

Joint Report on the Results of the International Coordinated Audit

Residential Premises for Internally Displaced Persons:

Facilitating the integration of families at the new place of residence with the support of the Federal Republic of Germany under the martial law

—
2025



**BUNDES
RECHNUNGS
HOF**



The Accounting Chamber
Supreme Audit Institution of Ukraine

March 2025

The audit results at a glance

→ **What is it about?**

In 2014, the Russian Federation temporarily occupied the Crimean Peninsula and annexed the area contrary to international law. In the same year, armed conflicts started in eastern Ukraine that resulted in the emergence of the temporarily occupied territories of Luhansk and Donetsk regions. The conflicts caused massive displacement of people from the east and south of Ukraine. Since February 2022, Russia has waged an aggressive full-scale war against Ukraine that massively increased internal migration.

The “IDP Housing” project funded by the German Government aims to improve the housing situation for internally displaced persons (IDPs) within Ukraine and thus contributes to their integration into the host communities. This is to be achieved by granting preferential loans for IDPs to purchase housing.

The Bundesrechnungshof (BRH) and the Accounting Chamber of Ukraine (ACU) carried out an international coordinated audit of the project. The purpose of the audit is to comprehensively assess whether the funds made available to Ukraine have been spent properly, as well as the level of achievement of the project's goals and the effectiveness of measures for its implementation.

This report summarises the key findings.

→ **What needs to be done?**

The project established effective structures for housing promotion to support IDPs. However, there are weaknesses that need to be addressed by the relevant public bodies. For example, the processes for selecting potential borrowers should be streamlined, automatic checks should be implemented. The use of the loan repayments and received interests should be regulated and supervised. An appropriate compensation to lenders for mortgages on destroyed real estate property should be provided.

→ **What is the objective?**

The recommendations resulting from the international coordinated audit help to ensure that the financial resources made available for the project are used properly and effectively. They contribute to improving the housing situation of the IDPs and thus their integration into the host communities as much as possible.



Table of contents

Table of contents	3
List of abbreviations.....	4
Preface	5
Introduction	6
Internally displaced persons within Ukraine	6
“IDP Housing” project.....	7
Scope and Objective of the Audit	7
Audit Results	8
Significantly fewer IDPs supported than intended	8
Inefficient management of the revolving fund	9
Imperfection of the borrower selection system.....	9
Loan agreements for destroyed residential property not secured by mortgages.....	10
SFYH’s need for modernisation underestimated	10
Late audit of the use of funds by an independent expert.....	11
Avoid structures with similar tasks (parallel structures)	12
Question the development cooperation arrangements for housing promotion.....	12
Conclusion.....	13
Recommended actions	14

List of abbreviations

A

ACU *The Accounting Chamber of Ukraine*

B

BRH *Bundesrechnungshof*

G

German Ministry *German Federal Ministry for Economic Cooperation and Development*

I

IDPs *Internally displaced persons*

K

KfW *KfW Development Bank*

M

MinReintegration *Ministry for the Reintegration of Temporarily Occupied Territories*

S

SFYH *State Fund for the Support of Youth Housing Construction*

U

UFHC *Ukrainian Financial Housing Company*

Preface

At the beginning of 2014, the Russian Federation temporarily occupied the Crimean Peninsula and annexed the area contrary to international law. In the same year, armed conflicts started in eastern Ukraine that resulted in the emergence of the temporarily occupied territories of Luhansk und Donetsk regions. The conflicts caused massive displacements of people from the east and south of Ukraine. Since February 2022, Russia has waged an aggressive full-scale war against Ukraine that massively increased internal migration. The number of internally displaced persons (IDPs) has more than tripled from 1.4 million in 2021 to 4.9 million in 2024.


The “IDP Housing” project funded by the German Government aims to improve the housing situation for IDPs within Ukraine and thus contributes to their integration into the host communities. This is to be achieved by granting preferential loans for IDPs to purchase housing. First loans were issued to IDPs in August 2021.

