows one to create their own indicators and objects (charts, tables, graphs).

This allows customization of analytics to specific needs of each user.



Risk indicator system

risk.dozorro.org

Helps quickly evaluate both the individual bid and the customer for the risk of inefficient procedure or restriction of competition.



Public control of government procurement.

dozorro.org



Find and track additional ProZorro deals

<https://bit.ly/38MRFZI>

An online tool for finding additional deals in Prozorro.

The tool shows all contract changes in the last three days, month, or a year.

Bot: Selects and publishes 3 top news stories from the most pressing topics of the past few days.

Search: Shows all contract changes in the last three days, month, or a year.



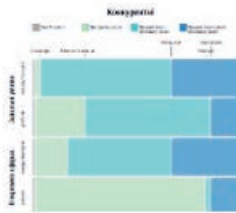
Methodology for creating bidding documentation

<https://bit.ly/2mZi8t>

Procurement analysis: procurement, documentation, contracts.

Using an intuitive search for the product to be purchased, you can see which CPV code is most purchased by other customers, whether the product has a deeper code, and for which code the purchases are more successful.

Also included is information on the suppliers of the product selected (TOP-20 by the number of winning procedures).



Schematics of ProZorro procurement process

<https://bit.ly/2EKnzHK>

Simple and clear graphic representation of public procurement algorithms in the ProZorro system according to the laws and regulations governing this process.



Authorized body web portal

<https://bit.ly/2rZOqNC>

Open access official portal where all public procurement information is published. Here you can find the procurement plan, view all the documents published by the customer during procurement and all the certificates submitted by the bidders in their bids. **Clarity Project**

<https://bit.ly/2PML6hU>



Clarity Project

<https://bit.ly/2PML6hU>

A tool that allows effective monitoring and analytics of ProZorro data in many ways.

Identify relationships between bidders, risk indicators and other bidding tools.



Procurement

<https://z.texty.org.ua/>

One of the largest public procurement archives since 2008.

Contains information on concluded contracts from the Public Procurement Bulletin and Prozorro.

Search by customers or winning bids, volumes of transactions, time period, etc..



Anti-corruption monitor

<http://acm-ua.org/>

Comprehensive analytical portal that offers a range of tools for monitoring the results of public procurement, including public evaluation of the results of state tenders in Ukraine, public evaluation analysis module and special projects.



ProZorro.Sales public analytics module

<https://bi.prozorro.sale>

Updated bi.prozorro.sale analytics module: a letter with main auctions results.

Among other things, the ability to analyze banks' asset registers was added to the government sales analytics module. You can select data by individual areas (lease, property, liabilities, etc.).

The purpose of the module is to prevent corruption in public sales.

The system is used to sell state and municipal property and conduct small-scale privatization.



Transparent Infrastructure Portal

<https://bit.ly/34NorWO>

Public access to information on planning, implementation, and control over infrastructure projects, as well as the ability to verify the completeness of this information.

The CoST (Construction Sector Transparency Initiative) with a secretariat in London (UK) is designed to ensure the transparency and accountability of publicly funded construction.

The initiative brings together government, public and business representatives to ensure transparency and accountability for public infrastructure construction projects, improve efficiency of public spending, reduce inefficiencies in management during construction and operation of infrastructure and combat corruption.

3.4. Analytical tools for tracking money flow



E-data

e-data.gov.ua

The largest open database in the public finance sector of Ukraine. The portal publishes information on the use of budget funds and implements the idea of «Transparent Budget».

The purpose of the project: to create an open resource that will ensure full transparency of public finances and satisfy the public's right to access this information.



Budget for citizens

<https://openbudget.gov.ua>

The project shows all stages of the budget process from start to finish - planning, execution, and analysis.

The portal can track how much money went into education, defense, healthcare, state functions, and other expenditures.



Unified public spending web portal

<https://spending.gov.ua/new>

The procedure for accessing information of the portal is established by the Law of Ukraine «On Openness of Use of Public Funds».

.007

007 Search engine

007.org.ua

A service that helps one work with open databases and state registers through visualization and analytics tools.

The main purpose of the service is to provide the public with the most convenient access to open government data and, by increasing transparency, to counteract abuse and corruption in the country.



Open budget

<https://openbudget.in.ua>

The Open Budget project aims to create tools to increase the transparency and accountability of local authorities.

The Open Budget Portal was created by the Center for Policy Studies and Analytics with the participation of the Delegation of the European Union to Ukraine, the International Renaissance Foundation, and the United Nations Development Program in Ukraine.

3.5. Analytical tools for researching participants



Unified state register

<https://usr.minjust.gov.ua>

The Ministry of Justice of Ukraine has introduced an online service for acquiring data from the USR.

The service has both free and paid functionality. The vast majority of procurement analysis tools use data from the Ministry of Justice.



Portal for analysis of state-owned enterprises reporting

<https://prozvit.com.ua>

Reporting of the TOP 100 state-owned enterprises by years (updated every six months).

Financial statistics are divided into following categories – country, industry, entity, enterprise.



YouControl

<https://youcontrol.com.ua>

YouControl is an online contractor verification service. YouControl analytics system generates dossiers for each business entity of Ukraine based on open data, monitors changes in state registers and visualizes links between affiliates.

YouControl service allows one to get up to date (at the time of request) information about the company or an individual.

The monitoring function reports changes daily according to data from official sources.



Opendatabot

<https://opendatabot.ua/>

A service that monitors registration data of Ukrainian companies and the court register to help protect against hostile takeovers and ensure of contractor oversight.

The service collects data from open state registers and other sources and instantly sends messages to your Telegram, Facebook Messenger, Skype, or Viber.



Service for monitoring changes in the USR for business owners.

<https://vkursi.pro/>

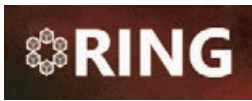
Service for monitoring changes in the USR for business owners.



CONTR AGENT

<https://ca.ligazakon.net/>

CONTR AGENT provides information on legal entities, individuals and individual entrepreneurs.



RING

<https://ring.org.ua/>

Search in state registers and projects of the Office Hundred.

The Ring search engine combines more than a dozen open registries.



Court at your fingertips

<https://bit.ly/2YNXf8H>

Search in state registers and projects of the Office Hundred.

Analytical tool for finding, researching, and visualizing court decisions.

SECTION IV.
PREVENTION METHODS
AND COUNTERACTION
RESULTS

After analyzing the identified money laundering schemes related to misappropriation of funds and property of state enterprises and other entities financed from the state and local budgets, the SFMS grouped together a number of indicators / criteria that allow these schemes to be identified.

I. Information on recipients of funds:

- failure of the counterparty to fulfill terms of a contract / tender in connection with the lack of production facilities, warehouses, appropriate personnel;
- registration of a business entity under strawman name (homeless persons, mentally ill, students, elderly people, deceased persons, foreigners, convicts, persons with acquired, stolen or lost documents);
- a single person is the founder, manager and accountant of the entity (sole founder and staff);
- the founders of the entity are persons residing in a region other than the entity 's region of incorporation;
- the founders of the entity are persons registered in the temporarily occupied territory of certain areas of Donetsk and / or Luhansk region;
- persons related to the business entity are registered in or travel to countries under targeted financial sanctions;
- frequent change of founders, owners, officials of the entity, inability to locate officials (manager, chief accountant);
- lack of information in open sources about the nature of the company's activity;
- insignificant authorized capital;
- names of entities are similar to the names of state enterprises or famous brands;
- lack of or minimal statutory activity;
- the inability to locate entity's office (where staff are actually working);
- lack of staff, production and storage facilities for statutory activities;
- the offices of business entities are registered at the place of mass registration of such entities;
- matching registration address of operations participants;
- newly created business entities (so-called "dailies", "pits", "butterflies" that exist, usually, for a duration of a single tax period, which makes it difficult to control their activities);
- business entities file tax returns with a minimum amount of income or with significant income, but a meager amount of taxes paid;
- UBOs, signatories of non-resident companies are citizens of Ukraine associated with heads of state enterprises or national PEPs.

Information on financial and economic activities of financial transactions participants:

- obtaining and providing large-scale financial assistance or raising share capital;
- depositing cash in accounts / withdrawing cash in especially large amounts without providing supporting documents;
- daily turnover is typically increased at the end of the week;
- large amounts of signed forms of the same type of contracts for performance of works or provision of services, estimates, acts of acceptance, etc.;
- use of multilateral payments and payments with a large number of participants in such transactions, located in different territorial units, or registered at the same address;

- lack of movement of funds of the business entity in bank accounts or extremely large volume of financial transactions of the newly established enterprise;
- a wide range of contractors transferring funds to the accounts of the entity with different stated purposes;
- large amounts of cash received from commercial activities not known for their cash transactions intensity;
- debiting of cash from the entity's accounts unrelated to the nature of its activities;
- prepayment for a products (services) that are not delivered (provided);
- transferring funds for services, that are difficult to value.

Information on financial transactions:

- confusing or unusual nature of a commercial transaction (transaction) that has no economic meaning or obvious legitimate purpose;
- cyclicity of similar transactions between participants;
- super tight deadlines for payments (usually within one day);
- transfer of funds abroad, by legal entities or to legal entities affiliated with government officials;
- multiple operations or transactions, whose nature suggests that their purpose is avoidance of compulsory financial control under national law;
- a contract does not stipulate payment of penalties by contractors for non-compliance with payment deadlines, supply of goods and does not incentivize them to ensure fulfillment of their obligations;
- the apparent inconsistency of the input and output payments (for example, the money received as payment for construction materials is subsequently spent, for example, on consulting services, acquisition of securities or procurement of agricultural products);
- crediting on a transaction day to a bank account opened by a client of funds by several business entities, with the funds being subsequently withdrawn in cash or transferred to another account on the same day, as a result of which at the end of transaction day there are no funds left on this account or the amount is significantly reduced;
- business entity using the account to make and receive payments for goods, works or services without making any other payments using this account, including mandatory payments and fees to the budget;
- payment of a penalty (fine, charge) for non-performance of the contract for supply of goods (performance of works, provision of services) or for breach of the contract, whenever the penalty exceeds 10% of the amount of undelivered goods (incomplete works, non-rendered services);
- conducting financial transactions for the purchase and sale of goods (payment for services), the value of which is difficult or impossible to determine (for example, intellectual property; some types of services that do not have a constant market value);
- discrepancy between the value of the goods or services specified in the contract and their market value;
- the use of "junk" securities and non-repayable financial assistance;
- doubts regarding the veracity of documents;
- amounts of financial transactions made do not correspond to the financial condition of the client;
- closing of scheme participants accounts following a certain cycle of cash transactions, or abrupt termination of such transactions using these accounts.

Information on the heads of state enterprises and other entities funded by the state and local budgets:

- the discrepancy between declared source of funds and the operations carried out on the accounts of managers of state enterprises and other entities funded by state and local budgets;
- purchase of luxury items, payment for high-value services or receipt of any other benefits from public figures, members of their families or relatives, from customers or contractors during performance of the government contract or immediately after its expiration;
- small payments by officials of state-owned enterprises to others within a brief period of time with the stated payment purpose being "assistance", "for treatment", "charity";
- early repayment of loans used to purchase luxury housing, premium cars, precious metals and gems, and other assets.

II. Signs of "opaque" tenders, competitive bidding of state enterprises / other entities:

- newly established companies immediately emerge as winners of tenders;
- change in the price of the contract by concluding supplemental agreements (the customer and the seller of the product / service agree in advance that the latter will bid the lowest price, and after winning and signing the contract, after a period of time, a supplemental agreement on raising the price of goods is signed);
- conspiracy of bidders (related BE are involved in the scheme, the winner is known in advance, and other bidders play the role of extras. This conspiracy of bidders will reveal itself whenever the auctioned goods are offered at inflated prices and none of sellers will reduce the price);
- bogus dumping (a fictitious BE is used, which then participates in the bidding and reduces price for its goods / services several times. When this fictitious legal entity becomes the winner of the bidding, it drops out. Other bidders who were reducing bidding prices too, also drop out, and the contract is awarded to a company with a more expensive offer);
- the tender may have specific conditions, or too detailed requirements for the subject of procurement, developed with the properties of products of a predetermined manufacturer in mind;
- the customer combines several types of products produced by different manufacturers in one lot (this way manufacturers simply will not have the capability to participate in the bidding, and the "right" intermediary is declared a winner);
- cutting short the documents submission period (a month, or a week prior to the bidding), changing bidding conditions (adding a requirement that can only be fulfilled by the "right" BE);
- setting short delivery times (to weed out "unnecessary" bidders, customers deliberately set bidding conditions to include short delivery times so that the manufacturer does not have the time to produce and deliver the required volume of products);
- setting a long payment deadline under the contract (in order to purchase goods / services from the required participant at the auction, customers extend payment deadlines in bidding conditions up to 180 calendar days, for example. These conditions limit the range of potential bidders and allow a predetermined BE to emerge as a winner, with payments made the next day after the victory);
- the price of the tender changes without proper independent evaluation;
- concealing the bidding (customers try to hide the purchase announcement. For example, they may make grammatical errors in the name of the tender, so that the search for a tender

announcement will come up empty, or word it vaguely: “equipment” instead of “cars”, “cloth” instead of “towels”);

- in case a “wrong” bidder wins, the bidding can be “frozen” (the results of the bidding can be appealed to the AMCU, which will suspend the procurement procedure for the duration of complaint consideration).

