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The Best Defense Is Good Governance

Use Russia's Money to Reform Ukraine's Defense
and Security Sector

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SUMMARY: FUND PROCUREMENT, CONDITIONALITY, AND ASSISTANCE

The G7 is in the process of deciding how to distribute its forthcoming \$50 billion in loans to Ukraine from interest on Russian assets. Three policies could help maximize the positive impact of the funding on the war effort and Ukrainian democracy by supporting governance reforms in the defense and security sector. Defense and security currently constitute the most important part of the Ukrainian government, consuming roughly half the state budget in its vital management of national mobilization. Yet it is almost entirely neglected by Kyiv's international partners, who support reforms in essentially every other sector of Ukrainian governance.¹

The \$50 billion in loans, which will be spent partly on military needs and partly on economic assistance, should fill the gap in foreign aid supporting defense and security governance reforms in three ways:

- **Procurement:** Direct military spending to the two well-led procurement agencies within the Ukrainian Ministry of Defense (MOD).
- **Conditionality:** Leverage economic aid to advance defense and security reforms.
- **Assistance:** Fund a five-year, \$100 million technical assistance and civil society support program targeted exclusively at defense and security reforms.

This report sketches out this policy proposal and recommends why and how the US government, the European Commission, and the G7 sherpas and ambassadors should agree to do this and select institutions to task.

BACKGROUND: REFORMS REQUIRE FUNDING. SPEND RUSSIA'S MONEY ON THEM.

Defense spending currently constitutes about half of the entire Ukrainian state budget. However, the monumental gains in Ukrainian anti-corruption reforms over the past decade have been concentrated in sectors other than defense and security—a realm of governance that suffers around the world from fragmentation and opacity enabled by secrecy.² With so much money flowing through largely unreformed state organs operating in a shadowy sector, the risk of corruption and inefficiency in Ukrainian defense and security is substantial.

Beyond the direct harms of siphoning funding away from the front lines and other mobilization needs that are vital to the survival of Ukraine, there are three major indirect dangers associated with corruption in the Ukrainian defense and security sector:

- Corruption scandals make it politically harder to sustain vital international wartime assistance, particularly if any such corruption were to touch foreign aid.³
- Ukrainian society, which is highly sensitive to injustice at this time of mobilization, could lose the faith, trust, and morale that are needed to keep it driving toward victory.
- Corruption in defense and security risks funding powerful vested interests that could stand in the way of Ukraine's emergence from the war with a military that is strongly checked and overseen by a civilian democratic state—and meets EU and NATO governance standards.

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Beyond the risks of corruption per se, the efficiency and effectiveness of Ukraine's national security apparatus is often held back by a hierarchical Soviet-style operating culture that slows down or impedes evidence-based decision-making, modern analytical capacities, strategic policy planning, and dynamic performance-based management. These and other functions of good governance are necessary to both current defense and security needs and the future of NATO interoperability and eventual membership.

Thus, defense and security reforms are essential. But in all countries, and particularly in Ukraine, getting reforms done right requires money. Three different forms of funding correspond to the recommendations in this report.

- ***Channel funding through reformed institutions.*** Spending money well and bolstering reformed institutions requires empowering them with control over funding. This is not limited to ample staff budgets, but also involves command over larger financial flows. The critical example at the MOD is contracting arranged by the two newly reformed procurement agencies. These agencies should start receiving some of the Western military assistance that comes in the form of money—such as the \$50 billion in loans—rather than in-kind provision of arms and supplies.
- ***Condition economic aid upon the delivery of reforms.*** Even top Ukrainian authorities who have the political will to reform struggle to see tough reform processes through unless delivery and implementation are strict conditions of international financial assistance. Conditionality tied to foreign aid has been key to getting every landmark anti-corruption and governance reform done in Kyiv over the past decade. When powerful beneficiaries of the status quo stand in the way of reform,

the reformers' hand is strengthened if the opposition jeopardizes billions of dollars in aid.

- ***Fund technical assistance and civil society organizations (CSOs).*** Ukrainian CSOs and technical assistance experts, who still depend largely on international funding, are essential drivers of reform processes in Kyiv. Whereas civil societies in other countries focus mainly on the watchdog role of monitoring governance, Ukrainian civil society specialists also ignite public demand for reform, draft the most important laws, advocate for their passage, collaborate with the government to implement policy initiatives, and fire off signal flares to the Ukrainian public, diplomatic circles, and other foreign observers when reforms go off the rails. Since the Revolution of Dignity, civil society has achieved broad legitimacy as the beating heart of the Ukrainian nation to a degree that can be difficult to appreciate outside Ukraine.⁴ Attempting to reform the defense and security sector without funding a robust civil society ecosystem and technical advisors dedicated to this work would be a recipe for failure.

