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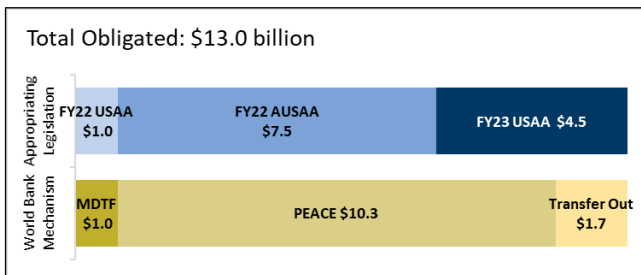
U.S. Direct Financial Support for Ukraine

Background

In 2022, Congress enacted four emergency supplemental funding measures to address the crisis caused by Russia’s February 2022 invasion of Ukraine. These include the March 2022 Ukraine Supplemental Appropriations Act, 2022 (FY2022 USAA, P.L. 117-103, Div. N); the May 2022 Additional Ukraine Supplemental Appropriations Act, 2022 (FY2022 AUSAA, P.L. 117-128); the September 2022 Ukraine Supplemental Appropriations Act, 2023 (FY2023 USAA, P.L. 117-180, Div. B); and the December 2022 Additional Ukraine Supplemental Appropriations Act, 2023 (FY2023 AUSAA, P.L. 117-328, Div. M). As of January 1, 2023, Congress has appropriated a total of \$113 billion in FY2022 and FY2023 in response to Russia’s war against Ukraine.

To date, the U.S. Agency for International Development (USAID) has obligated \$13 billion of the appropriated funding for direct financial support for the Government of Ukraine’s (GOU’s) central budget. USAID has not yet obligated FY2023 AUSAA funds for direct financial support. The agency has provided such support via three World Bank mechanisms, rather than bilaterally.

Figure 1. U.S. Direct Financial Support for the GOU



Source: CRS, compiled from USAID and World Bank reporting.

World Bank Mechanisms

The Multi-Donor Trust Fund for Ukraine (MDTF), a mechanism established in March 2022 that is meant to reduce procedural steps and transaction costs associated with individual transfers by consolidating resources across donors for transfer to Ukraine.

The Public Expenditures for Administrative Capacity Endurance (PEACE) Fund, a mechanism established in June 2022 meant to support the GOU’s ability to continue compensating public employees. The initial scope included government salaries (at the central and regional levels) and school employees, and later expanded to pensions and other social services.

The “Transfer Out” MDTF, a mechanism specifically for direct U.S. support to Ukraine established in July 2022. It is meant for the same purposes as the MDTF, but is intended

to allow a rapid, standalone U.S.-World Bank agreement not subject to the negotiated terms of the MDTF or PEACE Fund.

The World Bank recently established a new “Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF)”; the United States has not funded that mechanism.

Congressional Oversight Measures

Funds appropriated for direct financial support to Ukraine are subject to a number of congressional oversight measures, including those in the laws described above; annual Department of State, Foreign Operations and Related Programs (SFOPS) appropriations; and the Foreign Assistance Act of 1961, as amended (P.L. 87-195). (Separate oversight provisions address funding provided pursuant to other laws, particularly military assistance.)

Section 507 of the FY2022 AUSAA, for example, sets certain requirements specifically for direct financial support to Ukraine. Section 507(b) requires that such support be “subject to a memorandum of understanding [MOU] that describes how the funds proposed to be made available will be used and includes appropriate safeguards for transparency and accountability.” The section also requires that such funds be “maintained in a separate, auditable account and may not be comingled with any other funds.” Sections 507(c) and 507(d) establish notification and reporting requirements, including reports to Congress detailing “results achieved” by the financial support every 90 days. The FY2023 USAA shortens the timeline for preparing the required reports to 45 days and requires that such reports also include the “metrics established to measure such results.” That timeline holds today; Congress received the most recent of such reports in December 2022.

World Bank Oversight Measures

As noted, the United States channels direct U.S. financial support to Ukraine through the World Bank. These funds are subject to the World Bank’s Standard Conditions for multi-donor trust funds; a bilateral U.S.-World Bank Administration Agreement detailing obligations between the parties; and an agreement between Ukraine and the World Bank detailing financing terms, scopes of activity, requirements, and oversight standards.

The MDTF was created under a broader project framework that predates the renewed onset of hostilities. Before withdrawal of funds, that framework requires that (1) the World Bank affirm it is satisfied with the GOU’s macroeconomic policy framework, and (2) that Ukraine show progress toward carrying out reforms to land policy, pensions, inland waterways, and anti-corruption programs, among others. The World Bank affirmed in November 2021

that Ukraine’s macroeconomic policy framework was “adequate” for a loan to be issued and reaffirmed as much, conditional on substantial additional external financing, in March 2022. The GOU must also retain records for all expenditures until two years after an applicable project’s closing date. World Bank representatives and, with World Bank authorization, donors are entitled to visit sites financed under the project and to examine documents related to grant obligations.