SECTION V.
STATISTICS OF
CRIMINAL OFFENSES

5.1. Information on criminal offenses

According to the information of the **Prosecutor General of Ukraine**, in 2016 – 2019 (as of October 01, 2019), there were **14,249** registered criminal offenses related to appropriation of funds and property of state-owned enterprises and other entities financed by the state and local budgets. The established amount of material losses was at **2,288,470.6** thousand UAH, property was seized worth **1,011,185.4** thousand UAH.

A more detailed breakdown is given below.

Table. Criminal offenses registered by the prosecution authorities related to misappropriation of funds and property of state enterprises and other entities, financed from the state and local budgets (2016 – September 2019)

Article number and title in the CC of Ukraine		Registered offences by years			
		2016	2017	2018	9 months of 2019
209	Legalization (laundering) of proceeds of crime	10	23	14	13
185	Theft	11	11	6	4
190	Fraud	366	895	1 083	1 060
191	Theft, embezzlement, or misappropriation of property by abuse of office	1 227	1 453	1 518	1 125
199	Manufacturing, storage, acquisition, transportation, shipment, import to Ukraine for use in the sale of goods, or sale of counterfeit money, government securities, government lottery tickets, excise tax stamps or holographic security features	3	8	3	0
200	Illegal activities with transfer documents, payment cards and other means of access to bank accounts, electronic money, equipment for making them	0	1	0	1
205	Bogus entrepreneurship	29	19	4	2
205 ¹	Falsification of documents submitted for the state registration of a legal entity and individual entrepreneurs	2	0	0	0
206	Impeding legitimate business activities	0	0	0	1
206 ² , p. 3	Unlawful seizure of property of an enterprise, institution, organization	0	0	1	0

Article number and title in the CC of Ukraine		Registered offences by years			
		2016	2017	2018	9 months of 2019
210	Inappropriate use of budgetary resources, execution of budget expenditures or granting of appropriations from the budget without budgetary targets being established or with budgetary targets exceeded	6	12	6	1
211	Issuance of regulations that reduce budget revenues or increase budget expenditures against the law	6	1	1	0
212	Tax evasion, fees (mandatory payments)	6	4	6	3
212 ¹	Avoidance of payment of a single contribution to compulsory state social insurance and insurance contributions to compulsory state pension insurance	1	2	2	0
219	Bankruptcy	0	0	1	0
222	Fraud with financial resources	3	23	17	22
222 ¹	Stock market manipulation	0	1	0	0
233	Illegal privatization of state and municipal property	1	1	0	0
354	Bribery of an employee of an enterprise, institution or organization	0	2	0	0
355	Compulsion to fulfillment or non-fulfillment of civil obligations	0	0	0	1
356	Forcible assertion of private right	5	5	3	2
358	Falsification of documents, stamps, signets and letterheads, sale or use of counterfeit documents, stamps, signets	165	371	353	186
361	Unauthorized interference with operation of electronic computational systems (computers), automated systems, computer networks or telecommunication networks	1	2	1	0
362	Unauthorized activities with data processed by electronic computational systems (computers), automated systems, computer networks or contained within data storage devices, committed by a person who has the right to access it	0	1	0	0
364	Abuse of authority or office	234	236	233	123
364 ¹	Abuse of powers by an official of a private legal entity irrespective of the organizational and legal form	24	29	15	8
365	Excess of power or authority by a law enforcement officer	0	1	0	0

Article number and title in the CC of Ukraine		Registered offences by years			
		2016	2017	2018	9 months of 2019
365 ²	Abuse of authority by public service providers	0	4	7	7
366	Office forgery	534	1114	625	230
367	Service negligence	164	150	220	122
368	Acceptance of an offer, promise or inappropriate benefit by an official	14	4	9	3
368 ⁴	Bribery of a person providing public services	1	0	0	0
369	Offer, promise or inappropriate benefit to an official	1	1	2	0
369 ²	Abuse of influence	5	6	3	1
388	Unlawful actions in respect of seized property, pledged property, distrained property, or property subject to confiscation	0	2	0	0

Table. Damages in criminal offenses established by the prosecution authorities related to misappropriation of funds and property of state-owned enterprises and other entities financed from the state and local budgets (2016 – September 2019)

Article number and title in the CC of Ukraine		Established damages by years, thousand UAH			
		2016	2017	2018	9 mon. of 2019
209	Legalization (laundering) of proceeds of crime	624,0	0,0	0,0	0,0
185	Theft	399,5	0	1,2	30,0
190	Fraud	9 073,4	6 683,3	34 501,1	34 158,4
191	Theft, embezzlement, or misappropriation of property by abuse of office	97 862,6	274 613,1	561 925,1	50 9831,6
199	Manufacturing, storage, acquisition, transportation, shipment, import to Ukraine for use in the sale of goods, or sale of counterfeit money, government securities, government lottery tickets, excise tax stamps or holographic security features	0,0	0,0	0,0	0,0
200	Illegal activities with transfer documents, payment cards and other means of access to bank accounts, electronic money, equipment for making them	0,0	0,0	0,0	0,0
205	Bogus entrepreneurship	0,0	8 993,0	0,0	10 372,0

Article number and title in the CC of Ukraine		Established damages by years, thousand UAH			
		2016	2017	2018	9 mon. of 2019
205 ¹	Falsification of documents submitted for the state registration of a legal entity and individual entrepreneurs	0,0	0,0	0,0	0,0
206	Impeding legitimate business activities	0,0	0,0	0,0	0,0
206 ²	Unlawful seizure of property of an enterprise, institution, organization	0,0	0,0	0,0	0,0
210	Inappropriate use of budgetary resources, execution of budget expenditures or granting of appropriations from the budget without budgetary targets being established or with budgetary targets exceeded	230,0	1 872,3	0,0	13 212,0
211	Issuance of regulations that reduce budget revenues or increase budget expenditures against the law	0,0	0,0	0,0	0,0
212	Tax evasion, fees (mandatory payments)	2 676,6	692,8	1 650,3	0,0
212 ¹	Avoidance of payment of a single contribution to compulsory state social insurance and insurance contributions to compulsory state pension insurance	3 827,0	722,0	7 312,7	0,0
219	Bankruptcy	0,0	0,0	0,0	0,0
222	Fraud with financial resources	699,0	389,2	233,1	3 610,9
222 ¹	Stock market manipulation	0,0	0,0	0,0	0,0
233	Illegal privatization of state and municipal property	0,0	5 163,0	0,0	0,0
354	Bribery of an employee of an enterprise, institution or organization	0,0	0,0	0,0	0,0
355	Compulsion to fulfillment or non-fulfillment of civil obligations	0,0	0,0	0,0	0,0
356	Forcible assertion of private right	1 000,0	0,0	0,0	0,0
358	Falsification of documents, stamps, signets and letterheads, sale or use of counterfeit documents, stamps, signets	32,0	77,0	159,6	0,0
361	Unauthorized interference with operation of electronic computational systems (computers), automated systems, computer networks or telecommunication networks	0,0	114,6	0,0	0,0

Article number and title in the CC of Ukraine		Established damages by years, thousand UAH			
		2016	2017	2018	9 mon. of 2019
362	Unauthorized activities with data processed by electronic computational systems (computers), automated systems, computer networks or contained within data storage devices, committed by a person who has the right to access it	0,0	0,0	0,0	0,0
364	Abuse of authority or office	33 123,8	26 856,1	106 223,5	114 834,1
364 ¹	Abuse of powers by an official of a private legal entity irrespective of the organizational and legal form	13 140,4	21 301,3	41 861,7	4 608,8
365	Excess of power or authority by a law enforcement officer	0,0	10 873,0	0,0	0,0
365 ²	Abuse of authority by public service providers	0,0	0,0	2 368,3	4 572,4
366	Office forgery	3 966,3	3 884,5	3 208,6	1 055,9
367	Service negligence	44 994,7	123 733,5	81 488,1	52 563,5
368	Acceptance of an offer, promise or inappropriate benefit by an official	18,0	0,0	0,0	0,0
368 ⁴	Bribery of a person providing public services	0,0	0,0	0,0	0,0
369	Offer, promise or inappropriate benefit to an official	0,0	0,0	0,0	0,0
369 ²	Abuse of influence	0,0	0,0	0,0	0,0
388	Unlawful actions in respect of seized property, pledged property, distrained property, or property subject to confiscation	1 052,1	0,0	0,0	0,0

Table. Property seized by prosecuting authorities in criminal offenses related to misappropriation of funds and property of state-owned enterprises and other entities financed from the state and local budgets (2016 – September 2019)

Article number and title in the CC of Ukraine		Property seized by years, thousand UAH			
		2016	2017	2018	9 mon 2019
209	Legalization (laundering) of proceeds of crime	0,0	0,0	0,0	0,0
185	Theft	0,0	0,0	0,0	0,0
190	Fraud	2 968,9	844,4	16 354,5	12 612,9
191	Theft, embezzlement, or misappropriation of property by abuse of office	29 691,8	149 996,2	321 383,2	228 446,9
199	Manufacturing, storage, acquisition, transportation, shipment, import to Ukraine for use in the sale of goods, or sale of counterfeit money, government securities, government lottery tickets, excise tax stamps or holographic security features	0,0	0,0	0,0	0,0
200	Illegal activities with transfer documents, payment cards and other means of access to bank accounts, electronic money, equipment for making them	0,0	0,0	0,0	0,0
205	Bogus entrepreneurship	0,0	867,0	0,0	32 377,0
205 ¹	Falsification of documents submitted for the state registration of a legal entity and individual entrepreneurs	0,0	0,0	0,0	0,0
206	Impeding legitimate business activities	0,0	0,0	0,0	0,0
206 ²	Unlawful seizure of property of an enterprise, institution, organization	0,0	0,0	0,0	0,0
210	Inappropriate use of budgetary resources, execution of budget expenditures or granting of appropriations from the budget without budgetary targets being established or with budgetary targets exceeded	0,0	0,0	0,0	14 000,0
211	Issuance of regulations that reduce budget revenues or increase budget expenditures against the law	0,0	0,0	0,0	0,0
212	Tax evasion, fees (mandatory payments)	0,0	0,0	693,8	0,0

Article number and title in the CC of Ukraine		Property seized by years, thousand UAH			
		2016	2017	2018	9 mon 2019
212 ¹	Avoidance of payment of a single contribution to compulsory state social insurance and insurance contributions to compulsory state pension insurance	0,0	0,0	0,0	0,0
219	Bankruptcy	0,0	0,0	0,0	0,0
222	Fraud with financial resources	0,0	0,0	0,0	0,0
222 ¹	Stock market manipulation	0,0	0,0	0,0	0,0
233	Illegal privatization of state and municipal property	0,0	0,0	0,0	0,0
354	Bribery of an employee of an enterprise, institution or organization	0,0	0,0	0,0	0,0
355	Compulsion to fulfillment or non-fulfillment of civil obligations	0,0	0,0	0,0	0,0
356	Forcible assertion of private right	96,7	0,0	0,0	0,0
358	Falsification of documents, stamps, signets and letterheads, sale or use of counterfeit documents, stamps, signets	0,0	0,0	0,0	0,0
361	Unauthorized interference with operation of electronic computational systems (computers), automated systems, computer networks or telecommunication networks	0,0	0,0	0,0	0,0
362	Unauthorized activities with data processed by electronic computational systems (computers), automated systems, computer networks or contained within data storage devices, committed by a person who has the right to access it	0,0	0,0	0,0	0,0
364	Abuse of authority or office	27 314,8	13 062,0	12 034,3	8 208,2
364 ¹	Abuse of powers by an official of a private legal entity irrespective of the organizational and legal form	740,4	1 562,5	869,5	43,2
365	Excess of power or authority by a law enforcement officer	0,0	970,0	0,0	0,0
365 ²	Abuse of authority by public service providers	0,0	0,0	900,0	73,0
366	Office forgery	180,0	0,0	0,0	0,0

Article number and title in the CC of Ukraine		Property seized by years, thousand UAH			
		2016	2017	2018	9 mon 2019
367	Service negligence	22 405,4	85 989,2	5 393,9	20 841,8
368	Acceptance of an offer, promise or inappropriate benefit by an official	0,0	0,0	0,0	234,0
368 ⁴	Bribery of a person providing public services	0,0	0,0	0,0	0,0
369	Offer, promise or inappropriate benefit to an official	0,0	0,0	0,0	0,0
369 ²	Abuse of influence	0,0	0,0	0,0	30,0
388	Unlawful actions in respect of seized property, pledged property, distrained property, or property subject to confiscation	0,0	0,0	0,0	0,0

5.2. Litigation of court cases

According to the State Judicial Administration of Ukraine, in 2016 – 2018 (as of October 01, 2019) the courts examined 6,683 cases related to misappropriation of funds and property of state-owned enterprises and other entities financed by state and local budgets. Judicial authorities passed sentences relative to 3,936 cases.

A more detailed breakdown is given below.