Yet even as the G7 and other European allies deliver hundreds of billions of dollars in wartime aid—including \$20 billion per year in development assistance—they are leveraging almost none of this money to support defense and security sector reforms. Most military assistance naturally comes in the form of in-kind provision of defensive equipment, leaving arms contracts arranged by the MOD's reformed procurement agencies to be funded by the Ukrainian state budget. The limited defense sector conditionality that the United States imposed before the full-scale invasion ended in 2022. And most development agencies, including USAID, interpret their legal constraints as barring them from providing assistance that benefits the MOD.

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The gap in Western funding for Ukrainian defense and security reforms should be filled through deliberate distribution of the \$50 billion in Extraordinary Revenue Acceleration (ERA) loans to Ukraine from interest on frozen Russian assets. G7 leaders have committed to issuing these funds by the end of this year.⁵ Because this new financial channel is being structured at the direction of top political leaders, it presents a rare opportunity to distribute aid partly through institutions unencumbered by bureaucratic rigidities unfit for purpose during the full-scale invasion. However, time is of the essence. The structures for distribution are coming together over the next couple of months, in time to be able to issue the ERA loans and place the proceeds outside the control of the US government before January 20, 2025, when a new president may cut off aid to Ukraine. In that scenario, Ukraine's defense and security sector would need all the help it can get to reform itself to be capable of continuing to pursue victory and EU integration.

Thus, the Biden administration, the European Commission, and the other G7 allies urgently need a plan for using the ERA loans to reform Ukraine's defense and security sector. This report sets out three policy directions that should guide any such plan.

I. DIRECT MILITARY AID TO THE TWO WELL-RUN PROCUREMENT AGENCIES WITHIN THE UKRAINIAN MINISTRY OF DEFENSE

In 2023, the MOD came under public pressure due to a series of scandals involving its procurements of non-lethal goods and equipment at inflated prices, and to a lesser degree, reporting that the MOD contracted with illicit intermediaries to buy arms on the international black market.⁶ In response, the defense minister stepped down and MOD procurement was reorganized under new agencies with reputable leadership.

The MOD launched a Reforms Support Office with 30 experts who spent their first ten months working closely with civil society and international partners to design, enact, and begin implementing a major reform of the procurement process for non-lethal defense goods.⁷ The responsibility for non-lethal contracting was pulled out of the department that recommends procurement quantities and prices. In the past year, this new agency (the State Rear Operator, known by its Ukrainian initials, DOT) put 94% of the MOD's non-lethal procurements on ProZorro, Ukraine's world-leading platform for transparent public procurement auctions. As a result, of the \$1 billion that the DOT has spent over the past year, it has saved \$300 million by contracting at lower prices than those recommended by the procurement policy department within the MOD. The DOT is now looking to grow its portfolio through more purchases. If Ukraine's allies were to direct some defense aid to the DOT—whose contracting is currently funded exclusively through the Ukrainian state budget—it would send a strong signal that the international community recognizes the DOT as a strongly reformed, transparent, and reputable channel for non-lethal procurement.

Meanwhile, to lead the bigger, often classified work of lethal procurements, the MOD brought in Maryna

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Bezrukova—a reformer who previously cleaned up the procurement process at UkrEnergo—to run the MOD’s Defense Procurement Agency (DPA). Her goal is to cut out all unnecessary intermediaries by contracting directly with producers. Under Bezrukova’s leadership, the DPA has signed more than 20 direct contracts, increasing the direct portion of import agreements from 20% in 2023 to 60% this year. She recently hired as her deputy Artem Sytnyk, the strongly independent former head of the National Anti-Corruption Bureau of Ukraine (NABU).

The clearest sign that this drive to cut out corrupt intermediaries is working is that arms dealers and their cronies are now attacking Bezrukova with threatening messages, smear campaigns, and doxing on Telegram.⁸ The old guard at the Security Service of Ukraine (SBU), where officials are themselves sometimes the intermediaries being sidelined, has placed obstacles in the way of DPA hiring. Thus, one easy move that top Western officials could make to support key reformers at the DPA is to meet with them whenever visiting Kyiv and to applaud their work.

But the most significant way that the West could back these reformers and ensure that financial aid for military purchases is spent cleanly and efficiently would be to fund DPA contracting. This would also help develop Ukraine’s defense-industrial base, because the DPA contracts with local producers of military equipment. In the first half of 2024, the DPA signed contracts for purchasing weapons, ammunition, and military equipment amounting to more than \$6 billion, with another \$4 billion in contracts drafted and ready to sign as soon as funding is available. DPA contracting is still funded almost entirely by the Ukrainian state budget, but that is starting to change. With a \$220 million pilot grant from Denmark recently serving as a successful test case, other countries are now interested in joining the allied effort to fund DPA contracting. If a significant portion of the \$50 billion of ERA loans were directed to the DPA, the agency would sign long-term

contracts to provide an honest pipeline of reliable arms to Ukraine’s military forces.

