SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 24-22 Audit Report

U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance

MAY 2024

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Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

The U.S. government has continued to be the largest international donor supporting the Afghan people since the former Afghan government collapsed and the Taliban returned to power in August 2021. Since then, the U.S. government has provided more than $2.8 billion in humanitarian and development assistance to help the people of Afghanistan. To carry out their programs, U.S. agencies rely heavily on nongovernmental organizations (NGOs) and public international organizations (PIOs), such as the UN, to implement humanitarian and development assistance. Both the former Ghani administration and the current Taliban-controlled government benefitted from U.S. aid by imposing taxes, fees, duties, and utilities on implementing partners as a condition of operating in Afghanistan. SIGAR has reported on the importance of U.S. funds being spent on U.S. priorities and not in ways that benefit the Taliban, which represses women and girls, denies the human rights of the Afghan people, and remains unrecognized as a legitimate government by the U.S. government and the international community.

On March 13, 2023, the Chairman of the U.S. House of Representatives Committee on Foreign Affairs requested that SIGAR report on the extent to which U.S. taxpayer dollars are benefitting the Taliban. The objectives of this audit were to assess the extent to which (1) U.S. funds intended to provide assistance to the Afghan people are benefitting the Taliban, in the form of taxes, fees, import duties, permits, licenses, or public utilities payments since August 2021; and (2) U.S. agencies provided oversight of these funds.

SIGAR sought information from 144 implementing partners that conducted U.S.-funded activities in Afghanistan since August 2021. Sixty-five implementing partners responded and provided us information.

May 2024

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SIGAR 24-22 AUDIT REPORT

WHAT SIGAR FOUND

SIGAR found that since August 2021, 38 of the 65 implementing partners who responded to its questionnaire (58 percent) reported paying taxes, fees, duties, or utilities to the Taliban-controlled government. Those 38 respondents have paid at least $10.9 million of U.S. taxpayer money to the Taliban-controlled government. Of this amount, $10.4 million stemmed from taxes; and $346,839 were from payments for utilities; $176,596 from fees; and $9,215 from customs duties.

SIGAR also found that the $10.9 million paid by 38 U.S. Department of State (State), U.S. Agency for International Development (USAID), and U.S. Agency for Global Media (USAGM) implementing partners is likely only a fraction of the total amount of U.S. assistance funds provided to the Taliban in taxes, fees, duties, and utilities because UN agencies receiving U.S. funds did not collect data or provide relevant information about their subawardees' payments. From October 2021 through September 2023, the UN received $1.6 billion in U.S. funding for programming in Afghanistan, approximately 63 percent of all U.S. assistance funding for Afghanistan during that period. UN agreements with State and USAID do not include any requirements to annually report on taxes, fees, duties, or utilities incurred on U.S. funds provided for activities in Afghanistan. UN agencies told SIGAR that they did not pay any taxes, fees, or duties, due to their tax-exempt status as a PIO, in accordance with the Convention on the Privileges and Immunities of the United Nations. However, UN agencies act as pass-through entities for State and USAID awards and use subcontractors to directly implement award activities. Therefore, UN subawardees were required to pay taxes, fees, duties, or utilities in the same way as other State and USAID implementing partners.

Implementing partners can experience significant consequences if they fail to pay the taxes, fees, duties, and utilities required by the Taliban-controlled government of Afghanistan. In December 2022, the UN Office for the Coordination of Humanitarian Affairs stated that NGOs who fail to pay could face consequences such as frozen bank accounts, shuttered offices, or deregistration from a list of organizations allowed to operate in Afghanistan. SIGAR also found that the Taliban has disrupted implementing partner activities in a variety of ways, including attempts to divert aid or infiltrate NGOs and interfere with activities. Seventeen of 65 questionnaire respondents (26 percent) reported experiencing direct pressure from the Taliban, including involvement in and approval of program design and implementation; access to facilities or use of resources or vehicles; recruiting or hiring of certain Taliban-approved individuals; or diverting food and other aid to populations chosen by the Taliban. In addition to direct pressure on implementing partners, some respondents stated that the Taliban have regularly inquired about ways to obtain donor funding, including through the establishment of Afghan NGOs. Despite facing harassment by members of the Taliban security forces, the majority of implementing partners reported being able to successfully decline the requests.

The direct collection of taxes, fees, duties, and utilities from U.S. government-funded activities risks contributing to the legitimization of the Taliban-controlled government in the eyes of the Afghan people. For example, implementing partners reported the Taliban uses aid delivery as propaganda by taking credit for the aid provided to the Afghan people.

SIGAR found that most taxes, fees, duties, and utilities paid by implementing partners were not reported to State and USAID because State and USAID only require annual tax reporting on certain award types and even then, only require the reporting of value-added tax (VAT) and customs duties. Furthermore, State and USAID did not include tax reporting clauses in some awards despite requirements in State's Foreign Assistance Directive (FAD), and USAID's Acquisitions Regulations (AIDAR) and Automatic Directives System (ADS). Specifically, State included the foreign tax reporting requirement in only 37 of the 48 (77 percent) grants and cooperative agreements that were required to contain such provisions by the FAD. Similarly, USAID included the requirement in 69 of the 74 (93 percent) grants, cooperative agreements, contracts, or task orders, as required by the AIDAR and ADS.

The FAD, AIDAR, and ADS require implementing partners to submit annual tax reports detailing VAT and customs duties paid on U.S. assistance. Despite these requirements, SIGAR's review of tax reports from U.S. agencies for fiscal years (FYs) 2021 and 2022 found that U.S. agencies did not ensure that implementing partners submitted the reports. For example, State provided SIGAR with foreign tax reports for only 9 of the 48 awards within this audit's scope, which showed that State implementing partners did not pay any taxes. However, State implementing partners told SIGAR that they paid $2.18 million in taxes, fees, duties, and utilities. Similarly, USAID provided foreign tax reports showing $2.75 million in taxes paid. However, USAID implementing partners informed SIGAR they paid a total of $8.24 million in taxes, fees, duties, and utilities. Although not all the taxes, fees, duties, and utilities respondents relayed to SIGAR were required to be reported to their respective U.S. agencies, the discrepancy demonstrates that State and USAID do not know the full scope of the taxes, fees, duties, and utilities paid on U.S.-funded assistance in Afghanistan.

Lastly, SIGAR found that implementing partners did not consistently comply with the Department of the Treasury's (Treasury) Office of Foreign Assets Control (OFAC) recordkeeping requirements. Despite OFAC regulations requiring that persons engaging in transactions that are subject to OFAC licenses maintain full and accurate internal records of each transaction for 5 years, implementing partners did not always comply. For example, an implementing partner told SIGAR that they are paying taxes to the Taliban but are not maintaining records of those transactions. Several other implementing partners stated that they retain the records, but only for 1 to 4 years instead of the required 5 years. Given this inconsistent compliance, the funding agencies do not have any assurance that implementing partners are adhering to the 5-year recordkeeping requirement for transactions with the Taliban.

WHAT SIGAR RECOMMENDS

To improve tax reporting on U.S. funds and ensure adherence to OFAC requirements, SIGAR recommends that the Secretary of State and the USAID Administrator:

1. **Expand the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs, and to all types of taxes, fees, duties, and utilities.**
2. **Take action to ensure that responsible officials include foreign tax reporting requirements in applicable award agreements.**
3. **Take action to ensure that responsible officials collect required foreign tax reports from implementing partners.**
4. **Direct implementing partners to adhere, where applicable, to the OFAC requirement to maintain records of transactions with blocked persons for 5 years.**

SIGAR provided a draft of this report to State, USAID, USAGM, and Treasury for review and comment. SIGAR received written comments from State, USAID, and USAGM. These comments are reproduced in appendices III, IV, and V, respectively.

State concurred with recommendations 2 and 3; and concurred with the intent of recommendations 1 and 4. In its comments to recommendation 2, State said that it will remind responsible officials of the policy outlined in its FAD regarding foreign tax reporting requirements. Regarding recommendation 3, State said that its Office of Foreign Assistance regularly provides guidance on the requirements to report on taxation of U.S. assistance. Regarding recommendation 1, State requested that SIGAR revise the recommendation to "explore expanding the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with [public international organizations], and to all types of taxes, fees, duties, and public utilities." State also noted that it will assess the appropriateness of expanding the requirements as recommended. Based on reasons explained in the body of this report, SIGAR is not revising recommendation 1.

Regarding recommendation 4, State noted that it will assess whether to include language highlighting existing OFAC requirements in its award provisions, but stated that the OFAC requirements only apply to transactions with blocked entities or people. Based on State's response, SIGAR has updated recommendation 4 to apply only to transactions where the OFAC regulations are applicable. SIGAR will follow-up with State within 60 days of the issuance of this report to identify any actions taken in response to SIGAR's recommendations.

USAID also concurred with recommendations 2 and 3, and similarly concurred with the intent of recommendations 1 and 4. In its response to recommendation 2, USAID reviewed its current policies and procedures, and ensured that the award agreements include required provisions for tax reporting. Regarding recommendation 3, USAID stated that it will implement refresher training for responsible officials and implementing partners to improve compliance with reporting requirements.

Regarding recommendation 1, USAID stated that it concurred with the importance of adhering to U.S. law, but did not concur with expanding tax reporting beyond VAT and customs duties. Regarding recommendation 4, USAID concurred with the intent of the recommendation. Specifically, USAID concurred with the importance of maintaining records in accordance with OFAC requirements. However, USAID indicated that it did not believe that OFAC recordkeeping requirements would apply to many of its assistance awards because the reporting requirements do "not necessarily apply to all transactions with the so-called 'Taliban-controlled government'." Based on USAID's response, SIGAR updated recommendation 4 to apply only to transactions where the OFAC regulations are applicable. SIGAR will follow-up with USAID within 60 days of the issuance of this report to identify any actions taken in response to our recommendations.