Table. Court cases related to misappropriation of funds and property of state-owned enterprises and other entities financed from the state and local budgets (2016 – 2018)

Article number and title in the CC of Ukraine		Number of persons tried by courts			Total cases considered over years (including sentencing)		
		2016	2017	2018	2016	2017	2018
191	Theft, embezzlement, or misappropriation of property by abuse of office	2 574	3 120	3 949	1 020 (596)	954 (545)	851 (479)
206 ² , p. 3	Unlawful seizure of property of an enterprise, institution, organization	no information was separately disclosed in court reports on the status of criminal proceedings					
210	Inappropriate use of budgetary resources, execution of budget expenditures or granting of appropriations from the budget without budgetary targets being established or with budgetary targets exceeded	information was not separately disclosed	5	information was not separately disclosed	2 (1)		
211	Issuance of regulations that reduce budget revenues or increase budget expenditures against the law	information was not separately disclosed	information is missing	information was not separately disclosed	information is missing		
233	Illegal privatization of state and municipal property	information was not separately disclosed	5	information was not separately disclosed	1 (0)		
<i>Related criminal offenses</i>							
209	Legalization (laundering) of proceeds of crime	534	582	640	69 (27)		

Article number and title in the CC of Ukraine		Number of persons tried by courts			Total cases considered over years (including sentencing)		
		2016	2017	2018	2016	2017	2018
175	Non-payment of wages, scholarships, pensions or other statutory benefits	information was not separately disclosed		60	information was not separately disclosed		31 (3)
199	Manufacturing, storage, acquisition, transportation, shipment, import to Ukraine for use in the sale of goods, or sale of counterfeit money, government securities, government lottery tickets, excise tax stamps or holographic security features	information was not separately disclosed		195	information was not separately disclosed		61 (52)
200	Illegal activities with transfer documents, payment cards and other means of access to bank accounts, electronic money, equipment for making them	information was not separately disclosed		17	information was not separately disclosed		9 (5)
205	Bogus entrepreneurship	information was not separately disclosed		591	information was not separately disclosed		402 (178)
218 ¹	Bringing bank to insolvency	information was not separately disclosed		information is missing	information was not separately disclosed		information is missing
364	Abuse of authority or office	457	559	730	138 (49)	122 (38)	118 (34)
366	Office forgery	information was not separately disclosed		851	information was not separately disclosed		394 (136)
368	Acceptance of an offer, promise or inappropriate benefit by an official	1 955	2 254	2 757	576 (366)	467 (323)	434 (323)
369	Offer, promise or inappropriate benefit to an official	298	448	757	157 (113)	188 (142)	331 (290)
369 ²	Abuse of influence	information was not separately disclosed		524	information was not separately disclosed		211 (185)

SECTION VI.
FINANCIAL
INVESTIGATIONS AND
MONEY LAUNDERING
TYPOLOGIES

The activities of state-owned enterprises and other entities financed from the state and local budgets are characterized by broad powers that enable control over significant financial flows in the state and which criminals seek to use as a source of money laundering schemes (from embezzlement of budget funds, bribery, so-called “kickbacks”) for further personal enrichment.

In 2018 and over 9 months of 2019, the SFMS made **76** case referrals to law enforcement agencies related to misappropriation of budget assets. Submitted materials contain an analysis of **22,794** financial transactions totaling UAH **94,724.6** million.

In these materials, the amount of financial transactions that may be associated with the legalization of funds and with the commission of another crime, as defined by the Criminal Code of Ukraine, is **4,898.3 million UAH**.

A more detailed breakdown is given below.

Table. Case referrals made to law enforcement agencies by years

Indicator	2018	9 m. of 2019	Total
Case referrals made	42	34	76
Financial transactions analyzed	11 614	11 180	22 794
The amounts of financial transactions analyzed, million UAH	28 035,9	66 688,7	94 724,6
The amounts of financial transactions that may be associated with the legalization of funds and the commission of another crime, as defined by the CC of Ukraine, million UAH	3 487,5	1 410,8	4 898,3

The most vulnerable to embezzlement of state and budget funds are those sectors of the economy that are of strategic importance to the country and for which the state allocates the largest amount of funding.

Based on the results of the conducted research, the SFMS has summarized typical examples of money laundering schemes related to misappropriation of funds and property of state-owned enterprises and other entities financed by the state and local budgets.

6.1. Laundering of proceeds obtained from state and local budgets

State and local budget funds are an extremely attractive source of income for crime, given the large amounts of money allocated to fund state-owned enterprises and other entities financed by state and local budgets.

There have been frequent cases of purchases of goods, works and services from enterprises with a dubious or non-existent business reputation, which have neither production facilities, warehouses, nor suitable personnel. The presence of these intermediaries leads to increased costs of purchasing goods, works and services at the expense of fully and partially state-owned enterprises.

Example 6.1.1 Theft of funds from a government agency when purchasing consumables.

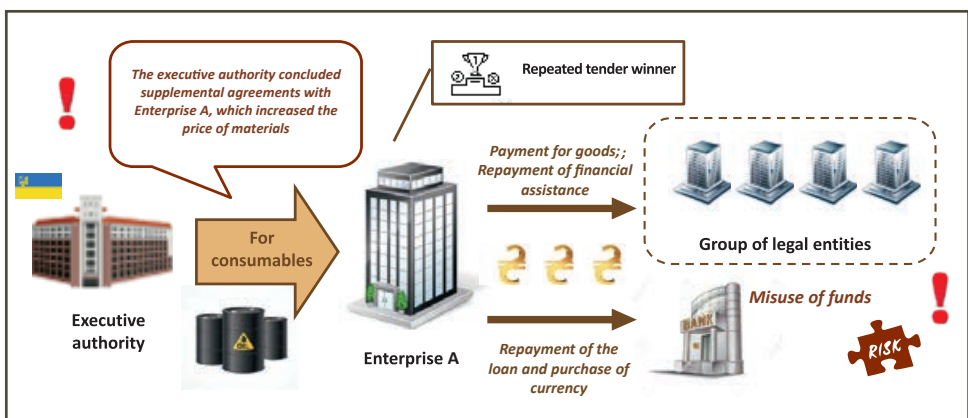
The SFMS together with a law enforcement agency has identified a scheme of possible embezzlement of funds of the executive authority during purchase of consumables.

As a result of the bidding between an **Executive Authority** and **Enterprise A**, contracts were concluded for supply of consumables, on which basis budgetary funds were transferred to the account of **Enterprise A**.

The **Executive Authority** entered into supplemental agreements with **Enterprise A**, which increased the price of materials supplied. At the same time, most counterparties receiving funds from **Enterprise A** have previously been known to participate in money laundering schemes.

The **Enterprise A** used a part of these funds to purchase materials from other suppliers and to repay financial assistance, and the other part – to repay loans and purchase foreign currency.

A law enforcement agency is conducting a pre-trial investigation.



Example 6.1.2 Theft of budget funds by transfer to self-employed persons.

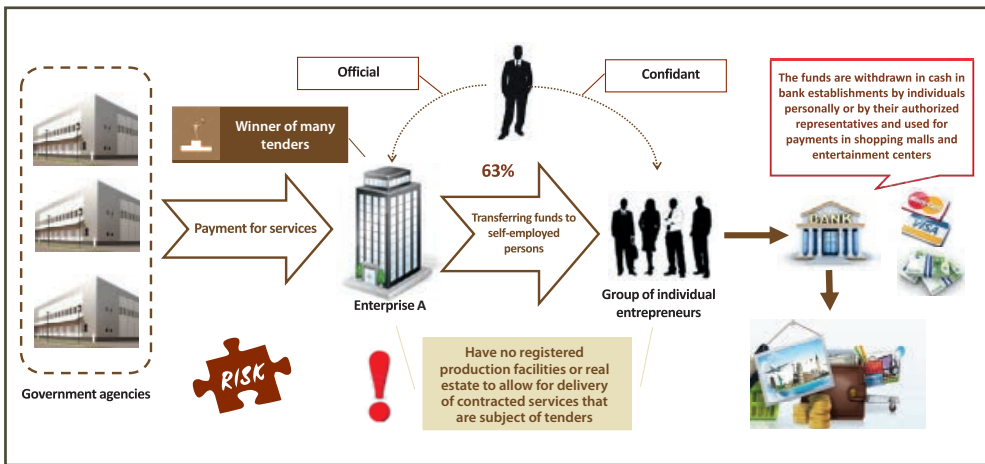
According to the results of the financial investigation, the SFMS has identified an embezzlement scheme in state institutions involving risky business entities.

As a result of bidding, **Enterprise A** was recognized as the winner of tenders announced by the **government agencies** performing similar functions. That is, having common features, **government agencies** conducted similar financial transactions and involved **individual entrepreneurs** in the embezzlement scheme.

At the same time, neither **Enterprise A** nor **individual entrepreneurs** had any production facilities or property that would enable them to deliver tendered services. In addition, **government agencies** and **Enterprise A** had different geographical locations, and were, therefore, suspected of artificiality of services delivered under contracts.

Under the agreement, **Government agencies** transferred funds to **Enterprise A**, which were then transferred to individual entrepreneurs with subsequent cash withdrawals and use for payments in shopping and entertainment establishments, amounting to 63% of total budget funds spent. The recipient of cash under the powers of attorney of individual entrepreneurs was an official of **Enterprise A**.

A law enforcement agency is conducting a pre-trial investigation.



Example 6.1.3 Misuse of funds of the housing and utility enterprise involving risky business entities.

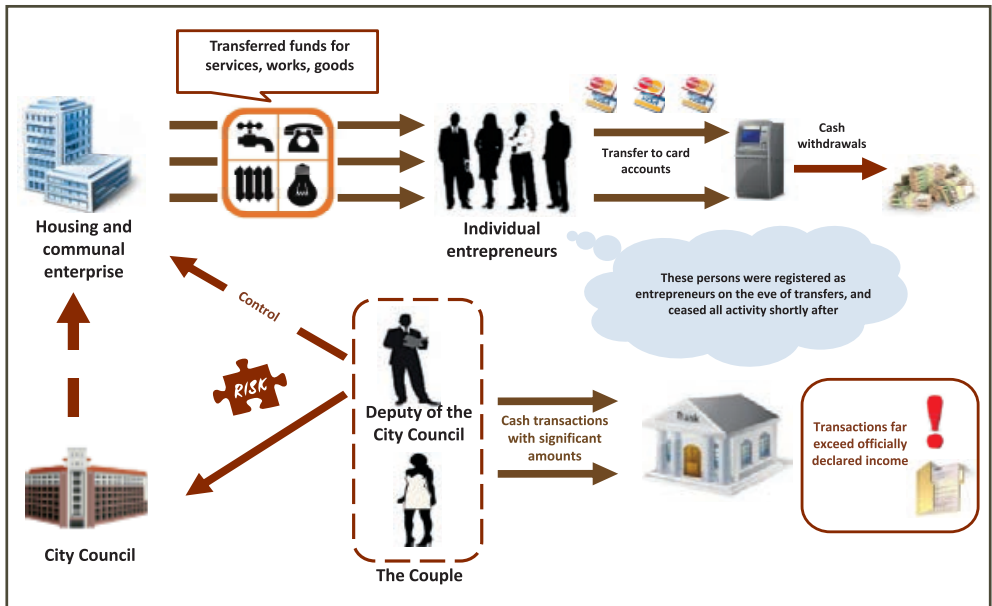
According to results of the financial investigation, the SFMS identified a scheme of misuse of local budget funds involving a housing and utility enterprise of the city council.

It was found that the **Housing and Utility Enterprise** transferred funds to accounts of individual entrepreneurs, opened in various banking institutions, with stated purpose of payment being for work performed, for services rendered and for goods purchased. Subsequently, these funds were transferred to personal card accounts of these entrepreneurs and partially withdrawn in cash.

After receiving funds from the **Housing and Utility Enterprise**, these entrepreneurs were liquidated.

At the same time, the oversight of the **Housing and Utility Enterprise** is carried out by a city council deputy who, together with his wife has been making cash transactions in amounts that do not correspond to their financial condition.

A law enforcement agency is conducting a pre-trial investigation under Article 191 of CC of Ukraine.



Example 6.1.4 Misuse of Local Government Funds.

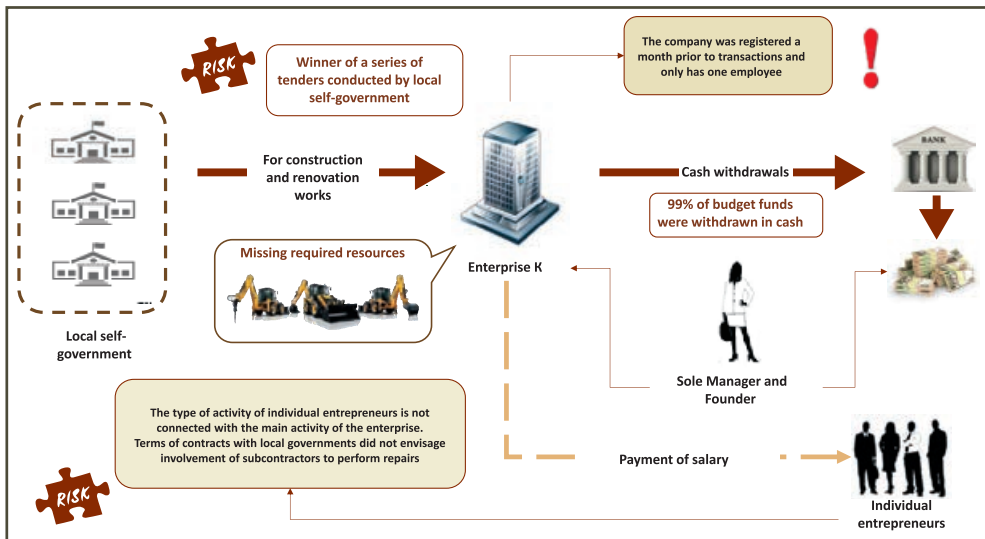
According to the results of the financial investigation, the SFMS has identified a scheme of misuse of local government funds in fulfilling the conditions of public procurement.