Unlike the MDTF, PEACE Fund disbursements do not require a prior affirmation of macroeconomic policy framework sustainability, nor are they tied to a set of reform commitments. Funding is authorized for nonmilitary government and school staff salaries through the general budget of Ukraine, and the project maintains a results framework to track key targets for on-time payment of government obligations—to include salaries, pensions, and school operations. The PEACE agreement requires the GOU to draft and execute a Project Operations Manual acceptable to the World Bank, detailing administrative, financial, and operational policies for the agreement. The agreement also requires Ukraine’s Deputy Minister of Finance, the designated project coordinator, to provide a semiannual project report to the Bank.

CRS has not identified public information on the Transfer Out fund’s oversight structure. This product does not profile the Standard Conditions, as CRS does not have access to them.

Issues for Congress

As the war in Ukraine continues, the 118th Congress may consider the following issues related to U.S. direct financial support for the GOU.

Congressional Oversight. Certain notifications and reports—mandated in annual SFOPS legislation and the four emergency supplemental measures—are required to be submitted to only the Committees on Appropriations. Congressional interest in the war in Ukraine and U.S. support for the GOU is broad, indicating engagement among Members who do not sit on the Appropriations Committees. Lawmakers may consider expanding distribution of certain notifications and reports to enhance oversight and understanding of funding for Ukraine among Members not serving on those committees.

Accountability Through the World Bank. The United States typically requires periodic reporting by the World Bank on multi-donor trust funds. The mechanisms themselves, however, are established and monitored by the World Bank, which may reduce U.S. capacity to shape oversight. Congress may analyze the U.S.-Ukraine MOU for results achieved and evaluate the extent to which World Bank targets comport with U.S. priorities for the GOU. Members also may examine the extent to which U.S. representatives have participated in World Bank inspections and audits to affirm appropriate use of funds. Given past reports of corruption in Ukraine, Congress may also address whether such financing could contribute, directly or indirectly, to incidents of waste, fraud, or abuse.

Inspector General Oversight. Congress appropriated supplemental funding for the Department of State and USAID Offices of Inspector General (OIGs) and the Government Accountability Office (GAO) in the FY2022 USAA, FY2022 AUSAA, and FY2023 AUSAA. In the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 (P.L. 117-263), Congress required a report from the OIGs on their oversight framework with respect to U.S. assistance to Ukraine (§1247(b)). Some Members, however, have raised concerns that the supplemental funds for Ukraine have not had adequate oversight. During consideration of the FY2022 AUSAA, two Senators proposed amendments to the measure seeking to address this through the creation of a special inspector general (S.Amdt. 5040, S.Amdt. 5041); Congress did not adopt either amendment. In the FY2023 USAA, Congress included a provision that directed the Inspectors General to submit a report “detailing and assessing the mechanisms for monitoring and safeguards” of the funds for direct financial support for Ukraine within 45 days of the funds being obligated. The FY2023 AUSAA included a provision that directed the Inspectors General to submit a report within 90 days of enactment of the act on their oversight plans and initial findings. Members may seek to determine whether OIG and GAO oversight of U.S. direct financial support for Ukraine is sufficient and properly focused.

Minimum Standards for U.S. Government-to-Government Assistance. Regular foreign operations appropriations require the Secretary of State to set minimum fiscal transparency and budget management requirements for all recipients of government-to-government assistance. While Ukraine did not meet nor progress toward those minimum requirements in FY2022, the supplemental measures for Ukraine have not included that requirement. As the conflict continues, Congress may assess the priority given to financial transparency reforms in the midst of war. Congress may also assess how Ukraine’s current management obligations compare with requirements in U.S. loan guarantees provided to Ukraine in 2014-2016, as well as U.S. budget support provided to other countries.

Financing Structure. To date, U.S. direct financial support has been provided via World Bank mechanisms. The World Bank promotes its role as providing faster delivery, greater implementation capacity, and pooling of funds from multiple donors. Congress mandated a U.S.-Ukraine MOU to set transparency and accountability standards, and USAID is assisting with MOU aims. Congress may consider whether future funding should leverage World Bank mechanisms. Congress may evaluate U.S.-Ukraine bilateral financing as an alternative, which could reflect U.S. priorities more directly. Members may also evaluate whether USAID is supporting MOU aims adequately.

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