USAGM and Treasury had no written comments on the recommendations in the report. However, SIGAR updated the report, as appropriate, based on technical comments from Treasury, as well as State's Bureaus of International Narcotics and Law Enforcement; Population, Refugees, and Migration; and South and Central Asian Affairs.

May 20, 2024

The Honorable Antony Blinken
Secretary of State

The Honorable Dr. Janet Yellen
Secretary of the Treasury

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

The Honorable Amanda Bennett
Chief Executive Officer, U.S. Agency for Global Media

This report discusses the results of SIGAR's audit of U.S. funds benefitting the Taliban-controlled government since August 2021. We found that U.S. government implementing partners paid at least $10.9 million to the Taliban-controlled government in the form of taxes, fees, import duties, or for the receipt of permits, licenses, or public utility services. In addition, most of the taxes, fees, duties, and utilities reported by the implementing partners were not captured in annual tax reporting to U.S. agencies because U.S. agencies only require implementing partners to report value-added taxes and customs duties. Additionally, we found that the Taliban-controlled government has disrupted implementing partner activities through various means, including attempts to divert aid or infiltrate nongovernmental organizations (NGOs) and interfere with their activities, which in some cases, negatively impacted the implementation of activities and diverted aid from the intended beneficiaries. Finally, we found that U.S. agencies did not provide comprehensive guidance to their implementing partners regarding the payment of taxes, fees, duties, and utilities, beyond information contained in the U.S. Department of the Treasury (Treasury) Office of Foreign Assets Control (OFAC) General Licenses.

We are making four recommendations in this report. To improve tax reporting on U.S. funds and ensure adherence to OFAC requirements, we recommend that the Secretary of State and the U.S. Agency for International Development (USAID) Administrator (1) expand the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with public international organizations (PIOs), and to all types of taxes, fees, duties, and utilities; (2) take action to ensure that responsible officials include foreign tax reporting requirements in applicable award agreements; (3) take action to ensure that responsible officials collect required foreign tax reports from implementing partners; and (4) direct implementing partners to adhere, where applicable, to the OFAC requirement to maintain records of transactions with blocked persons for 5 years.

We provided a draft of this report to the Department of State (State), USAID, U.S. Agency for Global Media (USAGM), and Treasury for review and comment. We received written comments from State, USAID, and USAGM. These comments are reproduced in appendices III, IV, and V, respectively.

State concurred with recommendations 2 and 3; and concurred with the intent of recommendations 1 and 4. In its comment to recommendation 2, State said that it will remind responsible officials of the policy outlined in its Federal Assistance Directive (FAD) regarding foreign tax reporting requirements. Regarding recommendation 3, State said that its Office of Foreign Assistance regularly provides guidance on the requirements to report on taxation of U.S. assistance.

Regarding recommendation 1, State requested that we revise the recommendation to "explore expanding the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with [public international organizations], and to all types of taxes, fees, duties, and public utilities." State also noted that it will assess the appropriateness of expanding the requirements as recommended. We respectfully disagree with State's position that the interests of the U.S. government and taxpayers would be best served by State engaging in an indefinite analytical process to assess whether to track the full amount of U.S. funds going to the Taliban. Given the Taliban's role in the terrorist attacks on the United States on September 11, 2001, and Executive Order 13224's identification of the Taliban as a terrorist entity, it would be prudent for U.S. agencies providing assistance to Afghanistan to expand the foreign tax reporting requirements of their implementing partners to include all U.S. award agreements and to all types of taxes, duties, or fees. Collecting this basic information would provide U.S. agencies, policymakers, and taxpayers with a clearer picture of the risks associated with the continuation of aid to Afghanistan.

Regarding recommendation 4, State noted that it will assess whether to include language highlighting existing OFAC requirements in its award provisions, but stated that the OFAC requirements only apply to transactions with specific sanctioned entities or people. We are encouraged that the bureau will assess the extent to which OFAC recordkeeping requirements apply to State awards in Afghanistan, and we have updated the recommendation to apply only to transactions for which the OFAC regulations are applicable. However, given that the OFAC regulations constitute an existing legal requirement for certain transactions in Afghanistan, we urge State to emphasize to its implementing partners the importance of maintaining records of all transactions covered by OFAC sanctions regulations. We will follow-up with State within 60 days of the issuance of this report to identify any actions taken in response to our recommendations.

USAID also concurred with recommendations 2 and 3, and similarly concurred with the intent of recommendations 1 and 4. In its response to recommendation 2, USAID reviewed its current policies and procedures, and ensured that the relevant award agreements include provisions for tax reporting. Regarding recommendation 3, USAID stated that it will implement refresher training for responsible officials and implementing partners to improve compliance with reporting requirements.

Regarding recommendation 1, USAID stated that it agreed with the importance of adhering to U.S. law, but did not concur with expanding tax reporting beyond value added taxes and customs duties. As discussed above, we maintain that given the historic threat the Taliban has posed to the United States, it would be prudent for U.S. agencies providing assistance to Afghanistan to collect basic information regarding the funding that such assistance may be providing to the Taliban.

Regarding recommendation 4, USAID concurred with the importance of maintaining records in accordance with OFAC requirements. However, USAID also noted that it does not believe that OFAC recordkeeping requirements would apply to many of its assistance awards because the requirements do "not necessarily apply to all transactions with the so-called 'Taliban-controlled government'." Based on USAID's response, we have updated the recommendation to apply only to transactions for which the OFAC regulations are applicable. However, we continue to urge USAID to emphasize to its implementing partners the importance of safeguarding funds, following applicable regulations, and maintaining records of those transactions covered by OFAC sanctions regulations. We will follow-up with USAID within 60 days of the issuance of this report to identify any actions taken in response to our recommendations.

USAGM and Treasury had no written comments on the recommendations in the report. However, we updated the report, as appropriate, based on technical comments from Treasury, as well as State's Bureaus of International Narcotics and Law Enforcement; Population, Refugees, and Migration; and South and Central Asian Affairs.

We conducted this work under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, 5 U.S.C. Chapter 4, and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

ADS	Automated Directives System
AIDAR	USAID Acquisition Regulations
BHA	Bureau for Humanitarian Assistance
CFR	Code of Federal Regulations
FAD	Federal Assistance Directive
FY	fiscal year
MOU	memorandum of understanding
NGO	nongovernmental organization
OFAC	Office of Foreign Assets Control
PIO	public international organization
State	U.S. Department of State
Treasury	U.S. Department of the Treasury
USAGM	U.S. Agency for Global Media
USAID	U.S. Agency for International Development
USIP	United States Institute of Peace
VAT	value-added tax

The U.S. government has continued to be the largest international donor supporting the Afghan people since the former Afghan government collapsed and the Taliban returned to power in August 2021.[1] Since then, the U.S. government has appropriated more than $2.8 billion, largely for humanitarian and development assistance to help the people of Afghanistan.[2] To carry out their programs, U.S. agencies rely heavily on nongovernmental organizations (NGOs) and public international organizations (PIOs), known as "implementing partners," to implement activities that provide food assistance and support for public health, economic development, weapons abatement and destruction, social development and research, and education.[3] Both the former Ghani administration and the current Taliban-controlled government benefitted from U.S. aid by imposing taxes, fees, duties, and utilities on implementing partners operating in Afghanistan.[4]

In 2013 and 2020, we issued reports on the Afghan government's tax and revenue collection regime, and we found discrepancies and inconsistencies in the application of the taxes, fees, duties, and utilities levied on organizations implementing programs using U.S. funding.[5] We also reported in October 2023 that the Taliban indirectly benefits from U.S.-funded education assistance to Afghanistan by imposing and collecting taxes on those projects.[6] Similarly, our 2023 High-Risk List identified the Taliban's access to international funds through the imposition of taxes, fees, duties, and utilities as one of the biggest risks to the efficacy of U.S. assistance to the Afghan people.[7] The High-Risk List also found that it was essential that U.S. funds be spent on U.S. priorities and not in ways that benefit the Taliban, which represses women and girls, denies the human rights of the Afghan people, and remains unrecognized as a legitimate government by the U.S. government and the international community.

According to the Department of State's (State's) *2022 Country Report on Human Rights Practices: Afghanistan*, "The United States has not decided whether to recognize the Taliban or any other entity as the government of Afghanistan or as part of such a government."[8] State's report identifies significant human rights issues, such as,

> …arbitrary killings, including targeted killings; …serious restrictions on freedom of expression and media by the Taliban, including arrests of and violence against journalists and censorship; …restrictions on freedom of movement and residence and on the right to leave the country; inability of citizens to change their government peacefully through free and fair elections; …serious restrictions on and

[1] Since August 2021, the U.S. government has not recognized a government in Afghanistan. Accordingly, references in this report and our body of work to "Islamic Emirates of Afghanistan," "de facto government," "de facto Afghan government," "Taliban-controlled government," "interim government," "Taliban governance," "Taliban regime," "current governing authorities," "governing institutions," or similar phrases are not intended to prejudge or convey any U.S. government view or decision on recognition of the Taliban or any other entity as the government of Afghanistan. In technical comments to this report, State's Bureau of South and Central Asian Affairs stated, "The United States has not yet made a decision whether to recognize the Taliban or any other entity as the Government of Afghanistan or as part of such a government. State recommends edits throughout the report to reflect 'the Taliban' instead of the 'Taliban-led government.'" However, because the Taliban has de facto control over many governing institutions in Afghanistan, we refer to the "Taliban-controlled government" throughout the report.

[2] SIGAR, *Quarterly Report to the United States Congress*, SIGAR 2024-QR-2, April 30, 2024, p. 5.

[3] SIGAR, *Quarterly Report to the United States Congress*, SIGAR 2023-QR-1, January 30, 2023, pp. 70, 137. Activities in Afghanistan are implemented through NGOs and PIOs. For the purposes of this report, we refer to NGOs and PIOs as "implementing partners" or "implementers," and "U.S. agencies" refers to the U.S. Department of State (State), U.S. Agency for International Development (USAID), and U.S. Agency for Global Media (USAGM).