It was found that the newly established **Enterprise K** became a winner of several tenders held by local governments for construction and repair works. Funds received by **Enterprise K** from local governments were almost fully (99%) transferred to the sole manager and founder of the enterprise in cash.

It draws attention that **Enterprise K**, established only one month prior to above operations, did not own any vehicles or equipment required to perform contracted works and had only one employee. Yet, the terms of contracts with local governments did not envisage involvement of subcontractors in the repair works.

In addition, **Enterprise K** was making transfers to individual entrepreneurs, whose activity was in no way connected with the main activity of the company (construction of residential and non-residential buildings).

A law enforcement agency is conducting a pre-trial investigation under Article 356 of the CC of Ukraine.



Example 6.1.5 Unlawful seizure of funds raised through international cooperation.

The SFMS, together with a foreign financial intelligence unit, has identified a scheme of misappropriation of funds allocated to Ukraine by an International Financial Institution as a part of ongoing international cooperation.

It was found that the Executive Authority had attracted a loan from an International Financial Institution to implement a social project. Also, a Consortium consisting of non-resident Company A and several Ukrainian enterprises was established by the Executive Authority to implement the project and a Service Agreement was concluded.

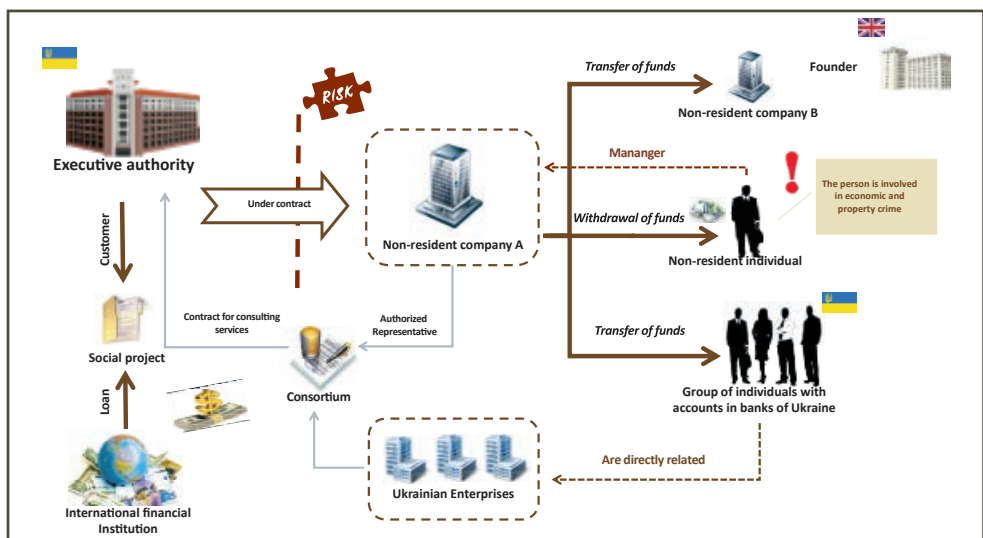
According to the Financial Intelligence Unit of the foreign country, the Executive Authority transferred funds to the non-resident Company A as payment for services rendered, one part of which was withdrawn in cash by the head of this company, another – transferred to another non-resident Company B, which has a dubious reputation, and some – transferred to Ukraine to the Group of Individuals.

The Foreign Financial Intelligence Unit provided negative feedback regarding non-resident Company A manager who is involved in economic and property crime.

It has been found that among the Group of Individuals to whom the non-resident Company A has transferred a part of the funds there are persons related to enterprises in the Consortium.

It is suspected that the Executive Authority illegally misappropriated funds allocated in the framework of international cooperation to further legalize criminal proceeds.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 212 of CC of Ukraine.



Example 6.1.6 Abuse of office by officials of a state institution.

The SFMS, together with a law enforcement agency, has identified a scheme of financial transactions related to gaining undue benefits by public officials through abuse of office.

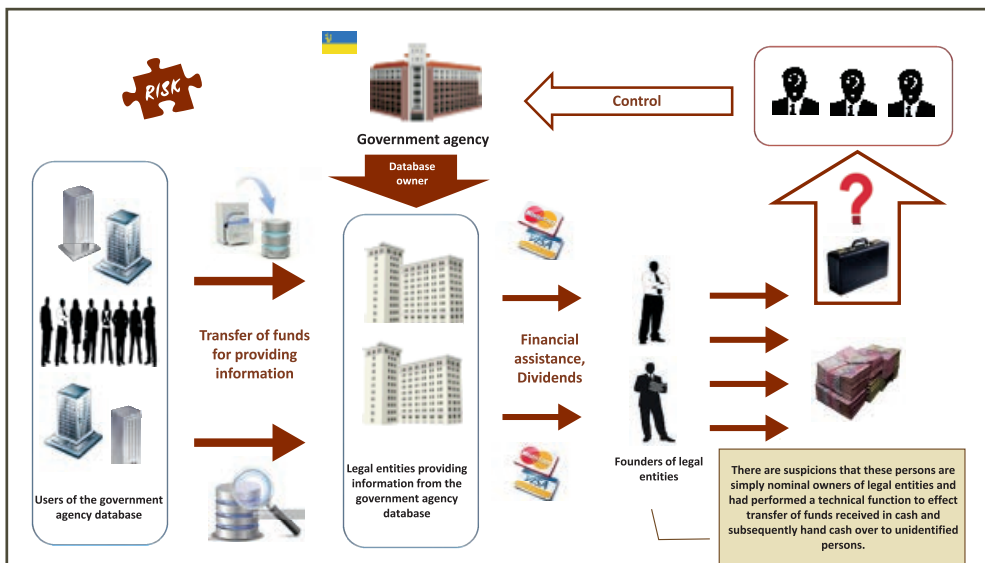
Officials of the **State Institution** had blocked general access to the electronic database of this institution, instead introducing a system where information would be given out only on a paid-for basis. The main recipients of said funds were two **legal entities**.

It was established that a significant part of the funds received by **Legal Entities** as payment for services was further transferred in the form of financial assistance and payment of dividends to card accounts of two individuals who are sole proprietors of enterprises. Subsequently, these funds were withdrawn in cash.

Individuals previously had low incomes, and even after receiving large amounts of cash, the nature and amount of expenditures of these individuals have not changed.

These persons are simply nominal owners of **legal entities** and had performed a technical function to effect transfer of funds received in cash and subsequently hand cash over to unidentified persons.

A law enforcement agency is conducting a pre-trial investigation under Articles 28, 364 of CC of Ukraine.



Example 6.1.7 Unlawful seizure of local budget funds.

The SFMS, together with a law enforcement agency, has identified a scheme, that may be related to legalization of proceeds illegally obtained from a local budget.

It was established that based on a disputed court decision the debt that had been accrued more than ten years ago (i.e. after the statute of limitations has expired) was collected from a **Communal Property Enterprise**, and the State Treasury transferred funds to **Enterprise A**.

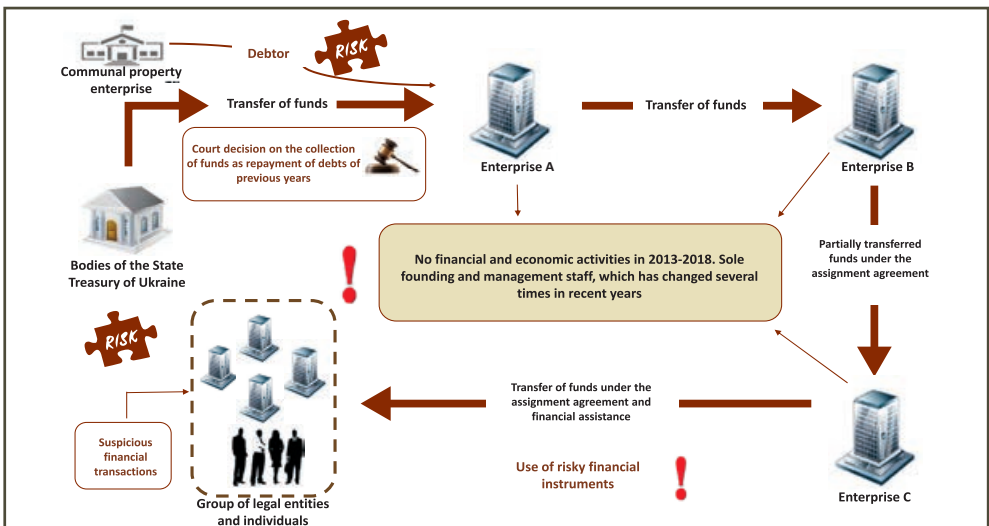
Subsequently, the funds received by **Enterprise A** were transferred to **Enterprise B**, which, in turn, directed the funds under the assignment agreement in favor of **Enterprise C**.

In the end, **Enterprise C** transferred the funds under assignment agreement and in the form of financial assistance to a group of individuals and legal entities.

Enterprises A, B and C have not conducted any financial or economic activities in recent years: there was no income, filed tax returns or paid taxes, no payroll accounting was done, and no salaries were paid to employees. In addition, the enterprises have a single founding and management structure, which has changed several times in recent years.

The risky enterprises were used in the scheme to legalize local budget proceeds based on a disputed court decision.

A law enforcement agency is conducting a pre-trial investigation under Part 2 Article 364 of CC of Ukraine.



6.2. Laundering of criminal proceeds in the fuel and energy sector

Development of the energy sector over the past decades have turned it into an attractive target for abuse and possible use in money laundering schemes.

The source of criminal proceeds lies in corruption schemes built around the difference between the manufacturer's price and the end-user price.

Example 6.2.1 Misappropriation of state enterprise funds involving dubious business entities.

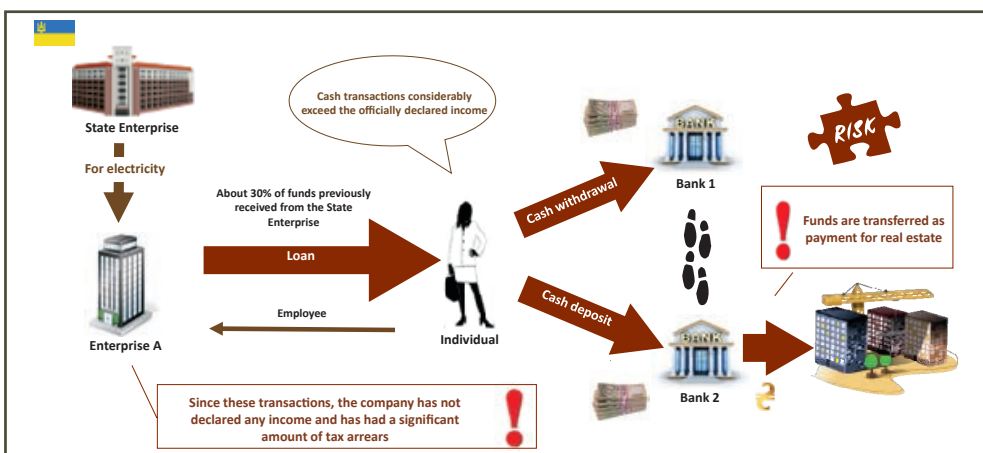
As a result of the financial investigation, the SFMS has identified a scheme of misappropriation of **State Enterprise** funds involving a fictitious enterprise and a related individual.

It was found that the **State Enterprise** transferred funds in the form of payment for electricity to **Enterprise A**. On the same day, about 30% of the amount received was transferred by **Enterprise A** in the form of a loan to one of its own employees – an **Individual**.

Subsequently, over a short period of time, the **Individual** fully cashed in the funds. In addition, over the next year, the **Individual** had been depositing cash in another banking institution to be later transferred as payment for real estate. At the same time, the amount of these funds significantly exceeded the **Individual's** officially declared income.

Since these transactions were made, **Enterprise A** has not declared any income and has had a significant amount of tax arrears.

The fictitious enterprise was used to illegally channel the funds out from the state-owned enterprise for the purpose of further legalization through acquisition of real estate. A law enforcement agency is conducting a pre-trial investigation.



Example 6.2.2 Theft of budget funds by purchasing goods at an inflated price.

SFMS revealed a budget funds embezzlement scheme involving a **Non-resident Company**.

As a result of the investigation, it was found that the **State Enterprise** of the Energy Sector transferred budgetary funds as payment for equipment to the **Non-resident Company**.