Some of these benefits are similarly achievable by investing in Ukraine’s defense industrial complex through willing and able multilateral financial institutions such as the European Investment Bank.⁹ A portion of the ERA loan proceeds should indeed be leveraged in that international manner. But at least a billion dollars should also be distributed through the DPA to empower reformers and invest in governing capabilities that Ukraine will need to come out of a long war with Russia as a victorious democracy.

II. USE ECONOMIC AID AS LEVERAGE TO ADVANCE DEFENSE AND SECURITY REFORM CONDITIONALITY

Whereas *military* aid during the full-scale invasion should not be conditioned upon governance reforms, the portion of the ERA loans that funds *economic* assistance should be treated similarly to US budget support, IMF programs, and the EU Ukraine Facility, in that money should be disbursed only after quarterly reform benchmarks are reached. And whereas those other forms of US, IMF, and EU economic assistance are conditional upon governance reforms at many other Ukrainian ministries, a portion of the ERA loans should be dedicated to economic assistance that will be paid to Ukraine only after a quarterly schedule of deliverables at the MOD, SBU, and other institutions is fulfilled.

The public starting point for defense and security sector conditionality could be those respective sections of the US priority reform list that was leaked in September 2023.¹⁰ Defense reforms were listed among 25 sets of priorities contemplated by the United States almost a year ago (see Box 1). At the time of the leak, the White House was trying to demonstrate to Congress that the US supplemental funding legislation would be tied to

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sweeping reforms. But in the seven months after that, Russian forces regained battlefield initiative amid the delay in Congressional passage of the supplemental. Now there is less time remaining to implement reforms and more urgency to support Ukraine's war effort, so the White House is increasingly taking the opposite tack and lightening conditionality. Thus, in the ongoing negotiations with Ukrainian authorities over which reforms must be delivered each quarter before USAID will make budgetary support payments, defense and security reforms are among those that both sides have taken off the table.

When resuscitating the previously considered defense and security sector reform for the purposes of the ERA loans, the language should be updated, as the text that leaked in 2023 was largely drafted before the full-scale invasion began in early 2022.

The first condition for the MOD in the leaked US reform list focuses on redesigning procurement processes and procedures, an issue that has since advanced with the launch of the DPA and the DOT. Conditionality should include support for these agencies and the legislative needs they continue to have. However, conditionality

BOX 1: LEAKED US PRIORITY REFORM LIST – DEFENSE SECTOR

DELIBERATIVE // PRE-DECISIONAL
WORKING DRAFT – SUBJECT TO REVIEW

Ministry of Defense (MOD):

- Without undermining readiness, re-design both military armament and public procurement processes and procedures reflecting NATO standards of transparency, accountability, efficiency, and competition in defense procurement.
- Adopt legislative national security omnibus amendment 4210 that strengthens democratic civilian control and oversight of the military, modernizes command and control architecture in accordance with NATO principles, and transforms governance and defense planning processes to increase interoperability with NATO.
- Transform defense planning and resource management systems to increase transparency, reduce corruption, and increase interoperability with NATO.
- Re-design both military armament and public procurement processes and procedures reflecting NATO standards of transparency, accountability, efficiency, and competition in defense procurement.
- Modernize defense human resource management and military education systems to align with and reflect NATO principles, standards, and doctrine.
- Invest in Women, Peace, and Security (WPS) initiatives.

Ministry of Strategic Industries / Ukraine Defense Industry (formerly UkrOboronProm): Stand up UDI supervisory board that complies with OECD standards, including participation by foreign defense experts. Build stronger institutional connections (e.g., liaison or procurement offices) with MOD and General Staff planning, to ensure UDI's work is aligned with the country's most pressing needs. Ensure NATO standards of transparency, accountability, efficiency, and competition across the defense industrial sector. Institute transparency procedures (even taking into account wartime needs for secrecy) to allow later audit and avoid even the appearance of politicization or corruption in defense production.

Source: Ukrainska Pravda, "White House letter sets out reforms that Ukraine needs to implement to receive aid", September 25, 2023.

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should also note that functions of defense procurement systems beyond those two agencies must also be brought up to NATO standards, including planning, budgeting, controlling, and contracting.

The second condition for the MOD in the US list is the enactment of Ukrainian parliamentary amendment 4210 on democratic civilian control over the military. During the full-scale invasion, this is no longer the most urgent need. Instead, conditionality should require a reboot of the system of parliamentary control (for example, strengthening the capacity of the defense committee in the parliament to access information from the MOD in a timely and comprehensive manner,

investigate procurement issues, and so on) and democratic civilian oversight (for example, strengthen the capacity of the MOD's anti-corruption council and establish it as an independent institution, enhance whistleblower protections, and more).

