

Report to Congress Pursuant to Section 507(c) of the Additional Ukraine Supplemental Appropriations Act, 2022

The U.S. Agency for International Development (USAID) submits this report pursuant to section 507(c) of the Additional Ukraine Supplemental Appropriations Act, 2022 (Public Law 117-128) (FY 2022 AUSAA), which requires that: “At least 15 days prior to the initial obligation of funds made available for the purposes of subsection (a),¹ the Secretary of State or the Administrator of the United States Agency for International Development, as appropriate, shall submit to the appropriate congressional committees a report detailing procedures and processes to ensure such funds are used by the Government of Ukraine [(GOU)] in the manner agreed to by such Government...*Provided*, That such report shall be updated every six months following the submission of the first report and shall be submitted until funds made available for such direct financial support are expended.”

USAID submitted its first report pursuant to section 507(c) on June 15, 2022. Since then, all of the FY 2022 USAA, FY 2022 AUSAA and FY 2023 USAA funding for direct financial support has been fully expended via two World Bank mechanisms. This includes \$1,300,000,000 in FY 2022 AUSAA Economic Support Funds (ESF) utilizing the World Bank’s Public Expenditures for Administrative Capacity Endurance (PEACE) mechanism (CN #154, dated June 13, 2022); \$1,700,000,000 in FY 2022 AUSAA ESF funds utilizing the World Bank Single-Donor Trust Fund for Ukraine (CN #165, dated June 23, 2022); \$4,500,000,000 in FY 2022 AUSAA ESF funds utilizing PEACE (CN #181, dated July 21, 2022); and \$4,500,000,000 in FY 2023 USAA ESF funds utilizing PEACE (CN #18, dated October 27, 2022). This report details processes and procedures that are in place to ensure transparency and accountability for the use of funds provided through those mechanisms. These safeguards are complemented by ongoing programming by USAID to strengthen the GOU’s financial management systems.

Since Section 507(c) requires submission of an updated report every six months until “[FY 2022 AUSAA] funds made available for direct financial support are expended,” this will be USAID’s final report submitted pursuant to section 507(c).

World Bank Financial Controls

PEACE

For budget support provided via the PEACE mechanism, the World Bank (the Bank) manages the funds and supervises the grants according to its fiduciary requirements, including its financial management, disbursement, and safeguard policies; its framework to prevent and combat fraud and corruption; and its screening procedures to prevent use of Bank resources to finance terrorist activity. The World Bank has established procedural safeguards to help ensure that funds are used appropriately, as well as reporting requirements, discussed in detail below.

Approved expenditure categories for the PEACE mechanism include salaries for health care

¹ Subsection (a) states: “Funds made available by this title under the heading ‘Economic Support Fund’ may be made available for direct financial support for the Government of Ukraine, and such funds shall be matched, to the maximum extent practicable, by sources other than the United States Government.”

workers, first responders, civil servants, and educators; pensions and social assistance payments; and grants to internally displaced persons (IDPs). **Under the PEACE mechanism, U.S. government (USG) funds are only used to reimburse costs already incurred by the GOU in approved expenditure categories. Because funds are only disbursed to the GOU following the World Bank's verification of expenses, the USG has visibility into how the funds are being used, and the risk of funds being diverted for unauthorized purposes is low.**

Some of the processes and procedures to ensure accountability for the use of funds provided under PEACE include:

- **Implementation Status and Results Reports (ISRs):** ISRs for the PEACE Investment Project Financing (IPF) mechanism are prepared by the World Bank on a regular six-month basis. An example of an ISR is available at the following URL:

<https://documents1.worldbank.org/curated/en/099340011132272870/pdf/P17894604c92840a50b5680957e01e8ea56.pdf>

- **Financial Reporting and Audits:** Under the Administration Arrangement (AA) between USAID and the Bank, the Bank must provide donors with certain financial reports such as the financial information relating to receipts, disbursements, and fund balance via the Development Partner Center (DPC) platform. The Bank is also required to make available to donors copies of all financial statements and auditors' reports received by the Bank from recipients pursuant to any Grant Agreements in accordance with the Bank's Access to Information Policy. For the PEACE mechanism, this reporting would include the following:

(1) Monthly verification report: The Bank will prepare and share a monthly report that includes: the number of beneficiaries; the amount reimbursed; and confirmation that the government has followed the agreed-upon verification protocol.

(2) Audit: At the end of the project, the Bank requires an audit of financial statements and tests to verify the eligibility of project expenditures, including review of controls and procedures.

- **Progress Reports:** The Bank will provide donors with annual written progress reports, as well as a final narrative progress report.
- **Anti-Corruption/Fraud Protocols:** Finally, the Bank will take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive, and obstructive practices in connection with the use of the Trust Fund funds, and include provisions in its agreements with recipients to give full effect to the relevant Bank guidelines on fraud and corruption. For example, the Bank has procedures for investigating allegations of corruption and similar obstructive practices, including recovery of funds when appropriate.