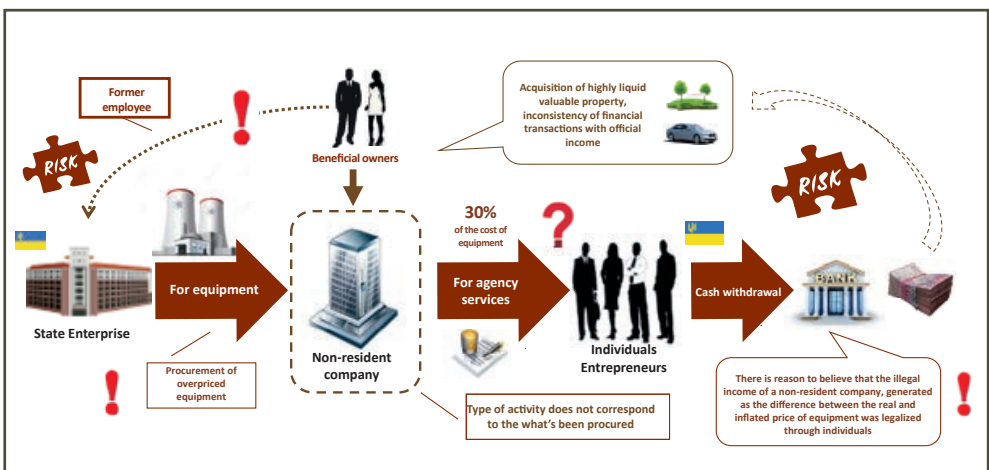
At the same time, the contract price of equipment at which the product was purchased significantly exceeded market value. In addition, the type of activity of a non-resident did not correspond to the object of the purchase.

Subsequently, the **Non-resident Company** transferred part of the funds back to Ukraine to accounts of Individual Entrepreneurs as payment for agency services, the value of which is impossible to estimate. Eventually, the funds were withdrawn in cash at the bank.

The beneficial owners of the **Non-resident Company** are a former employee of the **State Enterprise** and his wife.

As a result of the said scheme, the couple acquired valuable property and conducted financial transactions for significant amounts that did not correspond to their financial condition.

Law enforcement agencies are investigating.



6.3. Laundering of criminal proceeds in the defense-industrial sector

In recent years, significant government funding has been earmarked for the defense-industrial sector leading to increased risks of significant abuse and embezzlement of budgetary funds.

Abuse usually occurs at the stage of public procurement, with winners being entities with questionable or absent business reputation, having no production facilities, storage facilities or relevant staff.

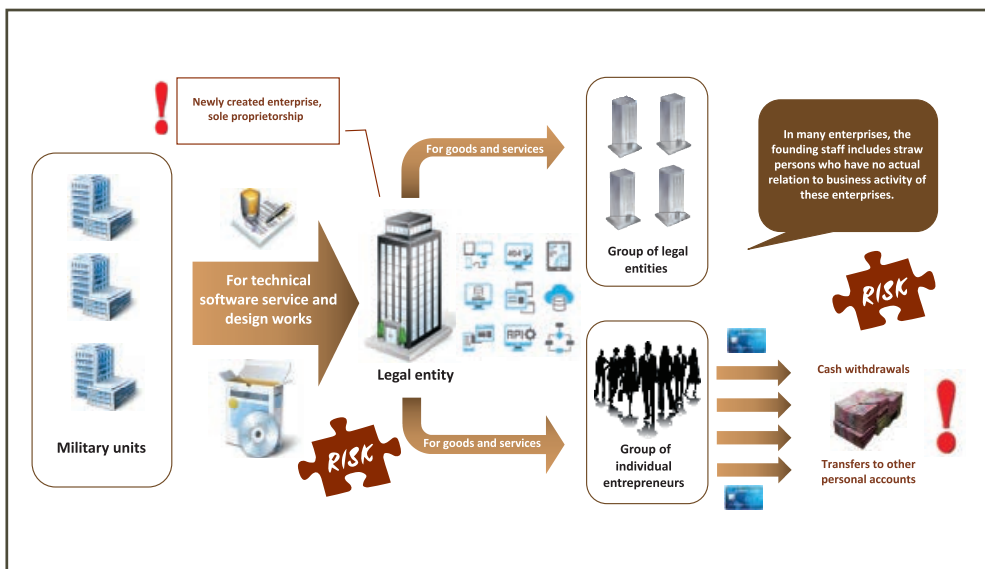
Presence of these intermediaries leads to inflated costs of goods, works and services, causing damage to the state.

Example 6.3.1 Embezzlement of budget funds using an extensive network of enterprises and business entities.

According to results of the financial investigation, the SFMS, using intelligence of a law enforcement agency, identified an embezzlement scheme involving state budget funds allocated for upkeep of military units through a network of a large number of legal entities and individuals.

The **military units** transferred funds to the account of the newly created **Legal Entity** as payment for software service support and design work.

Subsequently, part of the funds received by the **Legal Entity** was transferred to the **Group of Legal Entities** with high risk signs. It was found that in many enterprises the founding staff included straw persons who had no actual relation to economic activity of these enterprises.



The rest of the funds were transferred to the accounts of the **Group of Individual Entrepreneurs** as payment of income to individuals. Subsequently, the funds received were partially withdrawn in cash or transferred to other personal accounts of these individuals. At the same time, a law enforcement agency found that these individual entrepreneurs have not delivered goods and services for which they received payment.

So, to embezzle budget funds, a large network of legal entities and individuals was set up, providing money laundering services, including by converting non-cash funds in cash.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 205, 209 of CC of Ukraine.

Example 6.3.2 Embezzlement of funds of state enterprises using dubious services.

Based on the analysis of financial transactions and taking into account the intelligence received from law enforcement agencies and the financial intelligence unit of a foreign country, the SFMS uncovered an embezzlement scheme involving **State Enterprise** funds transferred outside Ukraine based on dubious defense services contracts.

It was found that **the State Enterprise**, which was declared bankrupt by a court decision and has significant arrears of mandatory budget payments, entered into an agency agreement with a **Non-resident Company**, according to which the company provided services to the enterprise for the sale of its products.

In pursuance of this agreement, the **State Enterprise** to the **Non-resident Company** as payment for services rendered. At the same time, foreign entities have not had any actual business relations with the **Non-resident Company**.

In addition, when opening accounts of this company in two foreign banks, different countries of registration and different activities were listed, which may indicate that the company is bogus. It has also been found that the beneficiaries of the **Non-Resident Company** are citizens of Ukraine.

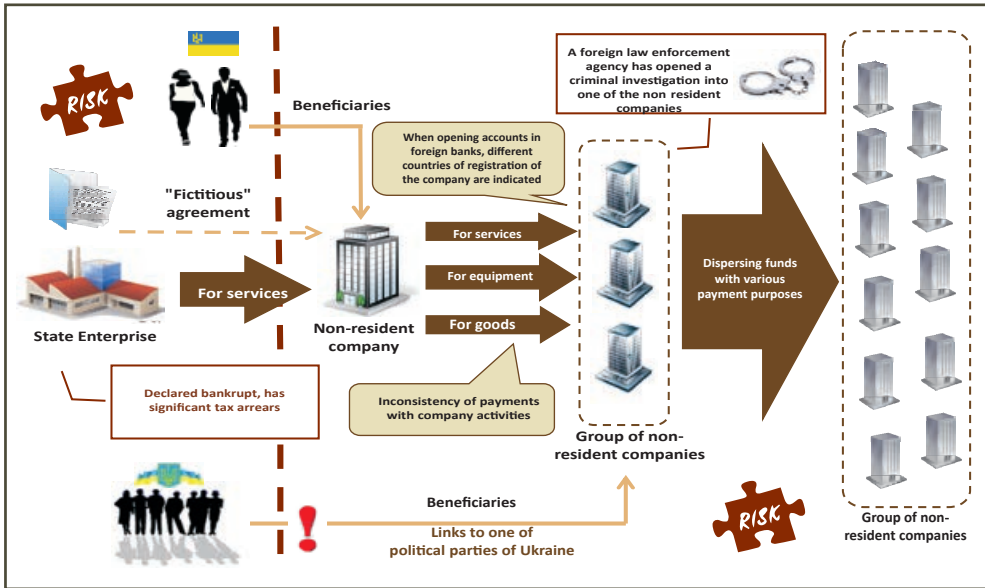
In turn, the **Non-resident Company** transferred the funds mainly as payment for equipment to a **Group of Non-resident Companies** whose officials have ties to one of the political parties in Ukraine. At the same time, neither the type of activity of the **Non-resident Company** nor the type of activity of the counterparties directly corresponds to the content of transactions performed.

In addition, a foreign law enforcement agency opened a criminal case against a member of the **group of non-resident companies**. Owners of several non-resident companies are also citizens of Ukraine affiliated with one of the political parties in Ukraine.

Subsequently, the funds of the **State Enterprise** were transferred piecemeal from accounts of the **group of non-resident companies** to multiple foreign companies with various stated payment purposes.

Thus, using dubious agency services contracts, the funds of the **State Enterprise** were illegally taken out of Ukraine.

A law enforcement agency is conducting a pre-trial investigation under Part 5 Article 191 of CC of Ukraine.



Example 6.3.3 Embezzlement of state enterprise funds by means of illegal transfer outside Ukraine.

The SFMS, together with a foreign financial intelligence unit, identified a scheme of removal of funds from the **State Enterprise** in favor of non-resident companies on the basis of fake agreements.

It was established that two **non-resident companies** registered in the United Kingdom had entered into agreements with the **State Enterprise** to provide agency consulting services for assistance in the sale of military equipment. At the same time, the rate of remuneration under these agreements was much higher than the usual rate for such services.

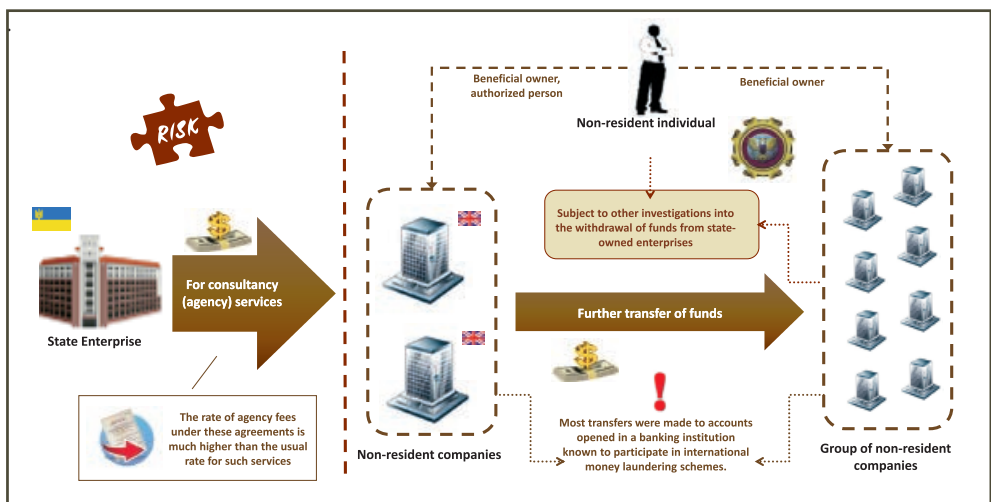
In pursuance of the concluded agreements, the **State Enterprise** transferred funds to accounts of **non-resident companies** opened in different countries. These funds were subsequently transferred to a related group of non-resident companies. The beneficial owner of these non-resident companies is the same individual – a non-resident.

A non-resident individual and some of the non-resident companies under their control that received the funds had been involved in other investigations related to illegal withdrawal of budget funds from state enterprises.

Most transfers were made to accounts of **non-resident companies** opened in a banking institution, known to participate in international money laundering schemes.

These non-resident companies were used to illegally remove funds of a state enterprise outside Ukraine for further legalization.

A law enforcement agency is conducting a pre-trial investigation under Part 5 Article 191 of CC of Ukraine.



Example 6.3.4 Embezzlement of state enterprise funds through bogus counterparties.

During financial investigation, the SFMS found that funds were transferred by a **Group of Defense Enterprises** to accounts of **Enterprise A** and **Enterprise B** as payment for parts for military (special) equipment.

Subsequently, **Enterprise A** and **Enterprise B** transferred funds to accounts of **Group of Companies 1** as payment for goods under agreements to assign the right of claim, financial assistance, and other purposes.

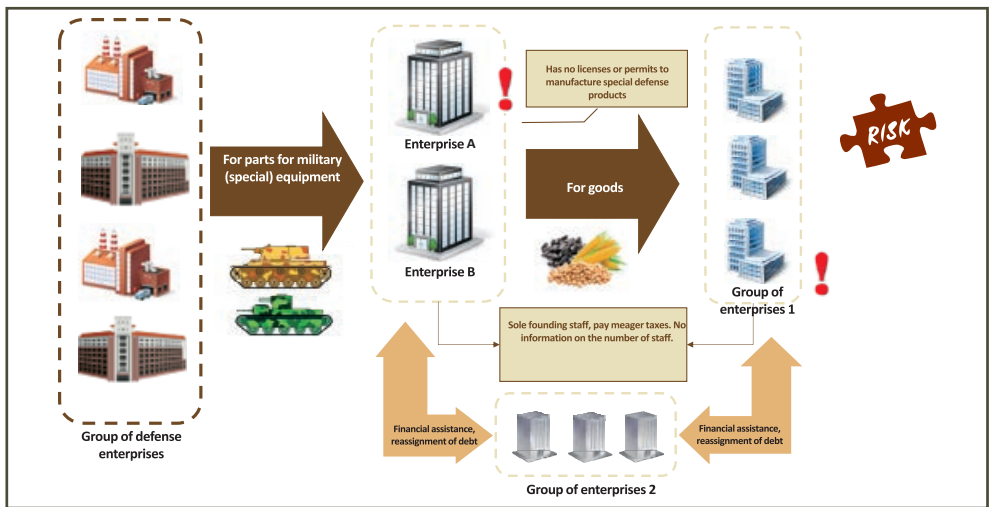
Meaning that the stated purpose of financial transactions does not in any way relate to primary purpose of funds credited to **Enterprise A** and **Enterprise B** by the **Group of Defense Enterprises**.