[4] SIGAR, Quarterly Report, SIGAR 2023-QR-1, p. iv. For the purposes of this audit, we defined "taxes, fees, duties, and utilities" as business and withholding taxes, fees including permits and licenses, import duties, or public utilities payments.

[5] SIGAR, *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan*, SIGAR 13-8-AR, May 14, 2013; SIGAR, *Afghan Business Taxes: Action Has Been Taken to Address Most Tax Issues, but the Afghan Government Continues to Assess Taxes on Exempt U.S.-Funded Contracts*, SIGAR 20-22-AR, January 15, 2020.

[6] SIGAR, *Status of Education in Afghanistan: Taliban Policies Have Resulted in Restricted Access to Education and a Decline in Quality*, SIGAR 24-01-IP, October 13, 2023.

[7] SIGAR, *High Risk List 2023*, SIGAR 23-31-HRL, April 4, 2023, pp. 10–11.

[8] State's Bureau of Democracy, Human Rights and Labor, *2022 Country Reports on Human Rights Practices: Afghanistan*, March 20, 2023, p. 1.

> harassment of domestic and international human rights organizations; lack of investigation of and accountability for gender-based violence, including domestic and intimate partner violence, sexual violence; … [and] trafficking in persons…[9]

As such, to support U.S. human rights priorities, it is crucial that the Taliban does not directly or indirectly benefit from U.S. funds intended to aid the Afghan people.

On March 13, 2023, the Chairman of the U.S. House of Representatives Committee on Foreign Affairs requested that we "[r]eport to the committee on the extent to which U.S. funds intended to respond to a humanitarian crisis in Afghanistan have been provided to the Taliban to pay taxes, fees, import duties, or for the purchase or receipt of permits, licenses, or public utility services since August 2021."[10] In response to that request, we initiated this audit to assess the extent to which (1) U.S. funds intended to provide assistance to the Afghan people are benefitting the Taliban in the form of taxes, fees, import duties, permits, licenses, or public utilities payments since August 2021, and (2) U.S. agencies provided oversight of these funds.[11]

To accomplish our objectives, we reviewed federal laws and regulations, State's Federal Assistance Directive (FAD), and the U.S. Agency for International Development (USAID)'s Automated Directives System (ADS) and USAID's supplement to the Federal Acquisition Regulation, which is known as the USAID Acquisition Regulations or "AIDAR."[12] We analyzed award documents, foreign tax reports, records of transactions, and memorandums of understanding (MOUs) to determine the extent to which U.S. funds are benefitting the Taliban-controlled government.[13] We interviewed officials from State, USAID, the U.S. Agency for Global Media (USAGM), and their respective implementing partners. In addition, we interviewed officials from the U.S. Department of the Treasury (Treasury), the UN, the World Bank, and the International Stability Operations Association.[14] We also compiled and assessed information from U.S. agencies' implementing partners. Specifically, we queried 144 implementing partners with U.S.-funded assistance activities in Afghanistan from August 2021 to May 2023 to gain insights into their experiences with paying taxes, fees, duties, and utilities in Afghanistan, through the completion of a questionnaire, an interview, or both.[15] We conducted our work in Arlington, Virginia, from April 2023 through May 2024, in accordance with generally accepted government auditing standards. Appendix I contains the details of our scope and methodology.

BACKGROUND

Since the fall of the U.S.-backed Afghan government in August 2021, the U.S. government, in coordination with the international community, has undertaken significant efforts to fulfill the basic needs of the Afghan people. These efforts include addressing food security, agriculture, health, and education, as well as undertaking programs designed to improve economic conditions and human rights in Afghanistan, particularly the rights of women, girls, and minority communities.

When the Taliban took control of the Afghan government, they largely retained the preexisting formal system for assessing and collecting taxes, fees, duties, and utilities. Both U.S. agencies and their implementing

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[9] State, *2022 Country Reports on Human Rights Practices: Afghanistan*, p. 2.

[10] Michael T. McCaul, Chairman House Foreign Affairs Committee, U.S. House of Representatives, "Letter to Special Inspector General John Sopko," March 13, 2023.

[11] McCaul, "Letter to Special Inspector General John Sopko," March 13, 2023.

[12] 48 CFR Chapter 7.

[13] The MOUs referenced in this report are agreements between aid delivery organizations (e.g., NGOs, PIOs, business entities, etc.) and the relevant Afghan ministry or government authority, typically as required by the local government, to ensure project goals are mutually understood and supported and to establish a channel for coordination if problems occur.

[14] The International Stability Operations Association is a global partnership of private sector and NGOs providing critical services in fragile environments worldwide for long-term stability and growth.

[15] Rather than providing us with a list of their implementing partners, State requested that they provide our questionnaire directly to their implementers. Department of Defense awards were excluded from our scope. Appendix I contains the details of our scope and methodology.

partners have reported that the taxation regime before and after the rise of the Taliban has remained largely the same. For example, State told us that “[implementing partners] in Afghanistan may need to pay certain… expenses to operate in Afghanistan [on behalf of and funded by the U.S. government],” and that these expenses are “not substantively different than costs paid under the [Ghani administration].”

Implementing partners can experience significant consequences if they fail to pay taxes, fees, duties, and utilities as required by the Taliban-controlled government. In December 2022, the UN Office for the Coordination of Humanitarian Affairs stated that NGOs who fail to pay could face consequences such as frozen bank accounts, shuttered offices, or deregistration from a list of organizations allowed to operate in Afghanistan.[16] In May 2023, the United States Institute of Peace (USIP) published a USAID-funded study of Afghanistan, which described that “any form of humanitarian or development assistance” provided to the Afghan people “is prone to manipulation by the Taliban.”[17] According to the report, “…the Taliban…view the [system of international aid] as yet another revenue stream…to monopolize and centralize control over.”[18] The USIP report concluded that the Taliban is imposing taxes and fees on activities supported by foreign assistance. It also noted, “NGOs have suffered a significant increase in attempts to impede or influence their programming.”[19]

In September 2023, USAID echoed the UN’s and USIP’s conclusions when they told us, “The finding that the Taliban may be interested in benefiting from aid, potential actions they may take to extract those benefits, and vulnerabilities that could conceivably allow that to happen, does not come as a surprise to USAID.” However, USAID also stated that “the risk is not unique or new for Afghanistan and therefore the [USIP report’s] analysis confirm[s] USAID's continued focus on mitigating risks of Taliban interference and Taliban direct benefits from U.S. assistance.”

Requirements for Reporting Taxes, Fees, Duties, and Utilities on U.S. Assistance

Treasury’s Office of Foreign Assets Control (OFAC) administers and enforces economic sanctions against prohibited entities, including the Taliban. However, to facilitate the flow of U.S. assistance and to ensure that U.S. sanctions against the Taliban do not prevent transactions and activities that support the basic human needs of the Afghan people, OFAC issued seven General Licenses from September 2021 through February 2022.[20] A General License is an authorization from OFAC for organizations and individuals to engage in certain transactions that would otherwise be prohibited under U.S. sanctions.[21] These General Licenses also assist in the implementation of UN Security Council Resolution 2615, which calls for the allowance of the processing and

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[16] UN Office for the Coordination of Humanitarian Affairs, “Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator, Mr. Martin Griffiths – Statement for the Security Council Briefing on the Humanitarian Situation in Afghanistan,” December 20, 2022. State noted that these consequences for failing to pay taxes, fees, duties, or utilities were also present under the previous government of Afghanistan.

[17] USIP, *Political Economy Analysis–Afghanistan*, May 2023, p. 5, https://www.usip.org/sites/default/files/Political-Economy-Analysis-Sumbitted-to-USAID-May-2023.pdf.

[18] USIP, *Political Economy Analysis–Afghanistan*, May 2023, p. 40.

[19] USIP, *Political Economy Analysis–Afghanistan*, May 2023, p. 34.

[20] OFAC General Licenses No. 14, “Authorizing Humanitarian Activities in Afghanistan” (September 24, 2021); No. 15, “Transactions Related to the Exportation or Reexportation of Agricultural Commodities, Medicine, Medical Devices, Replacement Parts and Components, or Software Updates in Afghanistan” (September 24, 2021); No. 16, “Authorizing Noncommercial, Personal Remittances to Afghanistan” (December 10, 2021); No. 17, “Official Business of the United States Government” (December 22, 2021); No. 18, “Official Activities of Certain International Organizations and Other International Entities” (December 22, 2021); No. 19, “Certain Transactions in Support of Nongovernmental Organizations’ Activities in Afghanistan” (December 22, 2021); and No. 20, “Authorizing Transactions Involving Afghanistan or Governing Institutions in Afghanistan” (February 25, 2022).

[21] All OFAC General Licenses are “self-executing,” meaning persons engaging in transactions authorized by the General Licenses determine whether the transactions are within the scope of the license and may proceed without further assurance from OFAC. However, General Licenses do not relieve organizations or individuals from compliance with other federal laws, requirements of other federal agencies, or applicable international obligations.

payment of funds, other financial assets, or economic resources, and the provision of goods and services for humanitarian assistance and other activities that support basic human needs for Afghans.