The Bundesrechnungshof (BRH) and the Accounting Chamber of Ukraine (ACU) carried out an international coordinated audit of the project. In doing so, each Supreme Audit Institution performed a national audit of the responsible bodies in its country which took part in the formation and implementation of the project. The purpose of the coordinated audit is to combine the results of the two national audits and provide a comprehensive assessment whether the funds made available to Ukraine have been spent properly and to comprehensively assess the level of achievement of the project's goals and the effectiveness of measures for its implementation.

We came to the conclusion that the project established functioning structures for housing promotion to support IDPs. However, we have identified weaknesses and made recommendations that will contribute to an even more effective implementation of the project.

We appreciate that the public bodies involved in Germany and Ukraine have already started to implement our recommendations.


Olha Pishchanska
Chairwoman of the Accounting Chamber
Potsdam, 27 March 2025


Kay Scheller
Präsident des Bundesrechnungshofes
Potsdam, 27 March 2025

Introduction

Internally displaced persons within Ukraine

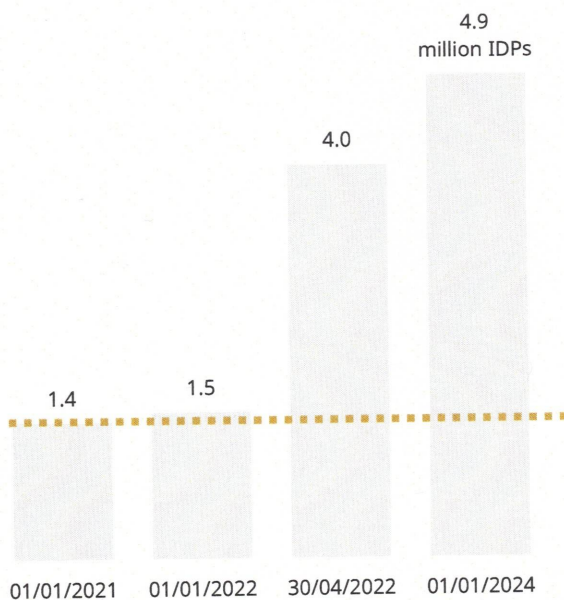
At the beginning of 2014, Russia temporarily occupied the Crimean Peninsula and annexed the area contrary to international law. In the same year, armed conflicts started in eastern Ukraine that resulted in the emergence of the temporarily occupied territories of Luhansk und Donetsk regions. The conflicts caused massive displacements of people from the east and south of Ukraine. Up to 2017, approximately 1.6 million people had moved to safer Ukrainian government-controlled territories.

Since February 2022, Russia has waged an aggressive full-scale war against Ukraine. The war massively increased the movements within the country and the number of IDPs more than tripled compared to previous years (cf. figure).

Figure

Further displacement resulting from the war of aggression

The number of internally displaced persons more than tripled after the Russian attack.



Figure/Source: BRH and ACU.

“IDP Housing” project

By means of this project, the German Government intends to enable IDPs to purchase residential property and, in doing so, to support their integration into the host communities. To that end, the German Ministry provided funds via KfW which are used by the State Fund for the Support of Youth Housing Construction (SFYH) to offer low-interest loans to IDPs. In 2021, initial grants of €24.5 million were budgeted as an investment component for subsidised housing loans and €1.0 million as a complementary measure primarily intended to modernise SFYH's processes and IT. A contracted consultant supports the SFYH in the execution of the project. In December 2023, the project budget was increased by another €17 million (to €42.5 million), of which €16 million were earmarked for subsidised housing loans and the remaining amount was budgeted to be used in particular for consulting services and SFYH's IT modernisation.

The grants are expected to enable SFYH to offer special conditions for loans used to purchase small, owner-occupied dwellings.

Target groups are IDPs who are already in employment and able to take out a loan for purchasing housing and to service debts. The project has no analogues in Ukraine and applies exclusively to the category of IDPs. It includes a mechanism for selecting participants to prevent third-party interference: Under supervision, SFYH conducts random selections of loan candidates among the IDPs who have entered their data in the “IDP register”. These candidates have the opportunity to apply for a loan. The project provides preferential mortgage loans to borrowers for 30 years at 3 per cent per annum with a mandatory minimum contribution of 6 per cent of the loan amount. Borrowers can choose on their own the housing to be purchased with the loan.

The loan programme operates on a revolving basis (revolving fund mechanism). Interests paid and repayments made by the borrowers are envisaged to be used for further housing loans provided to IDPs.