Enterprise A, **Enterprise B** and **Group of Companies 1** have insignificant authorized capital uncharacteristic of manufacturing enterprises, sole founding staff, most do not have any information on declared income and taxes paid, potentially pointing to fictitious nature of these enterprises.

Group of Companies 1 also made payments to **Group of Companies 2** using risky instruments: financial assistance, payment for goods under assignment agreements, etc.

There is a high probability of actual non-supply of parts for military (special) equipment by scheme participants bearing signs of fictitiousness.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 366¹ of CC of Ukraine.



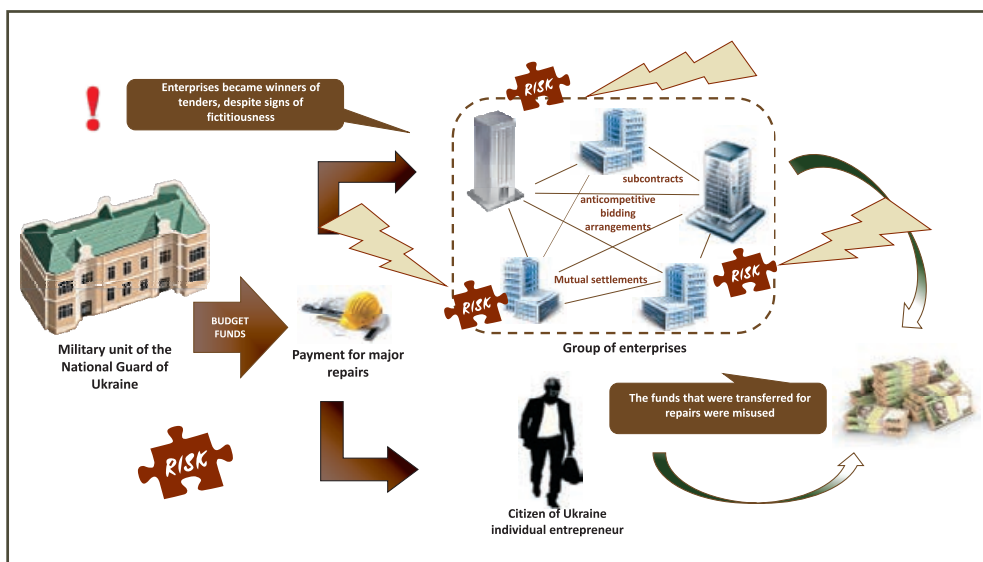
Example 6.3.5 Misappropriation of funds of a government agency through bidder misuse.

In the course of financial investigation using intelligence received from the military prosecutor's office, the SFMS found that the **Military Unit** paid for the overhaul and reconstruction of buildings located within the territory of the **Military Unit**. Funds for the above repairs were paid to winning bidders: **Citizen A**, an individual entrepreneur, and the **Group of Enterprises**.

It was found that **Citizen A** and **Group of Enterprises** did not have the necessary licenses, specialized equipment, and employees to carry out repairs at the military unit, yet contracts were awarded to them as winning bidders, nevertheless. In addition, coordinated anti-competitive activities were established to have been carried out by the winners of the tender including mutual settlements, and conclusion of subcontracts to misappropriate budget funds.

During financial investigation it was found that a part of budget funds paid for overhaul and reconstruction of buildings was later withdrawn in cash using a chain of enterprises.

Law enforcement agencies are conducting a pre-trial investigation under Articles 410, 425 of CC of Ukraine.



Example 6.3.6 Embezzlement of public funds through risky financial instruments.

The SFMS jointly with a law enforcement agency uncovered a scheme of illegal misappropriation of budget funds of a public authority operating in defense industrial sector involving bogus enterprises.

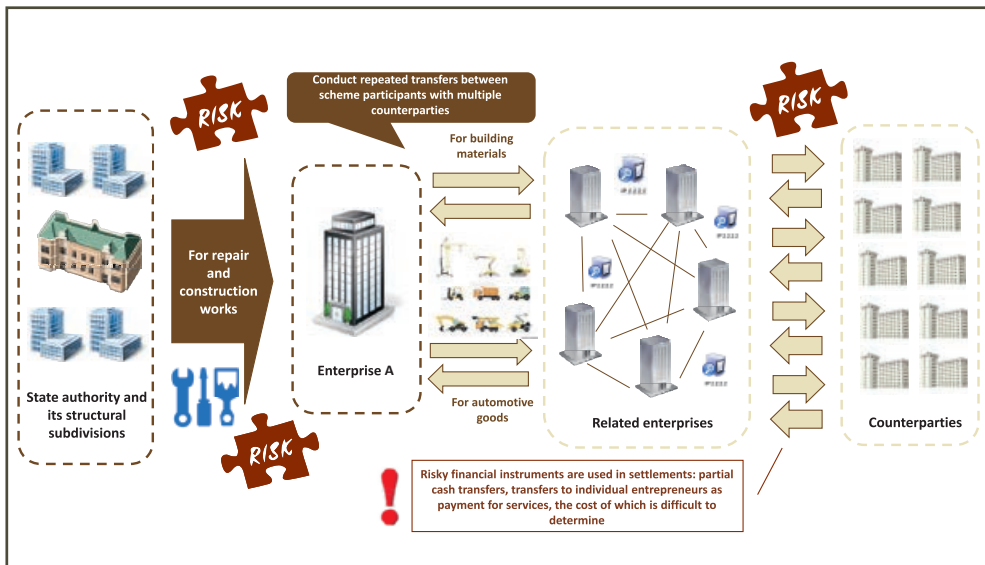
In the course of the financial investigation, it was established that the **Public Authority** and its individual structural subdivisions had transferred budgetary funds to **Enterprise A** as payment for construction of military infrastructure and repair works.

Subsequently, funds received by **Enterprise A** were transferred to accounts of related enterprises and several other business entities.

The main participants accounted for a significant number of transactions between different groups of counterparties with different stated payment purposes, incl. using budgetary funds from various state and municipal institutions.

Budget funds credited to accounts of **Enterprise A** were later distributed among other contracting enterprises.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 425 of CC of Ukraine.



Example 6.3.7 Embezzlement of earmarked military funds through bogus business entities.

During the financial investigation, it was found that **Enterprise A** was receiving regular payments from several entities and budget institutions of the defense-industrial sector.

It should be noted that **Enterprise A** has repeatedly been declared the winning bidder.

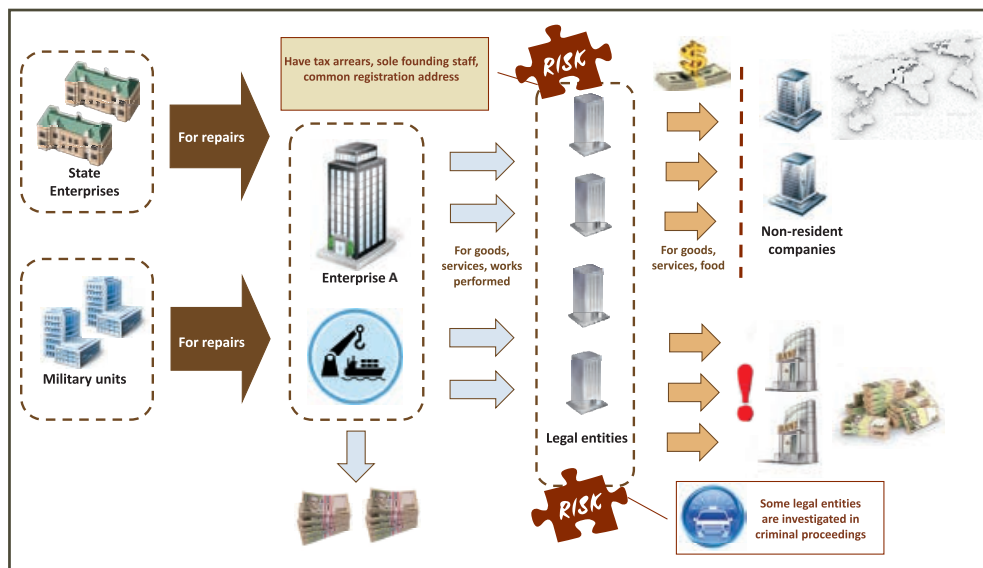
Eventually most of the proceeds received by **Enterprise A** were transferred to **several legal entities**.

These legal entities withdrew part of the funds in cash; the rest was transferred outside Ukraine.

It was found that main scheme participants have tax arrears, sole founding staff, and a common registration address. In addition, some were involved in criminal proceedings related to non-payment of taxes and money laundering.

Thus, there is reason to believe that bogus enterprises were used in the misappropriation scheme.

A law enforcement agency is conducting a pre-trial investigation in criminal proceedings under Article 191 of CC of Ukraine.



6.4. Laundering of criminal proceeds in the field of public property management

Criminal acts in public administration and local self-government effectively serve to subordinate their activity to corporate and personal interests of a limited circle of individuals. Embezzlement, misuse, and misappropriation of public assets undermine public trust in government.

Example 6.4.1 Embezzlement of the utility company funds through changes in tender conditions.

According to financial investigation, the SFMS identified a scheme of illegal withdrawal of funds from the utility company, masked by numerous changes to the terms of the contract for supply of vehicles.

It was found that the **Utility Company** had concluded a contract for the supply of vehicles with the **Leasing Company** based on the results of the tender. The co-founder of the company is an **individual** who conducts business in Russian Federation.

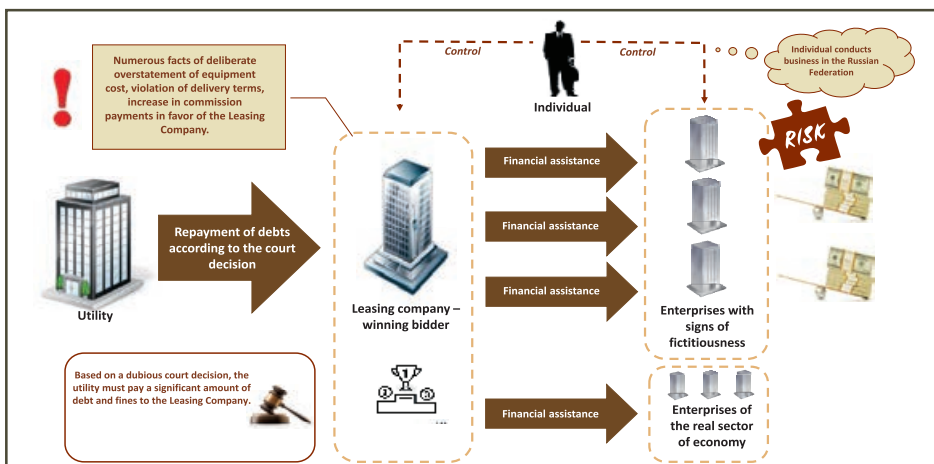
Numerous facts of overestimation of vehicles' cost, breach of delivery terms, increases in commission fees paid to the **Leasing Company** have been established throughout contract delivery.

In addition, based on court decisions, the **Utility Company** paid a significant fine to the **Leasing Company**, which increased its total debt.

Subsequently, part of the funds received by the **Leasing Company** was transferred to accounts of several bogus enterprises controlled by the **Individual** and withdrawn in cash. The rest was directed to several enterprises in the real sector of the economy, owned by a business partner of the **Individual**.

Thus, we have violations of the tender conditions, unjustified changes in terms of the contract and a questionable court decision, which led to misappropriation of funds of the utility and eventual legalization (laundering) of proceeds of crime.

A law enforcement agency is conducting a pre-trial investigation.



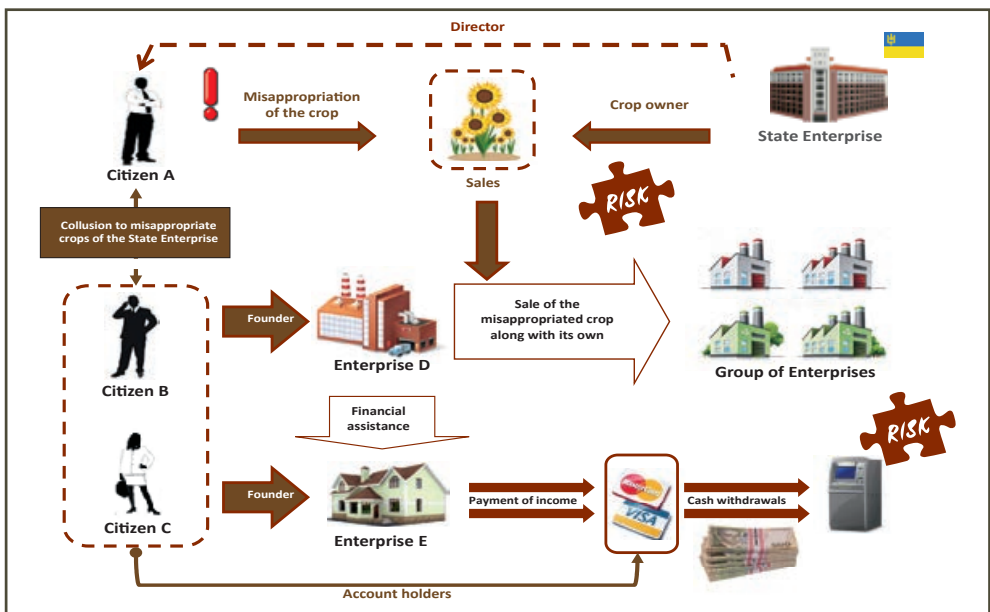
Example 6.4.2 Seizure of state enterprise assets.