In addition to *defense* reforms at the MOD and UDI, three other sections shown below from the 25 sets of leaked US priority reforms cover key Ukrainian *security* services: the SBU, the National Police of Ukraine, and the State Border Guard Service of Ukraine (see Box 2).

BOX 2: LEAKED US PRIORITY REFORM LIST – SECURITY SECTOR

DELIBERATIVE // PRE-DECISIONAL
WORKING DRAFT – SUBJECT TO REVIEW

Security Service of Ukraine: Adopt draft laws to reform and further restructure the Security Service of Ukraine (SBU), including limiting the SBU's law enforcement authorities to those associated with counter-intelligence, counter-espionage, cybersecurity, and counterterrorism. Complete ethical and professional attestations of those to be hired in (and re-attestations of those working in) the SBU. Create credible disciplinary committee and replace staff who do not meet ethical and professional standards. Enhance parliamentary and civilian oversight of SBU. Restructure process for requesting lawful intercept (wiretapping), and allow other institutions to conduct judicial intercept separate from SBU. Open a transparent process for hiring leadership with meaningful and sustained international participation.

National Police of Ukraine (NPU): Create transparent, merit-based promotion and selection system. Strengthen the NPU's internal affairs and inspector general units, remove inspector general units from oblast leadership control. Expand patrol police jurisdiction to districts and replace district patrol units. Incorporate modern and practical police training modules into all aspects of police training.

State Border Guard Service (SBGS): Create safe and secure inter-linkages of information between SBGS and border guard services of EU countries to increase efficiency of cross-border movements of people and commerce. Modernize incident and traffic flow (people and commercial) reporting and business applications to allow accurate statistical reporting for public consumption. Improve processes for reporting corruption, including the establishment of whistle-blowers protection within the service.

Source: *Ukrainska Pravda*, "White House letter sets out reforms that Ukraine needs to implement to receive aid", September 25, 2023.

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Within these security sector reforms, a top priority for conditionality should be framework legislation to restructure both the SBU and state secrecy, improving transparency by giving the SBU a mandate more like a traditional intelligence agency rather than combining secrecy authorities with such vast investigative powers. Reform should include clear delineation of competencies between security services such as the SBU and law enforcement agencies such as the State Bureau of Investigation, the Bureau of Economic Security, and NABU, among others. Draft laws on the SBU and classified information reforms were developed before the full-scale invasion by a working group that included one CSO (NAKO).¹¹ That work was postponed after February 2022 and resumed only recently, but this time without any civil society or other independent experts at the table.

The existential challenge of living next door to a terrorist state that aims to wipe Ukraine off the map is making security officials in Kyiv feel the need to develop more muscular, Mossad-like special and intelligence services. But that is all the more reason why more accountable oversight needs to be developed in tandem. And such oversight should balance the external security necessity against the internal governance risk that the reform process could be hijacked by power centers in Kyiv, such as the presidential office, that dominate rivals through a strong and unaccountable SBU and secrecy regime. Striking that balance requires the participation of civil society and international partners.

In an important process development, just after the US priority reforms were leaked in September 2023, NATO and Ukraine agreed to jointly develop an interoperability roadmap. Under that framework, NATO is helping Kyiv develop the defense and security sector capacity that would allow it to integrate into the alliance. Because the roadmap articulates the US priority reforms in greater detail, it should form the basis of any conditionality under the ERA loans.

As far as the timing of defense and security conditionality, if Vice President Kamala Harris is not elected president in November, the outgoing administration can be expected to safeguard existing aid to Ukraine in at least two ways before January 20, 2025. First, any remaining aid appropriated under the supplemental will go out the door to Ukraine. Second, the ERA loans will be issued and the proceeds will be placed in structures that sit outside of US government control so that a future US president cannot pull the money back. The \$50 billion would not have to be sent immediately to Ukraine, but it should be held in the hands of some combination of international financial institutions and allied governments that are more or less impervious to US government pressure.

Thus, the timeframe for reform implementation could extend beyond next January, so long as the allies can agree upon an international system of monitoring and evaluating the delivery of defense and security reforms through 2025. The G7's multi-agency donor coordination platform would be a natural space in which to agree to build such a system—along with other structures around the delivery of the ERA loans—between now and January.