Single Donor Trust Fund

While the vast majority of FY 2022 AUSA funding was provided via the PEACE mechanism, USAID obligated one tranche of \$1.7 billion via the World Bank's Single Donor Trust Fund (SDTF). This was a one-time transfer, as the SDTF served to bridge the gap between the World Bank's original Multi-donor Trust Fund and the PEACE mechanism, which was in the process of being restructured in July. Compared to PEACE, the World Bank's oversight role was much more limited under the SDTF; Bank policies and procedures only applied up until the point of disbursement.

To ensure adequate accountability for the use of funds provided via the SDTF, USAID negotiated a bilateral agreement with the GOU, via an amendment to the parties' Development Objectives Agreement (DOAG), that set forth additional terms and conditions. The DOAG amendment specified that funds would be used to reimburse health worker salaries over a six-month period. As with PEACE, the fact that USG funds were used to reimburse costs already incurred by the GOU provided greater assurance that funds were being used for their intended purpose. USAID also required the GOU to certify that funds were used in accordance with the terms and conditions of the agreement, including that they were not used for military assistance, to pay for costs covered by other donors, or for other prohibited purposes. The agreement also built in other accountability measures, including the submission of a progress report.

Third-Party Monitoring

In addition to the World Bank's financial controls, USAID has contracted Deloitte Consulting LLP to deploy a team to work with the GOU Ministry of Finance to monitor budget support provided to the GOU.

Deloitte's experts conducted an analysis of the Ministry's existing monitoring, transparency, verification, and reporting procedures; identifying and strengthening gaps; enhancing reporting on budget support funding, as well as designing a framework for the second phase of Deloitte's work. Deloitte's team expanded its scope to work with both the Ministry and other GOU institutions to review controls and procedures, and to report on the transparency and accountability of GOU systems. Deloitte has evaluated GOU financial systems, conducted a gaps analysis, and identified areas within the system that the Ministry of Finance can strengthen with Deloitte's assistance. Deloitte has launched Tier 2 and Tier 3 spot checks, which will look at transactions between the Ministry of Finance and other line ministries, and at the flow of funding from recipient organizations/ministries to individual beneficiaries. Deloitte will support the GOU both in developing metrics to measure results and in measuring such results. The scope of Deloitte's work with the Ministry of Finance will include all USG budget support funds, provided through the World Bank.

USG Programming and Engagement Contributing to Strengthened GOU Financial Management

The U.S. Embassy in Kyiv continues to regularly engage with the GOU at the ambassadorial level on accountability issues related to all foreign assistance, including budget support. Despite minimal staff presence, Embassy officials meet regularly with Ministry of Finance counterparts to discuss monitoring and oversight of U.S. assistance.

USAID also recently submitted a Congressional Notification to enter into a section 632(b) Inter-Agency Agreement with the U.S. Government Accountability Office's (GAO) Center for Audit Excellence (CAE) to provide technical assistance to the Accounting Chamber of Ukraine (ACU), the GOU's Supreme Audit Institution. Funds would be used to improve the ACU's audit practices in line with international standards and build the capacity of the ACU to effectively and accurately monitor, audit, and report on U.S. budget support provided to the GOU as well as recovery and reconstruction resources utilized by the GOU.

Ongoing USAID programming strengthens Ukraine's financial management and oversight in ways that provide assurance beyond the reporting and accountability mechanisms of World Bank mechanisms. USAID helped Ukraine establish the public procurement system Prozorro and an accompanying system called Dozorro that brings together civic actors and public buyers to analyze data, flag high-risk tenders, and submit grievances to public authorities. Together, these systems are estimated to have saved approximately \$6 billion since October 2017, including through the cancellation of illegal tenders. As Prozorro is not in use during martial law, USAID is supporting the system to retain its staff, which will enable it to restart operations as soon as martial law ends.

USAID continues to work with the Ministry for Digital Transformation to develop new applications for the Diia e-services platform that it helped the Ministry establish in 2019. This includes a new mobile app to provide social services and payments for IDPs and workers displaced and unemployed due to war. USAID is also helping develop a State Registry of Damaged and Destroyed Property that allows the GOU to provide compensation. These systems create greater accountability and reduce opportunities for corruption.

USAID also continues to support Ukraine's national anti-corruption institutions, including the National Agency for Corruption Prevention (NACP), by providing IT and communications support, and backing up and securing anti-corruption data to the cloud and secure servers abroad to ensure the uninterrupted continuity of anti-corruption e-platforms (e.g., asset declaration system and political party finance reporting portal). USAID is helping the NACP assess and respond to corruption risks in humanitarian assistance delivery; providing technical assistance and access to international databases to the GOU Task Force on Asset Tracing and Seizure; and supporting anti-corruption watchdog organizations with small grants to fund transparency and accountability wartime initiatives. The Department of State's Bureau of International Narcotics and Law Enforcement Affairs complements this work with a robust set of anti-corruption programming that focuses on building law enforcement institutions and capacity, and provides technical expertise.