Scope and Objective of the Audit

BRH and ACU carried out an international coordinated audit of the “IDP Housing” project: each Supreme Audit Institution performed a national audit of the responsible bodies in its country which took part in the formation and implementation of the project. The purpose of the international coordinated audit is to combine the results of the two national audits and provide a comprehensive assessment whether the funds made available to Ukraine have been spent properly and to comprehensively assess the level

of achievement of the project's goals and the effectiveness of measures for its implementation. The audit covers the period from 2021 to the first quarter of 2024, including activities in the previous periods if they had a significant impact on the matters subject to audit.

The international coordinated audit was conducted within the framework of bilateral cooperation in accordance with the common goals of strengthening the external audit of public funds and improving public financial management, as provided for by the provisions of the Association Agreements with the European Union, in accordance with the Agreement on Cooperation between the Bundesrechnungshof and the Accounting Chamber of Ukraine in July 2023.

Audit Results

Significantly fewer IDPs supported than intended

According to KfW's proposal of October 2020, the objective of the project was to provide a minimum of 4,000 IDPs with living space in the long term. The planned lending figure was 1,300 housing loans. Until January 2022, 246 loans were disbursed with a total volume of €9.5 million.

In September 2023, the target achievement was reported as follows:

Table

Target achievement in 2023

Indicator	Target figure	Actual figure
Number of IDPs supported	4 000	1 560
Number of housing loans issued	1 300	650

Source: KfW report on the financial cooperation module on "IDP Housing (ISP)" of 27 September 2023.

- It has already become apparent before the outbreak of the war that the planned number of subsidised housing loans cannot be issued with the funds available. KfW's project proposal was based on overly optimistic assumptions. The average number of people per household was overestimated and the average amount per housing loan

underestimated. Even when taking account of the budget increase, we have to assume that only about half of the number of persons originally estimated will be able to benefit from the subsidised housing loans. The implementation of the project's objective of integrating IDPs into the host communities falls significantly short of original expectations.

Inefficient management of the revolving fund

Unlike the procedure for selecting winners for mortgage loans at the expense of the grant, the procedure for conducting random selections at the expense of the revolving fund is not regulated. In 2021 and 2022, the fund accumulated repayments, but did not use them for preferential mortgage lending. In 2023 and the first quarter of 2024, the revolving fund issued 50 preferential mortgage loans. Due to inefficient management of the revolving fund by SFYH, 24 potential borrowers lost the opportunity to purchase their own homes.

Furthermore, regulatory framework is required for the issue of the simultaneous allocation of funds received from borrowers to provide new loans to IDPs.

ACU recommended that the MinReintegration takes measures to ensure that the SFYH regulates the use of the revolving fund and that the consultant supervises the use of these funds. Additionally, SFYH should streamline the use of the revolving fund including the selection process for potential borrowers.

Imperfection of the borrower selection system

SFYH conducts random selections of the IDPs who may participate in the loan programme from the group of interested persons included in the "IDP register".

To disburse the grant funds, SFYH conducted 14 random selections. Between 8 and 44 per cent of the winners of the selections agreed to receive a loan.

Another random selection was conducted in 2023 at the expense of the revolving fund, but in the end, only 14.6 per cent of the selected winners were eligible to receive a loan.

In total, based on the results of 15 random selections held from 2021 to 2023, 4,230 winners were selected to participate in the loan programme out of 35,500 candidates on the register list. Of these, only 669 winners, or 15.8 per cent, used the loan.

Many persons who had registered did not meet the requirements for being granted a loan.

The latter leads to unnecessary workload for SFYH and delays the chance of potential borrowers to receive a preferential mortgage loan. The register itself does not reflect the real demand for a preferential mortgage loan.

We recommended that the eligibility requirements be checked automatically in the future already before registering for the loan programme, wherever possible. Persons who have already entered their data in the register but who do not meet the requirements for being granted a loan should no longer be listed in the register.

The responsible bodies in both countries have stated that SFYH is already taking steps to adapt the procedure for new registrations and to update the “IDP register”.