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III. FUND A TECHNICAL ASSISTANCE AND CIVIL SOCIETY SUPPORT PROGRAM FOCUSED ON DEFENSE AND SECURITY

Of the \$50 billion in loans, the G7 should agree to earmark at least \$100 million for the establishment of a five-year technical assistance and civil society support program dedicated exclusively to Ukraine's defense and security sector. That would amount to \$20 million per year, which an official who works with the Ukrainian defense and security sector confirms could fit within the total annual absorptive capacity of roughly \$30 million.¹² To compare, the United States and the European Union are each currently delivering Ukrainian anti-corruption and governance reform programs funded to the tune of hundreds of millions of dollars in development assistance—including more than \$100 million on projects dedicated exclusively to anti-corruption, plus far greater sums on the anti-corruption and governance components of various sectoral programs. But these existing US and EU efforts are not currently set up for heavy work in the defense and security sector, which development agencies view as beyond their purview. With defense and security occupying roughly half of the Ukrainian state budget and largely unreformed, this sector needs at least \$100 million in assistance to get underway with enough programming to start making a meaningful difference.

Since 1973, USAID has been statutorily prohibited from using economic assistance for “military or paramilitary purposes” under Section 531(e) of the Foreign Assistance Act.¹³ At that time, Congress was reckoning with the troubling experience of the Vietnam War. Half of all USAID economic aid went to Vietnam, with the largest program operating under the command of the Department of Defense and the CIA to “pacify” rural areas.¹⁴ In theory, the program was meant to “win the hearts and minds” of the Vietnamese people by building schools, hospitals, and

highways.¹⁵ In practice, the CIA was using USAID to fund militias that forced millions of peasants to flee from the countryside to the cities so that the Viet Cong could not hide in their midst.¹⁶ Some USAID implementing partners deployed unsavory methods such as assassination of guerrilla leaders, destruction of rural infrastructure, systematic torture, and killing of tens of thousands of civilians.¹⁷

That scarring history of the Vietnam War reverberates through USAID's culture and animates internal legal guidance around implementation of the prohibition in the Foreign Assistance Act. When Ukrainian CSOs working on anti-corruption in defense spending ask USAID program officers for funding, they are usually told that USAID programming cannot be used for military purposes. Senior USAID officials advise Ukrainian CSOs to justify their work as benefiting anti-corruption agencies such as the National Agency on Corruption Prevention (NACP) rather than the MOD. But only a limited degree of programming in the defense and security sector can be structured that way without USAID's General Counsel deeming it impermissible military assistance.

Amid Ukraine's existential war, some OECD countries—such as Ireland, which has traditionally been uninvolved in the defense sector due to its neutrality law—are now reexamining their domestic policies to find more space for supporting anti-corruption in defense and protection of civilians. Officials and lawyers at USAID should likewise reconsider whether they can further support oversight of Ukraine's defense and security sector. One approach that should be achievable within the confines of the Foreign Assistance Act would be to fund CSOs—rather than governmental bodies—that conduct oversight and other work in defense and security.

While USAID is exploring how far it can go within the law, the White House, the European Commission, and the G7 sherpas should develop options to direct the

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proceeds of the ERA loans to bilateral and multilateral donors other than USAID. In both avenues—moving the needle within USAID and finding other donors—the Americans and Europeans should learn from the

G7 country that has developed the most advanced system of working in the defense and security sector within the parameters of development assistance. That country is the United Kingdom (see Box 3).

BOX 3: BRITISH DEVELOPMENT ASSISTANCE TO UKRAINE'S DEFENSE SECTOR

The UK is the only G7 country that is providing significant development assistance—more than \$6 million per year—to the Ukrainian defense sector. This money is provided through the UK government's Integrated Security Fund (ISF), a pool of cross-governmental aid meant to reduce silos between the UK's Foreign Office and other departments such as the MOD. Importantly, the UK's ISF makes a distinction between *military* and *defense* assistance. *Military* aid is often delivered by uniformed British military officers who support their counterparts in the Ukrainian armed forces at the tactical and operational levels (military teaching military) to help them more effectively deliver military effect. By contrast, *defense* assistance is largely delivered to civilian officials (ministers, deputy ministers, directors, and the like) or military personnel in civilian-type roles (for example, anti-corruption, financial management, human resources, and the like) predominantly by non-military experts and CSOs who advocate for anti-corruption and good governance. Defense assistance fits within the Foreign Office's perspective that every ministry—including the MOD—has the right to receive development assistance as a governmental department that should be governed under transparent processes and accountable to democratic civilian leadership. The UK government infuses ISF programming with its own expertise in NATO operating standards to help prepare Ukraine for NATO accession.

