

Report to Congress on Results through January 30, 2023, of the Budget Support to the Government of Ukraine with Funds Provided under the Ukraine Supplemental Appropriations Act (USAA), 2023

The U.S. Agency for International Development (USAID), in consultation with the U.S. Department of State, submits this second report pursuant to section 1302(c) of the Ukraine Supplemental Appropriations Act, 2023 (Public Law 117-180, Div. B)(FY 2023 USAA), that provides:

(c) The Secretary of State or the Administrator of the United States Agency for International Development, as appropriate, shall report to the appropriate congressional committees on the uses of funds provided for direct financial support to the Government of Ukraine pursuant to subsection (a) not later than 45 days after the date of enactment of this Act and every 45 days thereafter until all such funds have been expended: Provided, That such report shall include a detailed description of the use of such funds, including categories and amounts, the intended results and the results achieved, a summary of other donor contributions, and a description of the efforts undertaken by the Secretary and Administrator to increase other donor contributions for direct financial support: Provided further, That such report shall also include the metrics established to measure such results.

Russia's war on Ukraine has brought Ukraine's economy to a halt, cutting off essential revenue streams for the Government of Ukraine (GOU). According to IMF and World Bank estimates, Russia's war against Ukraine's economy has contracted by 30% in 2022. According to the GOU, its monthly budget shortfall is estimated to be \$5 billion. The ability of the GOU to sustain basic governmental functions is critical to ensure victory in the war, Russia's strategic failure in the war, and the restoration of the rules-based global order.

Of the \$4.5 billion in Economic Support Funds (ESF) appropriated under the FY 2023 USAA, the full amount has been obligated and disbursed to the GOU for budget support. As all funds have been expended, this will be the final report USAID submits pursuant to Section 1302(c) of the FY 2023 USAA.

USE OF FUNDS:

U.S. government (USG) budget support is ensuring the survival of the GOU as its fight against Russia's unprovoked aggression enters its second year. By providing critical budget support for the GOU, the USG is enabling Ukraine to continue operating and to win the war, deliver essential services, and meet immediate needs created by the Kremlin's brutal war. Without a steady source of tax dollars from a functioning economy, the GOU cannot supply emergency services for internally displaced persons (IDPs), or provide paychecks for public employees who deliver critical services – including but not limited to healthcare providers and first responders, and educators.

As of January 30, 2023, the USG has provided \$13 billion in budget support to the GOU¹ to help ensure continuity of core government functions and delivery of essential services in wartime circumstances. These funds, which were provided to the GOU via World Bank mechanisms, were used to support grants to IDPs; social assistance payments to vulnerable populations; pensions; salaries for civil servants, educators, healthcare workers, and first responders; and the purchase of humanitarian goods. (See table below for more details.) The assistance helped sustain the resolve of the people of Ukraine and bolster their resilience as the war continued to rage.

Financing government and education staff salaries helps ensure continuity of core government functions and education services. Funding healthcare and first responders' salaries has supported sustained government capacity to provide a continuous response to emergency situations during the war and provision of healthcare services. Funding pensions and social assistance has contributed to limiting the expected increase in poverty.

Budget support provided by the USG has helped mitigate the humanitarian crisis and its impact on human capital as the toll of destruction, damage, and dislocation in Ukraine from the war has continued to grow. More than 8 million people (about half of whom are children) are refugees, and about 5.3 million people have been internally displaced, while almost three times that number are estimated to need life-saving humanitarian assistance, with food and essential services severely constrained in conflict areas. A third of displaced households report having no income. In addition to loss of life and human suffering, the Russian invasion has crippled Ukraine's economy, with large adverse social and poverty impacts. Latest World Bank estimates suggest that poverty, based on the upper middle income poverty line of U.S. \$5.50 per person per day is projected to increase tenfold from a low base, with the share of Ukraine's population below the poverty line increasing from two percent in 2021 to 21 percent in 2022. Poverty rates in regions most affected by the war are expected to increase much more. Therefore, providing additional funding for pensions, social payments, and healthcare will help the GOU to provide support to the most vulnerable groups, such as the elderly, families with children, and persons with disabilities.

The budget support has also helped preserve human capital and maintain trust of the people in the GOU's capacity to deliver basic services during the war. The war has resulted in a significant decline in fiscal revenues. Expenditures have been cut significantly (including capital expenditures by almost 90 percent) and reduced only to the most critical social items, but despite this, the revenues are projected to cover only around 60 percent of non-military expenditures in 2022. Tax and non-tax revenues will remain depressed for the foreseeable future, during and for a period of time after the war. However, critical public social expenditures are still on the rise due to an active military conflict. With intensified combat in the southeast part of the country, central government expenditures on social programs increased in June by more than 50 percent month-on-month, largely due to one-off payments to IDPs. It is critical to support the GOU's ability to maintain core government functions and meet the basic needs of its population.