The SFMS jointly with a law enforcement agency uncovered a scheme of seizing of state enterprise assets through abuse of office by officials with view to obtain illegal gains.

It was found that **Citizen A**, a director of the State Enterprise, acting in collusion with **Citizen B** and **Citizen C** and abusing his office, seized assets of the **State Enterprise** (harvested crops).

Subsequently, **Citizen B** sold appropriated assets to the **Group of Companies**, using **Enterprise D** under his control, which is a real producer of agricultural products. **Enterprise D** transferred funds received from this sale to the account of **Enterprise E**, founded by **Citizen C**, and to accounts of **Citizen B** and **Citizen C** as individual entrepreneurs. Eventually, a significant portion of these funds was withdrawn in cash.

A law enforcement agency is conducting a pre-trial investigation under Articles 364, 191, 209, 205 of CC of Ukraine with indictments presented to court.



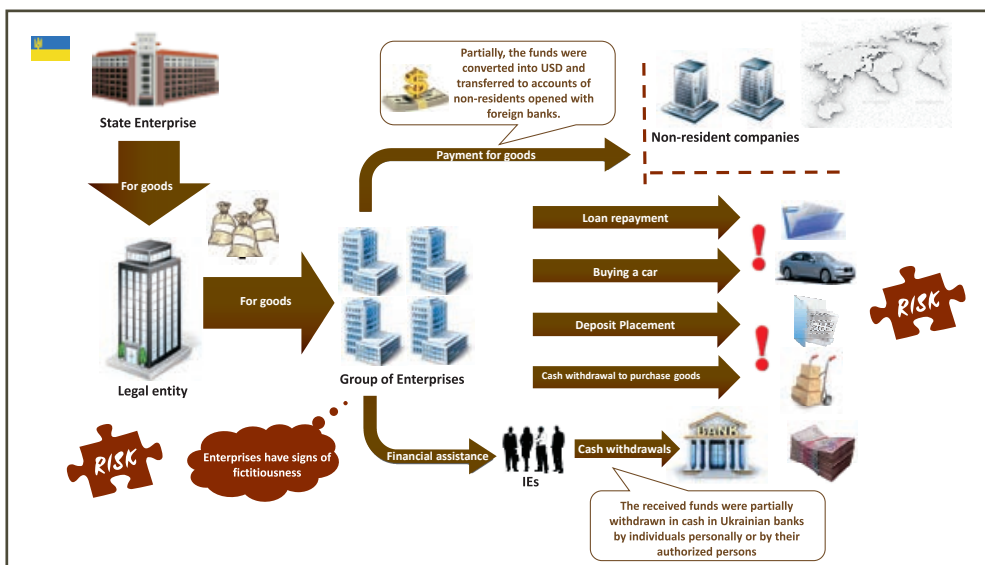
Example 6.4.3 Misuse of state enterprise funds.

The SFMS jointly with a law enforcement agency uncovered an embezzlement scheme involving a **State Enterprise** of the food sector and business entities with signs of fictitiousness.

It was established that the **State Enterprise** transferred funds as payment for goods to the **Legal Entity**. Later, most of these funds were transferred to a **Group of companies** with signs of fictitiousness: sole proprietorship, small taxes, mass registration addresses.

Subsequently, the proceeds were used by a **Group of companies** for various purposes, namely: partially transferred to individual entrepreneurs as financial assistance and partially withdrawn in cash, converted into foreign currency and transferred to non-resident accounts, used as repayment of loans, to purchase a car, place deposits etc.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 358 of CC of Ukraine.



6.5. Laundering of criminal proceeds in the field of design, construction, transportation, and operation of infrastructure projects

The attractiveness of design, construction, transportation, and operation of infrastructure projects can be explained by simultaneous existence of large state-owned monopolies engaged in non-transparent economic activities, and significant amounts of public funding allocated for infrastructure projects.

Non-transparent regulation of passenger transportation tariffs by state and municipal transportation companies, complex calculation of tariffs of state monopolies, “schemed” privatization of state (municipal) property, lack of effective control over benefits and construction of social housing all make it possible to channel out budget funding.

Example 6.5.1 Embezzlement and cashing in state enterprises’ funds.

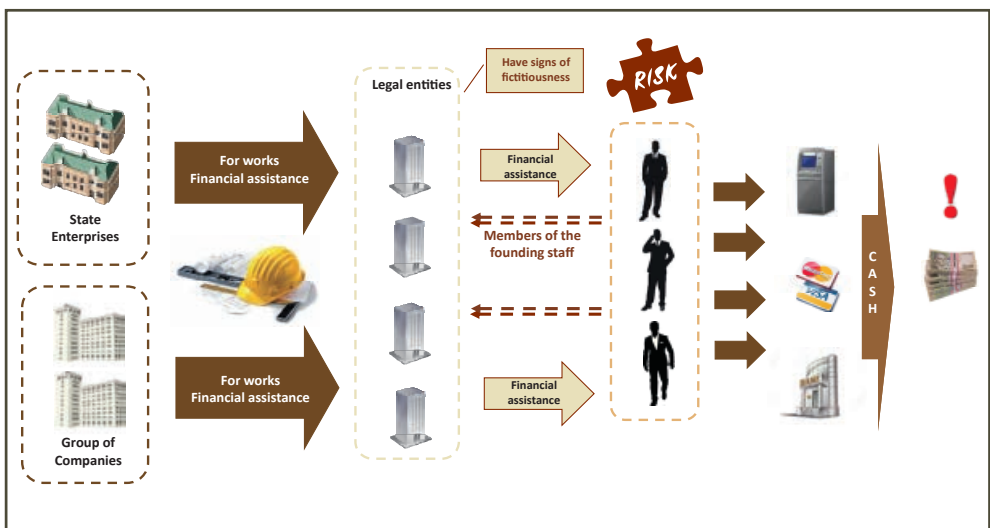
The SFMS jointly with a law enforcement agency identified a scheme aimed at illegal removal of funds from state-owned enterprises and subsequent withdrawal in cash.

In the course of the financial investigation it was found that a group of state-owned construction enterprises had been making regular transfers as payments for design, repair, construction works and as repayable interest-free assistance to accounts of several legal entities having sole founding staff, registered at the mass registration address, and paying insignificant taxes.

These Legal Entities had also been receiving funds from other individuals with stated payment purpose being payment for work performed and assistance.

Eventually, the funds received by the **Legal Entities** were withdrawn in cash as repayable financial assistance to the founding staff of these enterprises.

A law enforcement agency is conducting a pre-trial investigation under Article 363 of CC of Ukraine.



Example 6.5.2 Embezzlement of public funds using “opaque” tenders.

The SFMS and LEA jointly identified a scheme of embezzlement of public funds in procurement of works and services by a state enterprise and possible subsequent legalization of said funds.

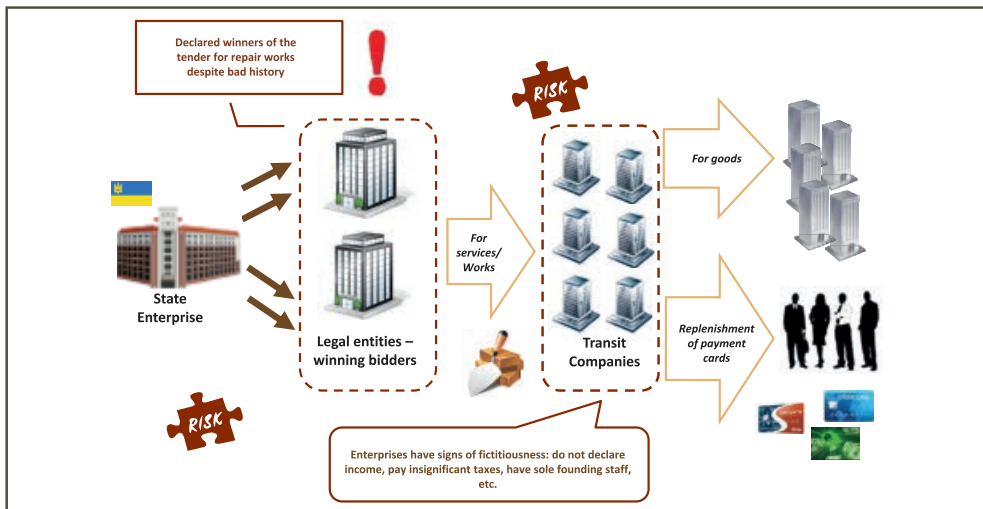
It was found that two related **Legal Entities** that had participated in competitive bidding for procurement by the **State Transportation Enterprise** of repair works and services of significant value had signs of fictitiousness throughout the direct bidding phase. However, they were declared winners of the bidding and received budget funds as payment for repairs.

Part of the funds received by these **Legal Entities** was spent on settlements with other enterprises as part of their statutory activities while the bulk of said funds (about 91% of the amount of transfers) were moved to accounts of “transit” companies as payment for work performed. Businesses that performed the “transit” function also have signs of fictitiousness (sole founding staff, registered at the same tax address, have no declared income, pay small amounts of taxes).

Eventually, “transit” companies partially transferred these funds as payment for goods, as well as to replenish payment cards of several individuals.

Thus, to steal budget funds, enterprises were used that had signs of fictitiousness and could not deliver works and services as required.

A law enforcement agency is conducting a pre-trial investigation.



Example 6.5.3 Embezzlement of public funds using foreign jurisdictions.

According to results of the financial investigation, the SFMS jointly with law enforcement agencies uncovered a public funds embezzlement scheme involving procurement of goods at inflated prices, and subsequent removal of said funds abroad into hands of non-resident affiliate companies.

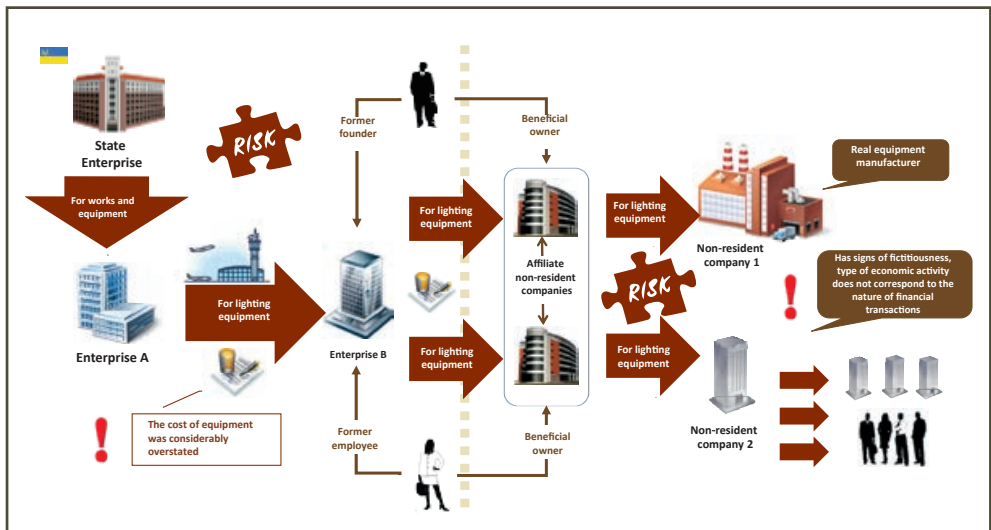
It was found that the **State Enterprise** transferred funds to **Enterprise A** as payment for repairs and payment for lighting equipment. Subsequently, **Enterprise A** transferred part of the funds received as payment for lighting equipment to the account of **Enterprise B**. A law enforcement agency is reporting that the cost of the equipment in the contract was significantly inflated.

Funds received by **Enterprise B** were transferred to foreign accounts of two **non-resident companies**, whose beneficial owners were a former founder and a former employee of **Enterprise B**. Subsequently, part of the funds received was transferred to two other non-resident companies.

According to a foreign financial intelligence unit, the **Non-resident company 1** is a real manufacturer of lighting equipment, the **Non-resident company 2** has signs of fictitiousness, its economic activity not corresponding to the transactions nature.

Eventually, funds received by the **Non-resident company 2** were dispersed around through multiple transfers to accounts of several legal entities and individuals.

A law enforcement agency is conducting a pre-trial investigation under Article 364 of CC of Ukraine.



Example 6.5.4 Misuse of funds of state enterprises in transportation sector.

According to results of the financial investigation, the SFMS identified a public funds embezzlement scheme involving state-owned enterprises in the transportation sector.