In February 2022, OFAC issued General License 20 authorizing all transactions involving "Afghanistan or governing institutions in Afghanistan prohibited by the Global Terrorism Sanctions Regulations, 31 CFR part 594 (GTSR), the Foreign Terrorist Organizations Sanctions Regulations, 31 CFR part 597 (FTOSR), or Executive Order (E.O.) 13224, as amended[.]" However, General License 20 did not lift the prohibition on financial transfers to the Taliban, individual members of the Taliban, the Haqqani Network, any blocked individuals, or any entities that are majority owned by the Taliban or the Haqqani Network.[22] Instead, General License 20 permitted financial transfers that would have otherwise been prohibited for the "purpose of effecting the payment of taxes, fees, or import duties, or the receipt of permits, licenses, or public utility services, provided that such payments do not relate to luxury items or services[.]"[23] According to OFAC, "OFAC does not view financial transfers to governing institutions in Afghanistan or state-owned or -controlled companies and enterprises in Afghanistan [such as Da Afghanistan Breshna Sherkat] as financial transfers to the Taliban…"[24]

U.S. federal regulations, including USAID's AIDAR and State's FAD, govern the reporting of taxes, fees, duties, and utilities on U.S. assistance to the people of Afghanistan, as well as documentation retention requirements. Specifically, Title 31 of the U.S. Code of Federal Regulations requires implementing partners to maintain records of each transaction that is subject to OFAC sanctions regulations for at least 5 years, including those transactions authorized under a General License and provide documentation of these records upon request from OFAC.[25] In addition, State and USAID require implementors of certain types of awards to provide annual foreign tax reports, including any value-added taxes (VAT) and custom duties, as prescribed in the FAD, the AIDAR, and USAID's ADS.[26]

Table 1 on the following page lists the taxes, fees, duties, and utilities incurred by implementing partners executing U.S.-funded activities in Afghanistan.

[22] OFAC General License No. 20.

[23] OFAC General License No. 20.

[24] OFAC Afghan-Related Sanctions, Frequently Asked Question 995, February 25, 2022, https://ofac.treasury.gov/faqs/995. In addition, Da Afghanistan Breshna Sherkat operates as a limited liability company owned by the Afghan government, and operates and manages electric power generation, import, transmission, and distribution. At various times during the fieldwork and reviewing process of this audit, entities at both State and USAID noted that the U.S. government does not recognize a government in Afghanistan, and as such, any transaction with a de facto government entity may fall outside of the transactions allowed by the General Licenses. This report does not determine the allowability of transactions with de facto government entities in Afghanistan.

[25] 31 CFR § 501.601; 31 CFR § 501.602.

[26] 48 CFR § 729.402-70; State, Federal Assistance Directive (October 2022), pp. 140–141; ADS 303mab, "Standard Provisions for Non-U.S. Nongovernmental Organizations Partial Revision," July 1, 2022, pp. 60–61; ADS 303maa, "Standard Provisions for U.S. Nongovernmental Organizations Partial Revision," June 22, 2023, pp. 58–60.

Table 1 - Types of Payments Made to Afghan Governing Bodies to Implement U.S.-Funded Activities in Afghanistan

Types of Taxes and Levies		Definition
Taxes	Business Receipts Tax	Tax imposed on gross sales before any deduction. The tax predominantly applies to limited liability companies, general partnerships, and organizations.
	Contractor Withholding Tax	Levy ranging from 2 to 7 percent on any work performed by, or products purchased from, companies. This tax is also known as supplier or vendor withholding tax.
	Salary Withholdings	Withholdings on the payment of salary and wages for persons employed in Afghanistan.
	Property Tax	Levy imposed on landlords of property leased for business use.
	Sales Tax	Levy imposed on the sale of goods and services.
	VAT	Levy imposed on the amount added to the price of goods during production and distribution.
Fees	Work Permits	Payment for the authorization for a foreigner to work in Afghanistan.
	Business Licenses	Fee to obtain a license to operate in Afghanistan.
	Vehicle Registration	Fee to register a vehicle for use while operating in Afghanistan.
	Visa Processing	Fee involved with processing a visa application.
	Other Fees	Additional fees include payments for parking, airlines, rent, telecommunication fees, phones, radio licenses, and late fees.
Customs Duties	Customs Duties	Tax on the importation of goods, generally ranging from 2 to 3 percent contingent on the status of an organization's business license.
Public Utilities	Public Utilities	Payments for the use of utilities, such as electricity.

Source: SIGAR analysis of reported taxes, fees, duties, and utilities, assessed on U.S.-funded activities in Afghanistan since August 2021.

In 2013, 2020, and 2023, we reported problems related to taxes, fees, duties, and utilities assessed by the Afghan government.[27]

- In our 2013 report, we found that the Afghan Ministry of Finance assessed over $921 million in business taxes and associated penalties on implementers supporting U.S. government efforts in Afghanistan, despite implementers operating under tax-exempt contracts from 2002 to 2012. We recommended that State develop a consistent, unified position on what the U.S. government deemed to be the appropriate taxation of contractors supporting U.S. government efforts in Afghanistan, and that State and USAID determine if taxes they reimbursed were legitimate and recover any inappropriately reimbursed taxes. While State and USAID neither agreed nor disagreed with our recommendations, they were closed as implemented.
- In our 2020 report, we found that the Afghan government continued to assess taxes and penalties on U.S. government implementers from 2013 to 2019. Additionally, this report found that the Afghan government adopted impractical requirements for operating in Afghanistan and inappropriately delayed

[27] SIGAR, Taxes, SIGAR 13-8-AR; SIGAR, Afghan Business Taxes, SIGAR 20-22-AR; SIGAR, Status of Education in Afghanistan, SIGAR 24-01-IP.

shipments of supplies and humanitarian aid at ports of entry to enforce improper tax assessments. We could not report on the totality of the problem due to unresponsiveness from implementers and a lack of supporting documentation. However, to address these tax-related issues, we recommended State and USAID require implementers to annually report any instances of taxes, fees, duties, and utilities by the Afghan government. While State and USAID agreed with our recommendations, they did not implement them.

- In our 2023 evaluation of the education sector in Afghanistan, we found that the Taliban indirectly benefits from U.S.-funded education assistance by collecting tax revenue on education-related aid through personal income taxes on Afghans employed by U.S.-funded programs and sales tax revenue from goods purchased from landlords, contractors, and vendors. Additionally, implementing partners pay utility bills, such as water and electricity—essential services controlled by the Taliban.

IMPLEMENTING PARTNERS PAID AT LEAST $10.9 MILLION TO TALIBAN-CONTROLLED ENTITIES SINCE AUGUST 2021, AND THE TALIBAN PRESSURED IMPLEMENTING PARTNERS TO DIVERT ASSISTANCE

We determined that U.S. funds intended for the benefit of the Afghan people have been provided to the Taliban-controlled government in the form of taxes, fees, duties, and utilities, which the Taliban-controlled government requires implementing partners to pay to operate in Afghanistan. Specifically, we found that since August 2021, implementing partners paid at least $10.9 million to the Taliban-controlled government in the form of taxes, fees, import duties, or for the receipt of permits, licenses, or public utility services.[28] In addition, we determined that tax exemptions established with the former Afghan government are not consistently honored by the Taliban-controlled government. Furthermore, the Taliban has disrupted implementing partner activities by various direct means, including attempts to divert aid or infiltrate NGOs and interfere with their activities, which negatively impacts the implementation of activities and diverts aid from the intended beneficiaries.

Implementing Partners Paid at Least $10.9 Million in Taxes, Fees, Duties, and Utilities to the Taliban-Controlled Government since August 2021

U.S. funds intended for the Afghan people are directly benefitting the Taliban-controlled government in the form of taxes, fees, duties, and utilities, which the Taliban-controlled government require implementing partners to pay in exchange for operating in Afghanistan. As a part of our fieldwork, we queried U.S. agencies' implementing partners to determine the extent to which they paid taxes to the Taliban-controlled government. Specifically, we issued a questionnaire to each of the 144 implementing partners that conducted U.S.-funded activities in Afghanistan since August 2021.[29] Despite following up with implementing partners on numerous occasions, we

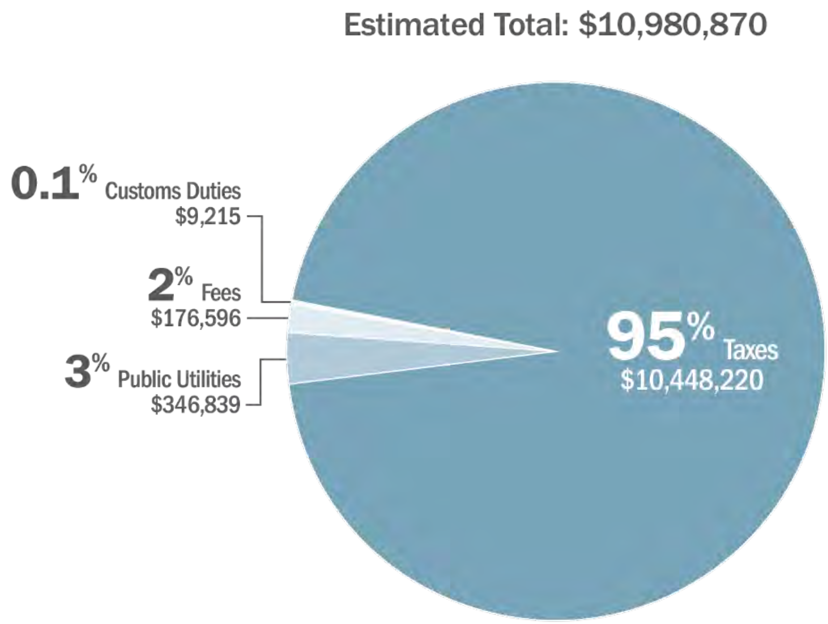
[28] U.S. agency implementing partners were also taxed under the former Ghani administration. The payment of taxes to the Taliban-controlled government is allowable under OFAC General Licenses.

[29] We could not determine the total funding U.S. agencies disbursed to these implementing partners since August 2021 because our questionnaire allowed respondents to remain anonymous, and many awards were initiated under the Ghani administration and therefore included periods of funding outside of our scope. Additionally, rather than furnishing us with the names and contact information of their implementing partners, State provided our questionnaire directly to their implementers. Despite instructions in the questionnaire that respondents should return the questionnaire directly to us, many State implementers submitted the questionnaire to State, which State then provided to us. To affirm the accuracy and completeness of the responses provided, we requested that State attest that the questionnaire was distributed to all relevant implementing partners, responses were not altered, and that no attempts were made to influence the implementers' responses. However, to date, State has refused to sign the attestation.

only received 65 responses from the 144 implementing partners.[30] Of the 65 responses we received, 38 (58 percent) reported paying taxes, fees, duties, or utilities to the Taliban-controlled government.[31]

From August 2021 to May 2023, 38 implementing partners reported paying an estimated $10.9 million to the Taliban-controlled government for continued operations in Afghanistan.[32] Of this amount, $10.4 million was paid in taxes; $346,839 in payments for utilities; $176,596 in fees; and $9,215 in customs duties.[33] Figure 1 depicts the taxes, fees, duties, and utilities paid.