Loan agreements for destroyed residential property not secured by mortgages

Since the beginning of the full-scale invasion of the Russian Federation, 15 residential properties purchased by borrowers with grant funds and mortgaged to the SFYH have been destroyed. Instead of war-related destroyed property, the borrowers received a housing certificate and purchased a new apartment. The mortgage on the destroyed property was terminated, and a five-year alienation ban was imposed on the newly purchased property by a notary, meaning that the SFYH lost the collateral. According to the applications submitted by the borrowers, the SFYH suspended the payment of the monetary obligation under the loan agreement for 11 loans. The lender should be reimbursed by the aggressor state for the interest on the loan, and the principal should be reimbursed by the state of Ukraine. Failure to regulate these issues at the legislative level may result in the deprivation of the SFYH of its collateral under the loan and the emergence of bad debts.

ACU recommended that the responsible bodies in Ukraine should be instructed to develop and submit a draft law to the Cabinet of Ministers of Ukraine.

This law should provide for the transfer of housing purchased with a housing certificate to a creditor as a mortgage instead of the destroyed one. The peculiarities of debt annulment under a consumer loan agreement for the purchase of housing should be established. Additionally, an appropriate compensation by the state should be provided to lenders in case borrowers receive compensation for destroyed real estate objects previously purchased with credit funds.

SFYH’s need for modernisation underestimated

In the context of an accompanying measure, the German Ministry and KfW intended to enhance the IT and processes of SFYH. At first, KfW significantly underestimated SFYH’s

need for modernisation. When implementing the project, it became clear that the measures and financial resources originally envisaged were not enough. This concerned the IT in particular but also other key areas such as risk management and internal audit. Automation of the lending process was improved through the introduction of new software, which made it possible to speed up the lending process by 4 times. However, only the key elements of the credit block have been purchased so far. SFYH continues to work in parallel in two software systems which creates an additional burden on its employees.

If the measures required had been realistically assessed and the funds needed had been provided right from the start, then this would have ensured an uninterrupted and thus more rapid strengthening of SFYH.

In its comments, the German Ministry confirmed that the funds originally budgeted had not been enough for modernising the IT. The Ministry had responded to this weakness by providing an increased budget. BRH recommends that, in future projects, the German Ministry should be more thorough in assessing the need for modernisation in the institutions to be improved and budget the required amount of funds right from the start.

Late audit of the use of funds by an independent expert

KfW commissioned an independent expert to comprehensively audit the use of funds at SFYH. In March 2024, the expert provided important findings and suggestions for improvement. At that time, the German Ministry had already agreed to increase the project funds by another €17 million. In the opinion of BRH, the German Ministry's basis of decision-making was therefore incomplete.

The German Ministry commented that the decision to increase the project budget was independent of the audit of the use of funds. There were no indications of a negative assessment for further funding. Furthermore, KfW and SFYH could still make adjustments in the course of project implementation.

BRH adheres to its assessment. The provision of the findings resulting from the comprehensive audit of the use of funds including the expert's assessment and the decision to increase the project funds were close in time. Therefore, the German Ministry should have waited for those findings and should have taken them into account in its decision. In future, the German Ministry should ensure that key decisions in implementing projects can be made on the basis of information which is as complete as possible.

Avoid structures with similar tasks (parallel structures)

In addition to SFYH, the “Ukrainian Financial Housing Company” (UFHC) – another government institution which was established in Ukraine in 2020 – performs similar tasks by granting subsidised housing loans. The target groups of the two institutions overlap. BRH reminded that parallel administrative structures are generally not efficient. On the one hand, this leads to higher administrative expenditure. On the other hand, this may contribute to not reaching the goals set with the funds available to the best extent possible.

In its comments, the German Ministry pointed out that different Ukrainian ministries were responsible for SFYH and UFHC. Furthermore, in contrast to SFYH, UFHC only granted interest rate subsidies. The cooperation between SFYH and UFHC could ensure that there were no parallel structures.

BRH takes note of the German Ministry’s statements. However, neither the fact that different ministries are responsible for this matter nor the fact that the two housing promotion programmes have a different design justifies the functioning of parallel structures. Therefore, the German Ministry should work in dialogue with the Ukrainian public bodies to prevent the creation of parallel structures in Ukraine in the future. The management of funds provided by Germany and other donors for housing promotion and other projects should be carried out as efficiently as possible and the respective target groups should benefit from the money as effectively as possible.