¹ As of January 30, 2023, USAID has obligated \$13 billion in budget support via World Bank mechanisms, with the last tranche of \$4.5 billion (from the FY 2023 USAA) obligated on November 21, 2022.

RESULTS:

With the support of Congress, the \$13 billion provided to date has been used to:

- make direct payments to 395,000 IDPs;
- provide housing subsidies to 4.1 million Ukrainian citizens to pay for utilities;
- pay salaries for over 618,000 teachers, school workers, and professors;
- provide one-time payments for 287,000 temporarily unemployed people;
- purchase 7,100 tons of humanitarian goods for affected regions of Ukraine; and
- pay salaries for over 150,000 civil service employees and over 506,000 healthcare employees.

USG-provided budget support was critical in minimizing disruptions to service delivery and damage to human capital, and helping to maximize capacity for GOU-led recovery.

Results of USG Budget Support to GOU as of 1/30/2023

Disbursed to GOU	Amount	Funding Source	Mechanism	Expenditure Categories
04/29/2022	\$500M	FY 2022 USAA	FREE Ukraine Multi-donor Trust Fund (MDTF)	<u>Payments made for May 2022:</u> Internally Displaced Persons (IDPs): \$85M Social Assistance for utility bills: \$99M <u>Teacher Salaries: \$316M</u> Total = \$500M
05/19/2022	\$500M	FY 2022 USAA	FREE Ukraine MDTF	<u>Payments made for May 2022:</u> Salaries for healthcare personnel: \$312M Social assistance - temp. unemployment: \$65M Salaries for higher education professors: \$65M <u>Humanitarian goods: \$58M</u> Total = \$500M
06/29/2022 06/30/2022	\$959M \$341M Total: \$1.300B	FY 2022 AUSAA	Public Expenditures for Admin. Capacity Endurance (PEACE)	<u>Salaries for Civil Servants (Subtotal = \$471M)</u> April: \$121M (estimated) June: \$140M July: \$140M August: \$70M <u>Salaries for Teachers (Subtotal = \$829M)</u> Apr: \$210M (estimated) June: \$210M July: \$210M August: \$199M Total = \$1.300B

07/12/2022	\$1.700B	FY 2022 AUSAA	Single Donor Trust Fund (SDTF)	<u>Salaries for Healthcare personnel:</u> January: \$313M February: \$309M March: \$292M April: \$286M June: \$324M July: \$243M Estimated Total: \$1.76B²
08/24/2022	\$3.000B	FY 2022 USAA	PEACE	The World Bank has verified expenditures based on the following reimbursements that it made: Pensions (March-July): \$2,914,666,473.99 Social Assistance for low-income individuals (March-July): \$207,244,151.87
9/17/2022	\$1.500B	FY 2022 AUSAA	PEACE	Social Assistance to eligible persons with disabilities (March-July): \$230,916,581.43 Housing and Utility Subsidies (March-April and June-July): \$250,688,627.99 IDPs (June-July): \$386,726,676.41 First responders ³ (March-August): \$509,757,488.31 Total: \$4.500B
11/29/2022	\$1.500B	FY 2023 USAA	PEACE	Pensions (Aug. - Dec. 2022): \$2.449B
12/19/2022	\$2.000B			Social Assistance (Aug. - Nov. 2022): \$387M
1/11/2023	\$675M			IDPs (Aug. - Nov. 2022): \$459M
				First Responders (Aug. - Nov. 2022): \$282M

² The exchange rate changed from 29.25 UAH to 1 USD in June 2022 to 36.57 UAH to 1 USD in July 2022. Due to the exchange-rate fluctuations, the estimated total is \$1.76B.

³ First responders in Ukraine operate under an umbrella of the State Emergency Service (SES), a central government agency. The main task of SES is the implementation of state policy on civil protection and protection of the public and territories during emergencies. It performs a very wide range of activities. They include firefighting, response to man-made and industrial accidents and natural disasters, search and rescue activities, evacuation of the public from areas affected by accidents, disasters, and emergency situations, and humanitarian demining. During the war, their activities are still focused on the protection and rescue of the civilian population.