Figure 1 - Estimated Taxes, Fees, Duties, and Utilities Paid to the Taliban-Controlled Government



Source: SIGAR analysis of questionnaire responses received from implementing partners.

Of all taxes, fees, duties, and utilities implementing partners reported paying, payments for salary withholdings and income tax were the largest, comprising almost $8.6 million (more than 78 percent). Four of the 65 respondents to our questionnaire (6 percent) reported that the Taliban-controlled government attempted to extort monies through the collection of additional taxes, duties, or fees, using various tactics, including harassment by members of the Taliban security forces, forcing duplicate payments of the same invoice, and blocking implementing partners' access to their bank accounts.

[30] Twenty-two of the 65 cooperative responses came from USAID's implementing partners, including three UN agencies. Thirty-eight of the 65 cooperative responses came from State's implementing partners, including four UN agencies. Two of the 65 cooperative responses came from USAGM's implementing partners. Three of the cooperative responses came from implementing partners receiving funding from both State and USAID, including two UN agencies.

[31] One implementing partner stated that it was unable to fully disaggregate its U.S. funding from other funding sources, thus the provided figures could potentially include other donors' funds.

[32] Wherever possible, we confirmed reported payments using documentation of payments. In all cases, we conducted follow-up with implementing partners to confirm payments and the accuracy of responses. State and USAID did not provide all cost adjustment modifications for each award. As a result, we are not generalizing or projecting tax rates applied to implementing partners or collected by the Taliban-controlled government.

[33] The category "Fees" includes work permits, business licenses, vehicle registration, visa processing, and other fees. Table 1 lists the taxes, duties, and utilities incurred by implementing partners executing U.S.-funded activities in Afghanistan.

Twenty-seven of 65 respondents (42 percent) who reported not paying taxes, fees, duties, and utilities to the Taliban-controlled government provided various reasons for non-payment. Some implementing partners described methods for avoiding taxation, while others reported receiving tax-exempt status from the Taliban-controlled government, an apparent carry-over from the 2018 bilateral agreement between the U.S. government and the Ghani administration that exempted U.S.-funded assistance from taxes, fees, duties, and utilities.[34] That agreement stipulated that any "goods, supplies, materials, equipment…shall be exempt from any and all taxes, including value-added taxes or other similar charges…and all tariffs, dues, [and] fees," and provided an exemption from taxes for all personnel employed by U.S. agencies.[35] However, other implementing partners with previously established tax exemptions with the former Afghan government told us their exemptions were not consistently honored by the Taliban-controlled government, resulting in the payment of some taxes and import duties.[36]

The UN Does Not Track the Payment of Taxes, Fees, Duties, and Utilities by Its Implementing Partners, Despite Knowing Such Payments Occur

The $10.9 million in payments to the Taliban-controlled government made by 38 State, USAID, and USAGM implementing partners is likely only a fraction of the total amount of U.S. assistance funds provided to the Taliban-controlled government in taxes, fees, duties, and utilities. This is because UN agencies receiving U.S. funds did not collect data or provide relevant information about payments made by their subawardees. From October 2021 through September 2023, the UN received $1.6 billion in U.S. funding for programming in Afghanistan, approximately 63 percent of all U.S. assistance funding for Afghanistan during that period.[37] UN agencies are required to report progress toward accomplishing their objectives, constraints, changes in their situations, and risk management strategies. Additionally, USAID requires the provision of standard financial reports from UN agencies, and most UN agreements with State include that requirement, as well. However, UN agreements with State and USAID do not require UN agencies receiving U.S. funds to annually report on taxes, fees, duties, or utilities incurred on most U.S. funds provided for activities in Afghanistan.

In response to our questionnaire, UN agencies reported no instances of paying taxes, fees, duties, or utilities, due to their tax-exempt status as PIOs, in accordance with the Convention on the Privileges and Immunities of the United Nations.[38] However, because UN agencies act as pass-through entities for State and USAID awards, and they use subawardees to directly implement award activities, these subawardees paid taxes, fees, duties, or utilities in the same way as other State and USAID implementing partners.

According to our interviews with UN officials, UN agencies do not provide any specific guidance to their subawardees regarding the payment of taxes, fees, duties, or utilities beyond what is covered in their agreements with U.S. agencies, which reiterate the tax-exempt status of UN agencies and activities. While the UN agencies are tax-exempt, UN officials told us that their individual subawardees have paid taxes, fees, duties, and utilities.[39] During one interview, a UN agency official told us that to reduce the payment of taxes, fees, duties, and utilities, the agency tries "to minimize the activities that could be liable to more taxation." Based on additional information provided by UN agencies, we determined that UN agencies receiving U.S. funds are aware that their subawardees pay taxes, fees, duties, and utilities to the Taliban-controlled government; however, UN

[34] We are not describing the methods implementing partners used to avoid paying taxes, fees, duties, or utilities to protect the security of implementing partners.

[35] "Afghanistan Foreign Assistance: Provision of Tax Exemptions: Agreement Between the United States of America and Afghanistan," signed July 27 and 28, 2018, *Treaties and Other International Acts Series 18-728*, p. 3.

[36] Although the U.S. government and previous Afghan government were both parties to the bilateral agreement exempting U.S.-funded assistance from taxes, fees, duties, and utilities, SIGAR found in prior audits that the previous Afghan government did not apply the agreement consistently and U.S.-funded assistance was regularly taxed.

[37] SIGAR, *Quarterly Report to Congress*, SIGAR 2023-QR-4, October 30, 2023, pp. 119, 133.

[38] General Assembly of the United Nations, "Convention of the Privileges and Immunities of the United Nations," February 13, 1946, p. 3.

[39] The UN agencies did not identify specific goods and services for which their implementing partners were paying taxes, fees, duties, and utilities.

agencies do not require their subawardees to provide annual reports of these instances, nor do the agencies have any other way to track such payments.

Taliban Demands Negatively Impacted Implementing Partners' Ability to Provide Aid to the Afghan People

The Taliban have found other ways to benefit from U.S.-provided assistance, in addition to the collection of taxes, fees, duties, and utilities from State and USAID implementing partners. Specifically, we found that the Taliban disrupted implementing partner activities through various means, including attempts to divert aid or infiltrate NGOs and interfere with their activities, which negatively impacts programming and diverts aid from the intended beneficiaries.[40] Seventeen of the 65 respondents to our questionnaire (26 percent) reported experiencing direct pressure from the Taliban, including requiring involvement in and approval of program design and implementation; mandating access to facilities, or use of resources or vehicles; recruiting or hiring of certain Taliban-approved individuals; diverting food and other aid to populations chosen by the Taliban. Other implementing partners reported the Taliban required them to hire Taliban-affiliated security forces to provide security. Both USAID and State told us that they were not aware of any implementing partners hiring Taliban-affiliated security forces.[41] This underscores the need for clearer reporting requirements since agency officials were unaware of this issue.

State noted that some implementing partners had successfully declined Taliban requests to divert assistance. However, implementing partners reported to us experiencing one or more of the following forms of pressure:

- 9 reported that the Taliban requested that they employ specific individuals;
- 9 reported that the Taliban requested the use of partner equipment, vehicles, or facilities; and
- 7 reported that the Taliban requested per diem payments, food related items, or other non-monetary benefits.

Similarly, some of the 17 questionnaire respondents who reported experiencing direct pressure from the Taliban also described Taliban requests for transportation, accommodations, and daily monitoring of the implementing partners activities. Of these 17 implementing partners, 12 (71 percent) reported that their U.S.-funded activities were negatively impacted as a result of the Taliban's requests. For example, some implementing partners reported delays or temporary suspension in operations in Afghanistan after refusing to comply with the Taliban's requests. Despite facing harassment by members of the Taliban security forces, 12 of the 17 (71 percent) implementing partners reported being able to successfully decline the requests. Furthermore, only 11 of the 17 (65 percent) respondents informed their funding U.S. agency of these pressures outlined above.

In addition to direct pressure on implementing partners, some respondents stated that the Taliban have regularly inquired about ways to obtain donor funding. These claims are consistent with a report from the USIP, which stated,

> [The] Taliban have encouraged establishment of friendly or even directly-sponsored [civil society organizations] and NGOs; one humanitarian coordination platform reported more than 100 new organizations applying for membership in the first quarter of 2022, and that expansion has reportedly continued at an even greater pace.[42]

Similarly, USAID told us in September 2023 that it "has heard reports that over 1,000 new national NGOs have registered with the so-called Ministry of Economy (MoEc), the rumors that many of these newly registered NGOs have Taliban affiliations." However, USAID also told us that it does not currently fund any Afghan NGOs directly.[43]

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[40] SIGAR, *Quarterly Report to Congress*, SIGAR 2023-QR-3, July 30, 2023, pp. 80–81.

[41] The implementing partners who reported paying the Taliban to provide security services no longer operate in Afghanistan.

[42] USIP, *Political Economy Analysis–Afghanistan*, May 2023, p. 34.

[43] State's Bureau of Population, Refugees, and Migration also noted that it does not directly fund any Afghan national NGOs.

Foreign aid that benefits the Taliban can advance their interests and agenda. The direct collection of taxes, fees, duties, and utilities from U.S. government-funded activities risks contributing to the legitimization of the Taliban in the eyes of the Afghan people. For example, implementing partners reported the Taliban uses aid delivery as propaganda by taking credit for the aid provided to the Afghan people.