Question the development cooperation arrangements for housing promotion

Given the sharp increase in the number of IDPs, the project which was designed before the war had started, covers only a small share of the current need for subsidised loans. Against this background, BRH recommended the following: For the sake of a sustainable effect of the investments which have already been made, the German Ministry should – if it considers further funding to be necessary from a political point of view – use and build upon the established structures while taking into account our recommendations. In doing so, the German Ministry should not only consider co-funding by other donors but also check whether a significantly higher number of IDPs could be supported through subsidised housing loans by transferring the project to EU level.

The German Ministry informed that it aimed to create a diverse housing portfolio in Ukraine by means of its development cooperation. This was done in close cooperation with other donors such as the European Union. Even though SFYH already constituted

a well-functioning, established structure, the German Ministry could not make a statement on the possible provision of further funds for SFYH at the time of the German Ministry's comments.

BRH takes note of the statements made by the German Ministry. The general determination of funding priorities is a political decision which BRH does not assess. BRH appreciates a close cooperation of the German Government with the European Union and other donors. BRH adheres to its assessment and recommendation.

Conclusion

In our opinion, the public bodies involved in Germany and Ukraine have been largely successful in carrying out their tasks in connection with the IDP Housing project. However, our audits have revealed the following weaknesses:

- KfW's project proposal was based on overly optimistic assumptions. The average number of people per family was overestimated and the average loan amount underestimated. Even with the budget increase, we assume that only about half of the number of persons originally estimated will benefit from the subsidised housing loans.
- The inefficient management of the revolving fund by the SFYH resulted in the loss of the opportunity to purchase housing through preferential mortgage lending for a number of potential borrowers.
- The low-quality list of candidates has led to an additional burden on the staff of the SFYH. It also delays a chance for potential borrowers to receive a preferential housing loan.
- The lack of regulation at the legislative level for war-related destroyed property may result in the deprivation of the SFYH of its collateral under the loans and the emergence of bad debts.
- KfW initially underestimated SFYH's need for modernization significantly which prevented the SFYH from being strengthened more quickly.
- The German Ministry should have waited for the results of the comprehensive audit of the use of funds by an independent expert. It should have taken the outcome of this audit into account in its decision to increase the project funds.
- According to BRH, in addition to SFYH, another government institution performs similar tasks, granting subsidised housing loans. The target groups of the two institutions overlap. Parallel structures are in principle not efficient. They lead to higher administrative expenditure and may prevent the goals set with the funds available from being reached to the best extent possible.

Recommended actions

The responsible public bodies in Germany and Ukraine should make use of the opportunities for improvement that we have identified for this and future similar projects.

The German Ministry should:

- ensure that key decisions in implementing future projects can be made on the basis of information which is as complete as possible.
- work in dialogue with the Ukrainian public bodies to prevent the creation of parallel structures in the future. The management of funds provided by Germany and other donors for housing promotion and other projects should be carried out as efficiently as possible and the respective target groups should benefit from the money.
- – if it considers further funding to be necessary from a political point of view – use and build upon the established structures while taking into account our recommendations. In doing so, the German Ministry should not only consider co-funding by other donors but also check whether a significantly higher number of IDPs could be supported through subsidised housing loans by transferring the project to EU level.

MinReintegration should:

- ensure that SFYH regulates the use of the revolving fund and supervise the use of these funds by the Consultant.

The Cabinet of Ministers of Ukraine should:

- instruct the relevant authorities to develop and submit to the Cabinet of Ministers of Ukraine a draft legislative act on: transferring to the lender a mortgage of housing purchased with a housing certificate instead of the destroyed one; establishing the specifics of debt cancellation under a consumer loan agreement for the purchase of housing; and providing the state with appropriate compensation to lenders if borrowers receive compensation for a destroyed object of real estate previously purchased with credit funds.



SFYH should:

- update the register list of candidates after the amendments to the Procedure for the use of funds and the Procedure for preferential mortgage lending come into force and continue the process of automating operational processes;
- streamline the use of the revolving fund and the selection of the winner using these funds.