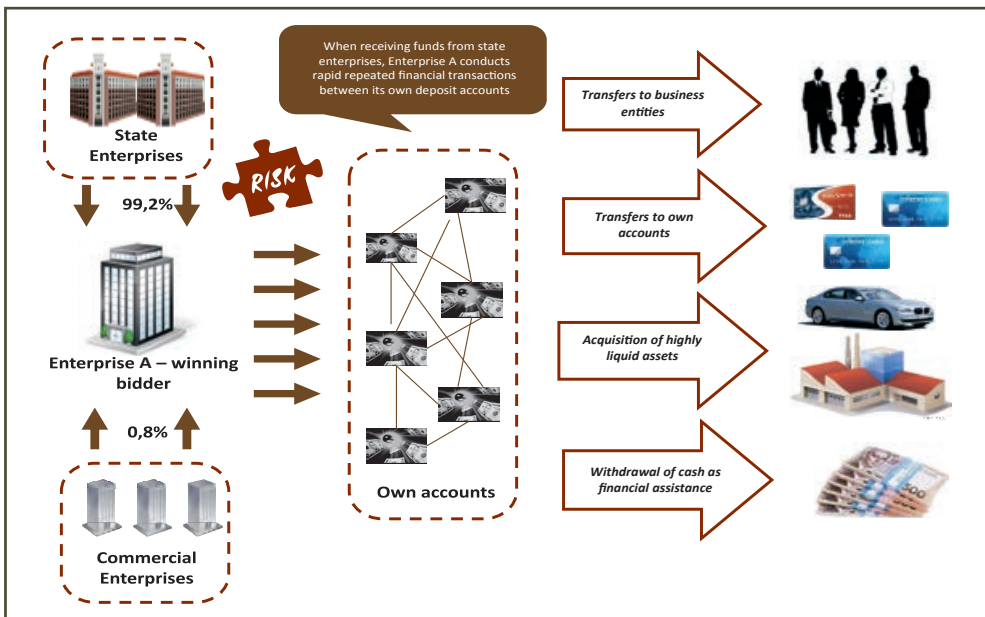
It was found that **Enterprise A** as the winning bidder received significant amounts of money from several state-owned enterprises.

However, the funds were not used to deliver on contract obligations, but were instead distributed among deposit accounts of **Enterprise A**.

Upon debiting, most of these funds were transferred to **Individual Entrepreneurs**, and later used to purchase luxury goods and withdrawn in cash at the bank.

Enterprise A and its counterparties have previously been involved in money laundering schemes.

A law enforcement agency is conducting a pre-trial investigation under Articles 191, 209 of CC of Ukraine.



SECTION VII.
WAYS AND MEANS
OF APPROPRIATING
PUBLIC FUNDS

This typological study has identified following characteristic means related to misappropriation of funds and property of state enterprises and other entities funded from the state and local budgets.

Means

Principal means of wealth removal include:

- use of cash;
- assignment of rights of claims;
- loan repayment;
- placement of deposits;
- financial assistance agreements (loans);
- repayment of overdue debts;
- services of difficult to determine value, pseudo-services;
- agency agreements;
- controversial court decisions;
- purchase of real estate and luxury cars;
- increase in the value of goods / services;
- forgery of documents;
- increase in commission payments;
- payment of dividends to nominal owners.

Ways of misappropriating public funds

The most common ways of embezzlement of public funds are:

- use of bogus business entities, including non-residents to receive budget funds;
- use of business entities, including non-residents related to the management of a state-owned enterprise;
- setting tender requirements for a pre-determined bidder. Conspiracy of bidders to determine the winner;
- use of straw persons for registration of subordinate legal entities in order to conceal the real beneficial owner;
- use of affiliates to provide pseudo-services;
- procurement at pre-determined (usually inflated) prices, as well as manipulating the quality and volume of procurement;
- concluding fake contracts for the provision of services, performance of works and supply of goods;
- conducting non-commodity transactions;
- payment for public services to certain entities;
- fraud with loans and credits provided by foreign states and international financial organizations by forging financial documents and reports;
- involvement of individual entrepreneurs who are also employees of a state-owned enterprise;
- covering expenses of third-party legal entities and individuals with public funds;
- involvement of pseudo IEs.

Schemes of embezzlement, misuse and laundering of state enterprises' (state institutions) funds

The most common schemes of embezzlement and money laundering involving state-owned enterprises include:

- a state enterprise (government agency) transfers funds to enterprises (winning bidders), related to the management of the state enterprise. Eventually, funds are transferred to shell companies and withdrawn in cash;
- business entities having no employees nor production facilities receive funds from a state enterprise (government agency), part of which is redirected to intermediaries to fulfill contract obligations while the rest is withdrawn in cash or transferred to accounts of officials of the state enterprise (government agency), related persons or enterprises;
- funds received from a state enterprise (government agency) as payment for goods / works / services are dispersed and scattered among a significant number of shell enterprises as financial assistance / purchase of securities / debt transfer with eventual withdrawal in cash;
- a state-owned enterprise (government agency) transfers funds to the business entity without actual supply of goods and services;
- a state-owned enterprise (government agency) concludes consultancy or agency contracts, including with non-resident companies, the fact of delivery hitherto and the cost being difficult to establish;
- a state-owned enterprise (government agency) transfers funds to the successful tenderer, who further transfers funds to several individual entrepreneurs as payment of income, while the activity of said entrepreneurs is limited to the duration of the payment timeline;
- enforcement of court decisions on payment by a state-owned enterprise (government agency) of a fine / penalty under contracts that have disputed conditions.

CONCLUSION

Creating an effective monitoring system to counter financial abuse in the public sector is an important component of supporting the state, because the budget is an integral component of the state, and violations committed in this area have a negative impact on the socio-economic processes in general.

Proper functioning of the mechanism for combating offenses and abuse in the public sector requires study and practical implementation of best international experience as well as being able to identify typical patterns and mechanisms of misappropriation of funds and assets of state enterprises and other entities funded from the state and local budgets that are unique to the domestic financial market.

The key is to ensure coordination and cooperation between all parties of the national AML system, including exchange of information and experience, consolidated efforts to detect and deter crime, seeing offenses all the way to sentencing.

The number and magnitude of financial offenses in the budgetary sector remains incredibly significant. The most corrupt areas in public finance of our country include defense industry, fuel and energy sector, management of state funds and local budgets, property management and public utility companies. It is here, in the most important sectors for Ukraine, where there is abuse of office and enrichment at the expense of public funds.

This typological study successfully identified the most common predicates for legalization of proceeds of illegal enrichment using public funds: misappropriation, embezzlement of property or misappropriation through abuse of office, fraud, official forgery, forgery of documents, abuse of power or office, negligence.

This study seeks to improve detection and lessons learned with respect to criminal technologies in the field of public finance by all participants of the AML system, which is essential for effective prevention and prompt response to shadow dealings with funds and assets of state and local budgets.

ANNEX. MANUALS AND CLASSIFIERS

Entities funded from the state and local budgets

<https://bit.ly/33MJQQI>

Unified register of spending units and budget holders

(no classified information)

Legal entities (state-owned enterprises and other entities)

<https://bit.ly/2Z5sfEL>

Business entities of the state sector of the economy (state-owned enterprises, their associations, subsidiaries and companies, whose state share in the authorized capital exceeds 50 percent)

The website of the State Property Fund of Ukraine contains a register of public sector economic entities (state-owned enterprises, their associations, subsidiaries and companies, whose state share in the authorized capital exceeds 50 percent) is published.

The register is searchable by two categories of entities:

- legal entities;
- individuals.

The search is based on a partial match of search parameters. Individual certificate of corruption or corruption-related offenses is generated based on entries in the register by TIN or USREOU code of the digital signature.

<https://bit.ly/2Klwlo4>

Register of corporate rights of the state

<https://bit.ly/2Z4W7RH>

The State Property Fund of Ukraine, in accordance with the resolution of the Cabinet of Ministers of Ukraine dated October 29, 2003 No. 1679, maintains the Register of Corporate Rights of the State.

<https://bit.ly/2ZixSL8>

Register of business entities participating in the selection and / or counterparties who have a history of improperly fulfilled contract obligations

The Ministry of Defense of Ukraine maintains a Register of business entities participating in the selection and / or counterparties who have a history of improperly fulfilled contract obligations.

<https://bit.ly/2TM3E20>**Consolidated list of natural monopolies**

The Antimonopoly Committee of Ukraine is entrusted with the functions of maintaining a consolidated list of natural monopolies.

The procedure for drawing up and maintaining a consolidated list of natural monopolies was approved by the Decree of the Antimonopoly Committee of Ukraine No. 874-p of November 28, 2012.

<https://bit.ly/2zcML7i>**The National Commission for State Regulation of Energy and Utilities**

The National Commission for State Regulation of Energy and Utilities maintains:

- register of natural monopolies in the field of energy;
- register of natural monopolies in the areas of heat supply, centralized water supply and centralized sewerage.

Individuals<https://bit.ly/2Wqj4ER>**Unified state register of persons with a history of corruption or corruption-related offences**

National Agency for Corruption Prevention has published a Unified state register of persons with a history of corruption or corruption-related offences.

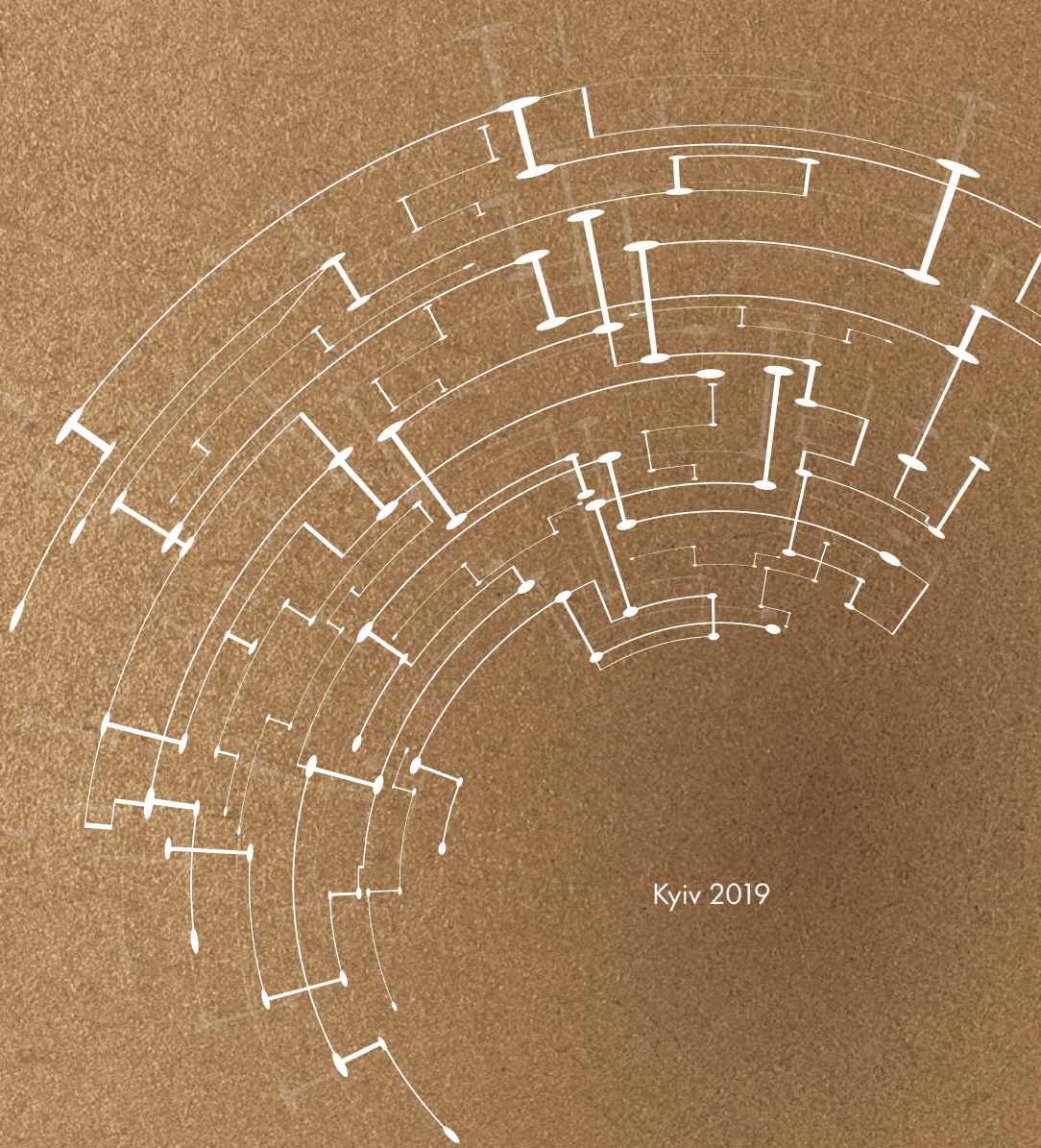
The register is searchable by two categories of entities:

- legal entities;
- individuals.

The search is based on a partial match of search parameters. Individual certificate of corruption or corruption-related offences is generated based on entries in the register by TIN or USREOU code of the digital signature.

Property<https://bit.ly/2ZbEMWJ>**Unified register of state property**<https://bit.ly/2ze4BXv>

Maintenance of the Unified register of state property is done by the State Property Fund of Ukraine in accordance with the Law of Ukraine "On Management of State Property", Government Resolutions of April 14, 2004, No. 467 "On approval of the Regulations on the Unified register of state property (with changes and amendments)" and from November 30, 2005, No. 1121 "On approval of the Methodology of inventory of state owned property" and other legal acts.



Kyiv 2019