1/19/2023	\$325M Total: \$4.500B		Salaries for Healthcare employees (Aug. - Nov. 2022): \$720M Salaries for Civil Servants (Nov. 2022): \$195M Salaries for Teachers (Nov. 2022): \$8M Total: \$4.500B
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METRICS ESTABLISHED TO MEASURE RESULTS:

The following metrics are being used to help track the sustaining of the GOU’s service-delivery capacity and exercising of core government functions. The GOU’s ability to continue to pay government staff salaries and pensions, provide social assistance, health and emergency services, are measured by the following metrics:

1. The extent to which the GOU continues to exercise core functions (processing the online filing of taxes, payments of guaranteed-minimum-income subsidies, issuing of birth certificates, and processing online requests for housing and utility subsidies).
2. Number of government employees in non-security sectors paid (disaggregated by gender for civil servants).
3. Number of school employees paid (disaggregated by gender).
4. Number of schools that remain operational through distance-learning, blended, and/or in-person format.
5. Pensions paid on time (i.e., within a month when pension payments are due).
6. Social payments paid on time (i.e., within a month when payments related to the identified social programs are due).
7. Number of health service providers paid.
8. Number of State Emergency Service staff paid on time.

Results Metrics for USG Budget Support to the GOU

Expenditure	Goal	Results	Metrics
Funding of government and school staff and first responder salaries	Government and school employees and first responders are paid on time	Sustained public administration capacity to exercise core government functions Operational schools	Extent to which GOU continues to exercise core functions Number of staff paid on time
Funding of social assistance and pensions	Pensions and social assistance paid on time	Support to vulnerable (pensioners and social assistance beneficiaries)	Number of recipients who received assistance on time
Funding of healthcare workers' salaries	Healthcare services continue to be delivered	Operational healthcare facilities.	Number of health service providers operational.

The World Bank reports against these metrics in its Implementation Status & Results (ISR) reports. The baseline ISR report was issued on June 13, 2022, prior to receiving USG budget support funding:

<https://documents1.worldbank.org/curated/en/099750106132216609/pdf/P17894600b459203b084a50386aa353db2f.pdf>

In addition, the World Bank issued four ISR reports on USG budget support funding provided through the PEACE mechanism:

(1) July 6, 2022 report:

<https://documents1.worldbank.org/curated/en/099640107062237847/pdf/P1789460384d610fe097d20316facf1ee32.pdf>

(2) September 5, 2022 report:

<https://documents1.worldbank.org/curated/en/099450009052227145/pdf/P1789460e58b570a30b81809170641254c0.pdf>

(3) November 13, 2022 report:

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

(4) March 8, 2023 report:

<https://documents1.worldbank.org/curated/en/099030503092313192/pdf/P1789460262b7a07c08644001b993234a86.pdf>

OTHER DONOR CONTRIBUTIONS

The EU is providing up to €25.2 billion in DBS through macro-financial assistance loans. In 2022, it provided €7.8 billion in loans and grants (€7.2 billion in macro-financial assistance loans and €620 million in grants). For 2023, the EU is providing an unprecedented support package for Ukraine of up to €18 billion in the form of highly concessional loans. The first installment of €3 billion was disbursed in January 2023. This package will support Ukraine in paying wages and pensions and to maintain essential public services, such as hospitals, schools, and housing for relocated people. It will also ensure macroeconomic stability, and help restore critical infrastructure destroyed. Future payments to Ukraine of €1.5 billion per month will continue as of March and will be conditional on satisfactory progress towards implementing the agreed conditionality, as well as continuous compliance with the reporting requirements.

Other major providers of support include Canada (\$3.1 billion), Japan (\$1.5 billion); and Norway (\$1.06 billion with another \$7.3 billion package announced in early February 2023 with details still pending.)

On February 20, 2023, the Government of Japan announced that it will provide another \$5.5 billion in financial aid to Ukraine. Japan previously provided \$581 million in budget support and approximately \$212 million in humanitarian assistance to Ukraine.

Steps Taken by the Department of State to Increase Other Donor Contributions:

The Department of State continues to emphasize, in interactions with its partners at all levels, the importance of burden-sharing, and has pressed the EU and its member states in particular to deliver expeditiously on their €18 billion pledge and to provide additional funds going forward, preferably in the form of grants.

In a February 8, 2023, demarche, the USG identified Australia, the Republic of Korea, and Switzerland as potential donors, given their GDP, income levels, and histories of support for

Ukraine. Contributions from these countries could further help close Ukraine's 2023 budget gap.

Steps Taken by USAID to Increase Other Donor Contributions:

USAID regularly and consistently emphasizes the importance of partners and allies committing – and delivering – on assisting Ukraine in meeting short- and long-term financing needs. Efforts include, for example:

- In multiple forums, outlining Ukraine's needs and urging partners and allies to provide budget support and economic assistance to Ukraine;
- Urging EU partners to fully deliver on the promised €18 billion in macro-financial assistance and importance of timely disbursements; and
- In discussions with allies and partners about Ukraine's recovery and reconstruction, encouraging the establishment of an effective coordination platform and planning for the scale of future economic recovery and reconstruction efforts.