U.S. AGENCIES PROVIDED LIMITED OVERSIGHT AND DID NOT ENFORCE REPORTING REQUIREMENTS RELATED TO IMPLEMENTING PARTNER PAYMENTS OF TAXES, FEES, DUTIES, AND UTILITIES IN AFGHANISTAN

Although implementing partners were required by the Taliban-controlled government to pay taxes, fees, and duties, we found that U.S. agencies funding activities in Afghanistan provided limited oversight of those payments. Specifically, we found that State and USAID did not ensure all implementing partner awards included a mandatory tax reporting clause, and State and USAID did not ensure that their implementing partners submitted all required tax reports for fiscal years (FY) 2021 and 2022.[44] U.S. agencies also did not require implementing partners to report all taxes, fees, duties, and utilities paid. As a result, most of the taxes, fees, duties, and utilities implementing partners identified and reported paying in responses to our questionnaire were not otherwise reported to U.S. agencies. Furthermore, U.S. agencies did not provide comprehensive guidance, beyond the OFAC General Licenses, to their implementing partners regarding whether taxes, fees, duties, and utilities should be paid to the Taliban-controlled government.

Agencies Did Not Include Tax Reporting Clauses in Awards or Require All Taxes to Be Reported to U.S. Agencies

We found that most taxes, fees, duties, and utilities paid by the implementing partners were not reported to State and USAID, which is similar to the finding in our 2020 report that contractors underreported taxation on U.S. government assistance awards. The 2020 report found this information went unreported in part because State and USAID only required annual tax reporting on VAT and customs duties. Additionally, our 2020 report found that from 2013 to 2019, the Afghan government continued to assess taxes and penalties on U.S. government implementers.

To address these tax-related issues we recommended State and USAID require implementers to annually report any instances of taxes, fees, duties, and utilities by the Afghan government. However, State did not provide comments and did not implement our recommendations. While USAID agreed with our recommendations, agency officials told us USAID already required the reporting of taxes in its award agreements. In response to this reasoning, we noted, as we also do now, that USAID's reporting requirements were limited to VAT and customs duties. In response to a draft of this report, State said that it will consider the "appropriateness of expanding the requirements… which requires thorough analysis and may require additional steps."[45] Similarly, USAID stated that it will "assess the feasibility of incorporating additional reporting requirements into awards."[46] However, given the Taliban's role in the terrorist attacks on the United States on September 11, 2001, and Executive Order 13224's identification of the Taliban as a terrorist entity, it would be prudent for U.S. agencies providing assistance to Afghanistan to expand the foreign tax reporting requirements of their implementing partners to include all U.S. award agreements and to all types of taxes, fees, duties, and utilities. Collecting this basic information would provide U.S. agencies, policymakers, and U.S. taxpayers with a better understanding of the risks associated with the continuation of aid to Afghanistan.

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[44] USAGM reported that they did not have, nor were they required to have, agency-specific guidance for reporting the payment of taxes, fees, duties, and utilities in Afghanistan since they do not issue awards that use foreign assistance funds.

[45] State, Comments to the Draft Report, April 11, 2024, p. 2.

[46] USAID, Comments to the Draft Report, April 10, 2024, p. 2.

State's FAD states, "[A]ll recipients that receive an award containing foreign assistance funds must submit a foreign tax report."[47] However, this requirement is limited to grants and cooperative agreements to organizations, and does not include awards to PIOs such as the UN, contracts, or other award types. The FAD also states:

> Taxes to be reported include value-added taxes and customs duties assessed by each foreign government receiving foreign assistance under an award (listed separately) on any purchase of goods or services of $500 or more or any other tax that is assessed in an amount of $100 or more on United States foreign assistance funds under an award. Recipients are not required to report on individual income taxes assessed to local staff…[48]

The FAD limits the tax reporting to only VAT and customs duties reaching certain dollar thresholds. Similarly, the AIDAR requires,

> …USAID to take certain steps to prevent countries from imposing taxes, including value added tax (VAT) and customs duties, on U.S. foreign assistance, or if imposed, requires the countries to reimburse the assessed taxes or duties… Because countries imposing such taxes assess them directly on contractors, USAID requires contractors to report annually on whether taxes have been imposed and, if so, whether the foreign government reimbursed the taxes.[49]

USAID's ADS mirrors the AIDAR and requires that implementing partners working on cooperative agreements, task orders, contracts, and grant awards submit annual foreign tax reports detailing only foreign taxes paid for VAT and customs duties assessed on purchases of goods, materials, equipment, or supplies equal to $500 or more. USAID ADS also requires UN and other tax-exempt PIOs implementing cost-type agreements, except for those using Food for Peace Act funding, to inform USAID of any payments of taxes and duties it does not expect to be reimbursed; however, it does not require annual foreign tax reports.[50] While USAID's tax reporting requirements encompass more award types than does State's, USAID's requirements are similar in that they are limited to reporting only VAT and customs duties. See Appendix II for State's and USAID's requirements by award types.

We found that 78 percent of taxes respondents to our questionnaire reported paying on U.S.-funded assistance to the Taliban-controlled government came in the form of salary withholding taxes, which are not captured by State and USAID reporting requirements. While withholding taxes are paid on the salaries of employees, they are paid with U.S. funds.

Implementing partners reported to us that U.S. agencies did not provide comprehensive guidance on how implementing partners should respond to demands for payments, despite numerous implementing partners reporting paying taxes, fees, duties, or utilities, or facing direct requests from the Taliban-controlled government to make those payments. In fact, 63 percent of questionnaire respondents stated that they did not receive any guidance from U.S. agencies related to the payment and reporting of taxes, fees, duties, or utilities. One implementing partner reported to us that State provided neither instructions for paying taxes, fees, duties, or utilities nor instructions on how their tax obligations to the Taliban-controlled government should be met.[51] Implementing partners that did receive guidance generally cited informal communications with U.S. agencies or Treasury's OFAC General Licenses as the guidance they were provided. For example, implementing partners reported paying taxes and fees to the Taliban-controlled government based on an e-mail from State that

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[47] FAD, Chapter 4 D.7, October 2022, p. 133.

[48] FAD, Chapter 4 D.7, October 2022, p. 133.

[49] AIDAR 729.402-70, "Foreign contracts," February 6, 2024.

[50] ADS 308mab, "Standard Provisions for Cost-Type Agreements with Public International Organizations (PIOs) Partial Revision," November 21, 2019, p. 32.

[51] In technical comments to this report, State's Bureau of International Narcotics and Law Enforcement noted that "the OFAC General License guidance is considered comprehensive [U.S. government] guidance to implementing partners," despite the statement by its implementing partners that it did not receive instructions for dealings with the Taliban-controlled government.

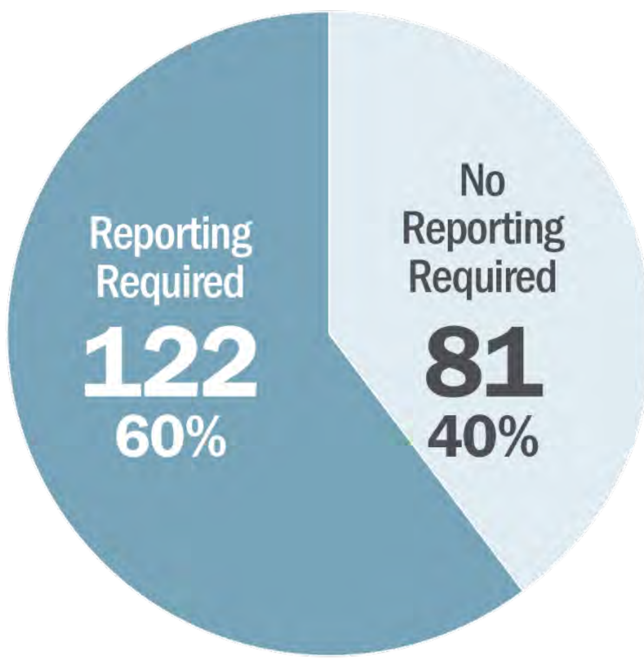
authorized these transactions. According to questionnaire responses, other implementing partners reported the following:

- "... [the implementing partner was] provided with copies of OFAC General Licenses by USAID and was asked to follow the instructions in accordance [with] these General Licenses and amendments. There has been no other instruction on payment of taxes by USAID... [we] leave the decision on whether to pay taxes to the Taliban to our sub-contractors."
- "USAID provided OFAC guidance which we used to develop our own policy and procedures."
- "State has provided us with links to the most recent Office of Foreign Assets Control (treasury.gov) General Licenses."

State and USAID Did Not Include Foreign Tax Reporting Requirements in Some Applicable Awards

We found that State and USAID did not include the foreign tax reporting requirement in some awards that were required to have such a provision. We reviewed 203 awards from State and USAID, and found that the foreign tax reporting requirement was applicable to 122 out of 203 awards (60 percent) and was not applicable to 81 out of 203 awards (40 percent).[52] Of the 122 awards to which a foreign tax reporting requirement applied, 48 were State grants and cooperative agreements and 74 were USAID grants, cooperative agreements, contracts, or task orders. Of the 81 awards for which the foreign tax reporting requirement was not applicable, 40 were State awards that included contracts, letters of agreement, and voluntary contributions; and 41 were USAID awards that included PIO awards, participating agency program agreements, and implementation letters. Figure 2 illustrates the applicability of the tax reporting requirements to State and USAID awards.