The UK approach complies with the OECD's guidance around what qualifies as official development assistance (ODA), a classification first defined in 1969–1972 to exclude aid that serves “military purposes”. The same term is written into the US statutory prohibition that was first drafted at about the same time. The ample space for ODA programming that benefits defense ministries without crossing the line into military assistance can be seen in an OECD casebook reviewing 49 programs of conflict, peace, and security aid under which OECD countries provide expertise, often from their own defense ministries and armed services to those of recipient countries. The OECD deemed only 12 of the 49 cases non-ODA.¹⁸

Not all OECD countries take advantage of this space for non-military defense assistance. Of the 49 cases the OECD reviewed, USAID appears in only two. And unlike most of the 47 non-US cases, neither of the two USAID activities involves defense or security organizations (one is about facilitating community dialogues in Mali and the other supports judicial and enforcement capacities in Guatemala), making it a stretch to include them in the casebook of this sector. In conflict zones from Afghanistan to Ukraine, USAID has a reputation in the aid community for being on the more conservative end of the spectrum, typically treating all aid to the defense and security sector as impermissible military assistance.

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The UK government does not view itself as occupying the other end of the spectrum, but rather as having developed a sound middle ground. While some countries put their own defense attachés in charge of Ukrainian defense sector reform programming with little regard for whether that military-led activity fits within the OECD definition of ODA, British defense reform programming is led by civil servants, and when they do augment a development activity with a minor element of military assistance (such as when a uniformed military lawyer needs to be flown in to give a presentation on humanitarian law), they are careful to fund that portion of the activity through a small pot of non-ODA funding.

About 93% of the Ukrainian defense sector aid provided by the UK government stays within the three pillars that fit within the definition of ODA. First is “good governance”, which covers democratic civilian oversight of the armed forces and involves bringing systems and processes in areas such as accounting, auditing, and human resources up to international standards. Second is “anti-corruption”, which works with the NACP to ensure the MOD has sufficient transparency and accountability controls (such as helping the DPA roll out SAP, which features a built-in fraud detection system). And third is “human and reputational security”, supporting initiatives such as WPS, Children and Armed Conflict, protection of civilians, and international humanitarian law.

All UK-funded defense sector activities are meant to advance one of these three pillars of development benefits, and those are the outcomes they are measured against, even if they also come with knock-on benefits that help the MOD more effectively pursue its own goals related to winning the war. To ensure ODA compliance by preventing activities within these three pillars from creeping into the realm of military aid, the UK prohibits its own MOD from tasking work outside those pillars and empowers independent advisors in Whitehall to draw the line between defense and military assistance on any given activity.

The MOD could use much more defense assistance than the UK is providing, starting in areas such as digitalization and procurement reform, where the ministry is asking donors for urgent help. One form of immediate technical aid the G7 could provide is IT assistance in carrying out the MOD’s digital transformation to SAP—a need that is currently weighing down the operations of the DPA. And beyond defense per se, Ukraine’s broader security sector is receiving little to no assistance. The SBU, the State Border Guard Service of Ukraine, the National Guard of Ukraine, the National Police of Ukraine, Ukrainian Defense Industry, and the Ministry of Internal Affairs—civilian institutions—will need to come out of the war thoroughly reformed so that the military does

not continue to dominate Ukraine’s national security apparatus.

Beyond technical assistance for the MOD and the security services, the majority of a new \$100 million assistance program should be dedicated to building an ecosystem of dozens of Ukrainian CSOs focused on defense and security. Ramping up support for civil society could be the most fitting activity for USAID to focus on in the event that its lawyers decide to redraw the line to allow funding of *non-governmental* security and defense actors (as permissible development assistance) but still avoid *governmental* security and defense bodies (which USAID might continue to deem impermissible “military purposes”, because even if it

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is focused on governance and anti-corruption, it still also improves efficiencies that benefit the military apparatus). Although that new dividing line would still be significantly more conservative than that of the UK Foreign Office, which deals directly with the MOD, it would be a constructive evolution for USAID.

As context, the United Kingdom is only scratching the surface of potential absorptive capacity when it spends 60% of its \$6.5 million Ukrainian defense sector budget supporting local civil society partners. Ukraine has one of the most extensive civil societies in the world and many existing CSOs and new entrants want to ramp up work on defense and security. And Ukrainian civil society brings essential local awareness of the critical need to depoliticize governance such that civilian oversight over the security apparatus does not equate to further concentration of unaccountable power in the presidential office. Greenlighting USAID to operate with latitude across the considerable space of Ukraine's non-governmental defense and security sector could be a game-changer.