Figure 2 - Applicability of Tax Reporting Requirements

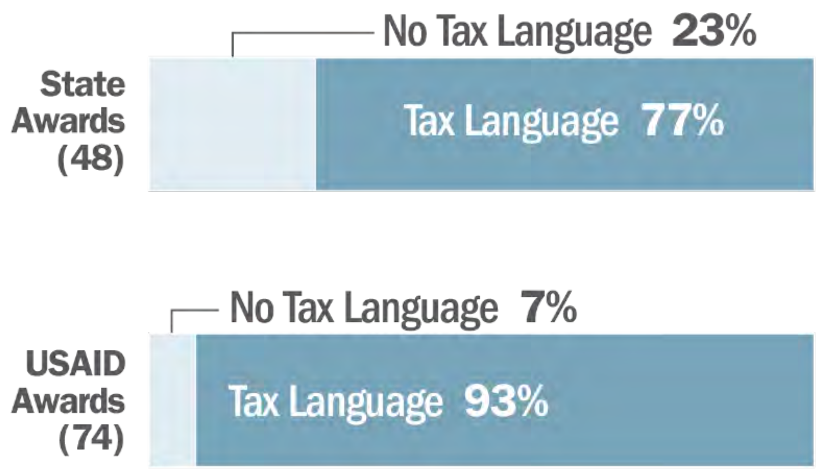


Source: SIGAR analysis of awards obtained from State and USAID.

[52] State did not provide us with all of the documents for all of the awards. Therefore, it is possible that the required tax language is included in the award documentation that State did not provide. Additionally, we could not determine the full extent of State's awards that fell within our scope because State bureaus did not provide all requested information.

While foreign tax reporting requirements applied to 48 State awards, we found that State only included the foreign tax report requirement in 37 (77 percent) of its grants and cooperative agreements.[53] Similarly, the tax reporting requirements applied to 74 USAID awards, and USAID included the requirement in 69 (93 percent) of its grants, cooperative agreements, contracts, or task orders. Figure 3 illustrates the inclusion of the reporting requirements in State and USAID awards.

Figure 3 - Agency Awards with Tax Reporting Requirements



Source: SIGAR analysis of awards obtained from State and USAID.

By not including the foreign tax reporting requirement in all applicable awards, State and USAID are not aware of taxes, fees, duties, and utilities payments made on U.S.-funded assistance. If that information were collected, it could be used to better inform funding decisions and determine whether payments made should be reimbursed.[54] In the absence of tax payment information, U.S. agencies cannot determine the extent to which aid intended to assist the Afghan people is benefitting the Taliban.

U.S. Agencies Did Not Ensure Implementing Partners Submitted all Required Tax Reports for FY 2021 and FY 2022

The FAD, AIDAR, and USAID's ADS require implementing partners to submit annual tax reports detailing any VAT and customs duties paid on U.S. assistance.[55] Despite these requirements, our review of implementing partner tax reports provided by U.S. agencies for FY 2021 and FY 2022 found that U.S. agencies did not ensure that implementing partners submitted the required reports.

State provided us with its implementing partner's foreign tax reports for only 9 of the 48 (19 percent) grants and cooperative agreements we reviewed, and in each one, the implementing partner reported that they did not pay

[53] State provided us with 37 awards not included in our final sample. We excluded these awards because although they were active during our scope, they were initiated prior to October 2019 when the foreign tax reporting requirement first appeared in the FAD. State did not provide evidence of cost adjustment award modifications which would require the awards to adhere to current FAD regulation, including the foreign tax reporting requirement.

[54] In technical comments to this report, State's Bureau of International Narcotics and Law Enforcement stated, "Although important, the tax reporting provision requirement is not a considering factor for State to determine if an NGO should receive funding and/or if a payment request should be reimbursed." In other words, the requirement that implementing partners may have to pay taxes to the Taliban-controlled government is not considered when State determines if it should fund projects.

[55] FAD, Chapter 4 D.7, October 2022, p. 133. ADS 303mab; ADS 303maa. ADS 308mab; 48 CFR § 752.229-71.

any taxes.[56] We also found that the responding State bureaus inconsistently applied the guidance on tax reporting. State's FAD states, "[A]ll recipients that receive an award containing foreign assistance funds must submit a foreign tax report."[57] However, personnel from State's Bureau of International Security and Nonproliferation told us that their implementing partners do not have any foreign taxes, fees, duties, or utilities to report, and further stated that their implementing partners are not required to submit foreign tax reports, despite including tax reporting clauses in their grant award agreements. Similarly, personnel from State's Bureau of International Narcotics and Law Enforcement told us they are not aware of any policy in place that requires their implementers to submit a foreign tax report if they do not have any foreign taxes to report, even though State's Bureau of International Narcotics and Law Enforcement includes tax reporting clauses in their award agreements. Personnel from State's Bureau of South and Central Asian Affairs stated, "We encourage but do not require implementing partners who do not pay foreign taxes to submit a [zero] foreign tax report…" They further stated, "Since there is no recognized government in Afghanistan, [its]… implementing partner …is not providing taxes to the Taliban. Therefore, there are no relevant tax reports to report."

The FYs 2021 and 2022 foreign tax reports for the nine awards State provided to us indicated that implementing partners did not pay taxes. However, the implementing partners who submitted foreign tax reports to State and responded to our questionnaire reported paying taxes, fees, duties, and utilities. In total, State's implementing partners that responded to us stated that they paid $2.18 million in taxes, fees, duties, and utilities to the Taliban-controlled government of Afghanistan.[58] While not all of the taxes, fees, duties, and utilities reported to us by the respondents were required to be reported to State, they show that not all payments on U.S.-funded assistance are captured by current reporting requirements.

Similarly, USAID also did not collect all required foreign tax reports that should have been submitted by its implementing partners. USAID's Mission to Afghanistan provided us with 23 of 101 (23 percent) foreign tax reports for FYs 2021 and 2022, and USAID's Bureau for Humanitarian Assistance provided us with 0 of 25 foreign tax reports for FYs 2021 and 2022, stating, "[N]o partners have reported paying taxes in Afghanistan…" While USAID only provided 18 percent of the total required foreign tax reports, USAID's ADS states, "A report is required even if the recipient did not pay any foreign taxes during the reporting period."[59] Similarly, the AIDAR states that a "report is required even if the contractor did not pay any taxes during the reporting period."[60] While the 23 foreign tax reports for FYs 2021 and 2022 provided by USAID detailed that implementing partners paid over $2.75 million in taxes, USAID's respondents to our questionnaire told us that they paid $8.24 million in taxes, fees, duties, and utilities.[61]

Although not all taxes, fees, duties, and utilities reported to us by the respondents were required to be reported to USAID, the discrepancy demonstrates that not all taxes, fees, duties, and utilities paid on U.S.-funded assistance are captured by current reporting requirements. Without expanding the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs and all types of taxes, fees, duties, and utilities, State and USAID are left to assume that nonreporting implementing partners have not been charged taxes or fees by the governing institutions in Afghanistan.

However, according to a USAID official, because the Taliban-controlled government is not recognized as the official government of Afghanistan, the Taliban-controlled government would not be considered the "host government," negating the requirement that implementing partners submit foreign tax reports on tax and fee

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56 Foreign tax reports for these nine awards were provided by State's Bureau of Population, Refugees, and Migration.

57 FAD, Chapter 4 D.7, October 2022, p. 133.

58 Some implementing partners for State and USAID provided tax amounts in aggregate. For this reason, there may be additional taxes from our total attributable to State awards not included in this amount.

59 ADS 303maa.

60 48 CFR § 752.229-71.

61 Some implementing partners for State and USAID provided tax amounts in aggregate. For this reason, there may be additional taxes from our total attributable to USAID awards not included in this amount. Additionally, in many cases, the amount reported by implementing partners to USAID through the annual foreign tax reports in many cases included taxes beyond the required customs duties and VAT.

payments to the country's host government. Based on our findings, it is concerning that some U.S. officials believe that no payments made to Taliban-controlled governing institutions in Afghanistan need to be reported on the basis that these payments do not qualify as taxes or other payments to a "host government." This position is especially concerning because it appears to justify conducting less oversight of payments made to governing institutions in Afghanistan controlled by the Taliban than payments previously made to the Ghani administration. If such officials believe the payments are not taxes or payments to governing institutions in Afghanistan, then it is unclear how these payments would be permitted under General License 20. Therefore, expanding and enforcing existing reporting requirements is critical to understanding the full extent to which State and USAID programs are funding the Taliban-controlled governing institutions in Afghanistan and the Taliban itself.

USAGM does not require its implementing partners to submit foreign tax reports. USAGM officials told us that it does not issue awards using foreign assistance funds, and the Federal Acquisition Regulation does not contain any provisions or clauses requiring contractors to report payment of taxes, fees, duties, and utilities; as such, vendors do not provide USAGM with reports with this data, and USAGM has not performed any reviews of taxes, fees, duties, or utilities collected by the Taliban since August 2021. USAGM officials also stated that USAGM does not monitor the relationships its implementing partners have with their subawardees or local staff in Afghanistan; therefore, it does not know the extent to which taxes, such as salary withholding taxes, have been paid to the Taliban-controlled government. We confirmed that implementing partners are not required to submit tax reports to USAGM per the Federal Acquisition Regulation. While USAGM is not required to collect foreign tax reports, USAGM implementing partners who responded to our questionnaire reported paying $18,000 in taxes, fees, duties, and utilities to the Taliban-controlled government.

Implementing Partners Reported Inconsistent Compliance with OFAC's Recordkeeping Requirements

OFAC regulations require persons engaging in transactions subject to OFAC sanctions regulations to maintain full and accurate internal records of each transaction for 5 years. While OFAC does not proactively monitor compliance with these recordkeeping requirements, it will investigate apparent violations. OFAC is authorized to impose civil penalties for violations of economic sanctions, including violations of its recordkeeping requirements.