The handful of Ukrainian CSOs that have been working on defense and security issues for many years—including the Centre for Defence Strategies, NAKO, the Razumkov Centre, Come Back Alive, and others—should be at the core of any initiative to build out Ukraine's civil society dedicated to these issues. New civil society entrants dedicated to Ukraine's defense and security, such as the Sahaidachny Security Centre and Frontier Institute, are lining up significant expertise and will require donor's attention and support. Ukraine's deep bench of anti-corruption CSOs such as AntAC, StateWatch, and Transparency International Ukraine have begun to focus on defense sector priorities including procurement reform and should also receive funding. CSOs that focus on regulatory policy, governance reform, and economic development, including the Better Regulation Delivery Office, have been lending their expertise in areas such as digitalization—a proficiency that is unmatched in

Ukraine—to build the app that the MOD uses to allow Ukrainians to show their conscription status to military recruiters; streamline demining through algorithmic tracking; train MOD digital officers; help secure defense data on cloud storage; and digitize documentation around the logistical control over weapons and equipment provided by partner countries.¹⁹ As with past tools co-created by civil society and government—and even more important in the security context—the inclusion of civil society provides not only technical expertise and local insight but also valued oversight in areas of human rights, democratic accountability, and good governance. Currently, many Ukrainian civil society experts focusing on defense and security projects are working in their spare time on nights and weekends out of patriotic duty, because most donors have not yet found a way to fund their projects.

Beyond funding and building out the community of CSOs already chipping in on defense and security reform work, donors could invest in related sectors that feed expertise into the civil society ecosystem—particularly education. Three universities in Ukraine that have cultivated the pipeline of experts who have profoundly shaped reform progress over the past decade—Kyiv-Mohyla Academy, the Kyiv School of Economics, and the Ukrainian Catholic University—were created with support from international donors. The dynamism of these universities stands in stark contrast to the old Soviet style of Ukraine's national defense universities, which are too sclerotic to reform. Donors could start by helping Western universities with top-notch programs in security studies establish campuses or joint ventures in Ukraine.

Finally, the G7 will have to select Western donor institutions to administer and oversee technical assistance and civil society support focused on Ukrainian defense and security and funded by \$100 million from the ERA loans. However, no single institution is equipped with all the necessary capabilities. Development agencies have the infrastructure to

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deliver major governance assistance programs but do not have expertise in or comfort with the defense and security sector. Organizations such as NATO that do have critical defense and security expertise are relatively inexperienced in anti-corruption work or support for civil society, usually restricting themselves to government-to-government cooperation. When deciding which national and multilateral institutions to task, the United States, the United Kingdom, the European Union, and other G7 partners should consider three options:

- **United Kingdom:** Give the job to the UK Foreign Office with a mandate to upscale its current \$6.5 million program with an infusion of \$20 million per year from the ERA loans. The main feasibility challenge would relate to the scarce internal staff resources in the British civil service and military, but this could be overcome by establishing a new Whitehall office charged with delivering the program, with funding to bring in civil servants and backfill their positions. The advantage of this approach is that it would springboard off the United Kingdom's existing expertise in supporting Ukrainian defense and security reforms with a combination of ODA and non-ODA resources.
- **United States and European Union:** Add at least the support for civil society in the defense and security sector as an additional activity within existing US and EU assistance efforts focused on Ukrainian anti-corruption and good governance. Money derived from Russian assets would not need to be constrained by the US Foreign Assistance Act or the OECD's ODA parameters, so if they prefer, development agencies could also pass off activities involving uniformed military personnel to the US Ministry of Defense Advisor (MoDA) program and the European Union Advisory Mission (EUAM). The two advantages of bolting this defense and security sector activity onto existing aid projects are that it could be done more efficiently than establishing an entirely new program (which often takes a year or more to design, select an implementer, and launch) and it would clarify that this activity is focused on governance and anti-corruption rather than the military.
- **Multilateral:** Utilize a multi-donor program built in the past few years to meet wartime needs, such as the Partnership Fund for a Resilient Ukraine, or a multilateral development bank such as the European Bank for Reconstruction and Development (EBRD).²⁰ This would truly internationalize the effort, tap into multiple countries' capacities, and minimize exposure to the approach of any particular donor—including a future US government. The challenge in relying on the World Bank is that they have a track record of avoiding real defense and security issues and thus impeding governance progress in conflict zones, as seen in Afghanistan.²¹ A more viable multilateral option would be the EBRD, which plays a leading role in Ukrainian recovery and reconstruction. As part of that work, the EBRD originally established 23 working groups, including three focused on defense and security. Those three were run by outside advisors, because the EBRD does not have staff who specialize in that sector. Heavier defense and security work at the EBRD would require a new directorate or agency in Ukraine funded by non-ODA proceeds of the ERA loans.

Whichever development agencies are selected to deliver this defense and security activity, the program they oversee would have to be set up to collaborate closely with NATO. Neither the development agencies nor their Ukrainian partners (because Ukraine is not yet a NATO member) have expertise in NATO

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standards, including both its formal procedures and its informal operating culture. This gap must be filled by non-Ukrainian expertise in order to build the program around the ultimate objective of bringing Ukraine into compliance with NATO standards and preparing for Euro-Atlantic integration. Such active collaboration with development agencies and civil society is unusual for NATO, so it should be driven by the one NATO office that does feature a history of cooperating with Ukrainian CSOs: NATO Representation in Ukraine (NRU), which was recently assigned a civilian senior representative, Patrick Turner. Turner happens to also bring experience from the British MOD, so he is familiar with the assistance delivered by the UK's ISF.²²

NEXT STEPS: THE US GOVERNMENT, THE EUROPEAN COMMISSION, AND G7 SHERPAS SHOULD AGREE TO DO THIS AND SELECT INSTITUTIONS TO TASK.

To evolve from a concept to an agreement and an implementation plan, the proposal sketched out in this report would have to be taken up by the coordinating bodies of the US government, the European Commission, and the G7 that are responsible for structuring the ERA loans and supporting Ukrainian reforms.

- **US government:** This report would make useful read-ahead material for the next Interagency Policy Committee (IPC) hosted by the White House's International Economic Directorate—which reports jointly to the National Security Council and the National Economic Council—on the topic of the ERA loans. IPCs convene US departments and agencies at the level of assistant secretaries. In this case, the key officials work for USAID, the State Department, and Treasury. USAID leaders should tell White House officials that

they want to use ERA proceeds to fund a new assistance activity focused on civil society in Ukraine's defense and security sector. The IPC should back that effort and augment it with support for some of the other institutional options outlined in this report.

- **European Commission:** President Ursula von der Leyen should drive the decision to use the ERA loans to support Ukraine's defense and security sector, which would require active engagement from several EU stakeholders. The European External Action Service (EEAS) would have to be mobilized under the leadership of Kaja Kallas and her deputy on the Common Security and Defence Policy (CSDP), as well as the Civilian Planning and Conduct Capability, which is the EEAS directorate that runs civilian missions of the CSDP in cooperation with its military counterpart. The Service for Foreign Policy Instruments often manages big projects in the security sphere on behalf of the EEAS, while the European Peace Facility funds EU actions with military and defense implications. Lastly, DG NEAR will need to synchronize conditionality and assistance with the enlargement process, the Ukraine Facility, and the G7's multi-agency donor coordination platform.
- **G7:** The G7 sherpas who arranged for their leaders to agree in June to issue the ERA loans by the end of the year are now working together—including through the multi-agency donor coordination platform—to finalize the details and make it happen.²³ They should inject into this work the need to allocate at least a billion dollars in military financial aid to the MOD's DPA and DOT, include MOD and SBU reforms in any conditionality to be administered by a non-US lending organization, and fund an at least \$100-million technical assistance and civil society support project to be run by

some combination of national donor agencies and multi-donor development agencies. The leadership of any of those agencies—the UK Foreign Office, USAID, the EBRD, NATO, and so on—could also approach the G7 sherpas and raise their hand as interested in taking on relevant parts of this initiative. Meanwhile, the G7 ambassadors in Kyiv should incorporate defense and security reforms into their priorities for the second half of 2024 to build momentum for the recommended policies to accompany the ERA loans.

Joe Biden's legacy will turn on whether he leaves Ukraine with the internal capacity to march forward on its own feet as a well-governed democracy pursuing victory over Russia.²⁴ An essential capstone of that policy program would be setting up the Ukrainian defense and security sector for governance reforms that will foster greater resilience in the years ahead. That could also hand off to the EU and G7 a sophisticated and ongoing Ukraine support project that will remain essential going forward. And it could be done with Russia's money. But the decisions to pursue this path must be taken immediately so that the aid structures can be established within the next few months.

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Endnotes

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The German Marshall Fund of the United States (GMF) is a nonpartisan policy organization committed to the idea that the United States and Europe are stronger together. GMF champions the principles of democracy, human rights, and international cooperation, which have served as the bedrock of peace and prosperity since the end of World War II, but are under increasing strain. GMF works on issues critical to transatlantic interests in the 21st century, including the future of democracy, security and defense, geopolitics and the rise of China, and technology and innovation. By drawing on and fostering a community of people with diverse life experiences and political perspectives, GMF pursues its mission by driving the policy debate through cutting-edge analysis and convening, fortifying civil society, and cultivating the next generation of leaders on both sides of the Atlantic. Founded in 1972 through a gift from Germany as a tribute to the Marshall Plan, GMF is headquartered in Washington, DC, with offices in Berlin, Brussels, Ankara, Belgrade, Bucharest, Paris, and Warsaw.

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The GMF-led Ukraine Reform Working Group (URWG) gathers top Ukrainian reform experts—half based in Kyiv and half based in Washington, London, Brussels, Paris and Berlin—who meet regularly to share information from their respective capitals, discuss timely reform processes, and coordinate strategic communications. URWG is sponsored by Pro-Integrity. In July 2024, the author hosted two URWG meetings dedicated to Ukrainian defense and security sector reforms. The insights generated in those meetings are reflected in this publication.

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