Treasury's OFAC website reports that

> OFAC does not view financial transfers to governing institutions in Afghanistan or state-owned or -controlled companies and enterprises in Afghanistan as financial transfers to the Taliban, the Haqqani Network, any entity in which the Taliban or the Haqqani Network owns, directly or indirectly, individually or in the aggregate, a 50 percent or greater interest, or any blocked individual who is in a leadership role of a governing institution in Afghanistan.[62]

While the sanctions overseen by OFAC prohibit U.S. persons from engaging with entities labeled "Specially Designated Global Terrorists," like the Taliban and Haqqani Network, OFAC has authorized certain activities intended to ensure that humanitarian assistance and other support can continue to flow directly to the Afghanistan people through legitimate and transparent channels, including the U.S. government, PIOs, and NGOs. OFAC has issued several general and specific licenses permitting financial transactions related to Afghanistan.[63] In addition to its public fact sheets and licenses, OFAC publishes numerous Frequently Asked Questions on its public website. These responses explain the contours of OFAC's various licenses and requirements.

Despite the guidance, implementing partners reported confusion regarding compliance with the General Licenses related to Afghanistan. The perceived lack of guidance has real world impacts. For example, one

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[62] OFAC, "Afghanistan-Related Sanctions," updated February 25, 2022, https://ofac.treasury.gov/faqs/995.

[63] OFAC, "Afghanistan-Related Sanctions."

implementing partner told us that OFAC regulations are "very cumbersome and highly vague," which the implementing partner reported "caused great confusion and undue economic hardship." In another instance, an implementing partner told us that they are paying taxes to the Taliban-controlled government; however, they are not maintaining records of those transactions, despite Treasury's regulations requiring persons engaging in transactions subject to OFAC licenses to maintain full and accurate internal records of each transaction for 5 years.[64] Several other implementing partners stated that they retain the records, but only for 1 to 4 years instead of the required 5 years. OFAC enforces economic sanctions programs and may issue administrative subpoenas to investigate apparent violations. The office may also impose civil penalties for violations of economic sanctions, including its recordkeeping requirements. However, OFAC told us that they have not requested any supporting documentation from implementing partners for their transaction records. Without requesting records, OFAC cannot confirm if violations are occurring.

In response to a draft of this report, State said that it will assess whether to include language highlighting existing OFAC requirements in its award provisions. Similarly, USAID agreed with the importance of recording keeping and maintaining those records in compliance with OFAC requirements. However, USAID also noted that "USAID [implementing partners] are prohibited from engaging in transactions with parties subject to the OFAC recordkeeping requirements… This requirement does not necessarily apply to all transactions with the so-called 'Taliban-controlled government'."[65] While we are encouraged by State's and USAID's agreement, we continue to urge both agencies to emphasize to their implementing partners the importance of safeguarding funds, following applicable regulations, and maintaining records of transactions with the Taliban-controlled government.

OFAC officials stated that if they suspect an apparent violation, OFAC may request relevant documents. OFAC officials also told us it has not requested records of transactions that may be in violation of General License 20 from any entity doing business in Afghanistan since August 2021, and that it is the implementing partner's responsibility to maintain transaction records. According to Title 31 of the CFR, "The failure to maintain records in conformance with the requirements of OFAC's regulations or of a specific license may result in a penalty." In addition, without providing proactive oversight of persons engaging in transactions subject to the OFAC General Licenses, OFAC and the funding agencies do not have any assurance that implementers are adhering to the 5-year recordkeeping requirement for transactions with the Taliban-controlled government, and not engaging in prohibited transactions with the Taliban-controlled government, such as the payment of luxury items or services.

CONCLUSION

Since the fall of the U.S.-backed Afghan government in August 2021, the U.S. government has provided more than $2.8 billion in humanitarian and development assistance to help the people of Afghanistan. These funds are intended to address ongoing issues in humanitarian assistance, healthcare, economic development, weapons destruction, social development, and education. However, at least $10.9 million of U.S. taxpayer dollars have been paid to the current Taliban-controlled government of Afghanistan in the form of taxes, duties, and fees. Since September 2021, OFAC has issued a series of General Licenses that have increasingly permitted exceptions to the sanctions that would otherwise prohibit some transactions within Afghanistan.[66] Despite the reporting requirement, State and USAID have inconsistently required their implementing partners to report the taxes and other payments they are making to the Taliban-controlled government of Afghanistan. In some cases, State and USAID are not fully enforcing existing implementing partner reporting requirements, such as with VAT and customs duty payments. In other cases, State and USAID are unaware that their implementing partners have been paying millions of dollars in other types of taxes and fees, such as employee withholding taxes, because the agencies have not required the reporting of such payments.

[64] 31 CFR § 501.601.

[65] USAID, Comments to the Draft Report, April 10, 2024, p. 3.

[66] OFAC General License No. 20.

Because State and USAID are not collecting comprehensive information on taxes and other payments made to Taliban-controlled governing institutions, the U.S. government cannot fully assess the extent to which funding intended for the Afghan people is being directed to the Taliban. Without this information, it will be difficult for decision makers to accurately weigh the humanitarian benefits of Afghan aid programs against the risks of providing financial benefits to the Taliban.

RECOMMENDATIONS

To improve tax reporting on U.S. funds and ensure adherence to OFAC requirements, we recommend that the Secretary of State and the USAID Administrator:

1. Expand the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs, and to all types of taxes, fees, duties, and utilities.
2. Take action to ensure that responsible officials include foreign tax reporting requirements in applicable award agreements.
3. Take action to ensure that responsible officials collect required foreign tax reports from implementing partners.
4. Direct implementing partners to adhere, where applicable, to the OFAC requirement to maintain records of transactions with blocked persons for 5 years.

AGENCY COMMENTS

We received written comments to a draft of this report from State, USAID, and USAGM. The written comments are reproduced in appendices III, IV, and V, respectively.

State concurred with recommendations 2 and 3; and concurred with the intent of recommendations 1 and 4. In its comment to recommendation 2, State said that it will remind responsible officials of the policy outlined in the FAD regarding foreign tax reporting requirements. Regarding recommendation 3, State said that its Office of Foreign Assistance regularly provides guidance on the requirements to report on taxation of U.S. assistance.

Regarding recommendation 1, State requested that we revise the recommendation to "explore expanding the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with [public international organizations], and to all types of taxes, fees, duties, and utilities." State also noted that it will assess the appropriateness of expanding the requirements as recommended. Based on reasons explained in the body of this report, we are not revising the recommendation.

Regarding recommendation 4, State noted that it will assess whether to include language highlighting existing OFAC requirements in its award provisions, but stated that the OFAC requirements only apply to transactions with blocked entities or people. Based on State's response, we have updated the recommendation to apply only to transactions where the OFAC regulations are applicable. We will follow-up with State within 60 days of the issuance of this report to identify any actions taken in response to our recommendations.

USAID also concurred with recommendations 2 and 3, and similarly concurred with the intent of recommendations 1 and 4. In its response to recommendation 2, USAID reviewed its current policies and procedures, and ensured that the award agreements include the required provisions for tax reporting. We consider USAID's actions responsive to the recommendation and will close the recommendation as implemented upon issuance of this report. Regarding recommendation 3, USAID stated that it will implement refresher training for responsible officials and implementing partners to improve compliance with reporting requirements. We will follow-up with USAID within 60 days of the issuance of this report to identify any actions taken in response to this recommendation.

Regarding recommendation 1, USAID stated that it agreed with the importance of adhering to U.S. law, but did not concur with expanding tax reporting beyond VAT and customs duties. Regarding recommendation 4, USAID concurred with the intent of the recommendation. Specifically, USAID concurred with the importance of maintaining records in accordance with OFAC requirements. However, it is USAID's position that "USAID [implementing partners] are prohibited from engaging in transactions with parties subject to the OFAC recordkeeping requirements…This requirement does not necessarily apply to all transactions with the so-called 'Taliban-controlled government'." Based on USAID's response, we have updated the recommendation to apply only to transactions where the OFAC regulations are applicable We will follow-up with USAID within 60 days of the issuance of this report to identify any actions taken in response to our recommendations.

USAGM and Treasury had no written comments on the recommendations in the report. However, we updated the report, as appropriate, based on technical comments from Treasury, as well as State's Bureaus of International Narcotics and Law Enforcement; Population, Refugees, and Migration; and South and Central Asian Affairs.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the results of SIGAR's audit of U.S. funds directly benefitting the Taliban. The objectives of this audit were to assess the extent to which (1) U.S. funds intended to provide assistance to the Afghan people are benefitting the Taliban in the form of taxes, fees, import duties, permits, licenses, or public utilities payments since August 2021, and (2) U.S. agencies provided oversight of these funds.

For both objectives, we examined federal and agency-level policies and procedures to determine the relevant criteria regarding the payment and reporting of taxes, fees, duties, and utilities in Afghanistan and the oversight of those payments. For example, we reviewed, the Federal Acquisition Regulation Code of Federal Regulations (CFR), U.S. Agency for International Development's (USAID's) Automated Directives System (ADS) and Acquisition Regulation (AIDAR), the Department of State's (State's) Foreign Assistance Directive (FAD), and U.S. Department of Treasury's (Treasury's) Office of Foreign Asset Control (OFAC) General Licenses 14 through 20. In addition, we reviewed award documentation provided by State, USAID, and the U.S. Agency for Global Media (USAGM) to identify the presence of required policies based on established criteria at the federal and agency level.

To determine the implementing partners and awards within our scope, we obtained lists of awards from USAID, State, and USAGM, and from prior SIGAR reports. To assess the consistency of tax reporting requirements, we examined 203 award documents from USAID and State for compliance with the relevant federal, and agency-level criteria.[67] In addition, we requested the required annual tax report documents from State and USAID, as well as from their implementing partners, to ascertain the extent to which implementing partners followed guidance and U.S. agencies enforced the criteria.

To assess the extent to which activities implemented in Afghanistan since August of 2021 have been subject to taxation and implementing partners had received guidance from U.S. agencies, we distributed a questionnaire to USAID, State, and USAGM implementing partners. The questionnaire sought information regarding the types and amounts of taxation assessed and paid by each organization, whether they had experienced coercion for payment of taxes or been asked to provide non-monetary compensation, and the policies regarding taxation and reporting that had been provided to them by the relevant U.S. government agencies. We received a total of 65 responses and sent follow-ups to clarify responses and ensure the highest degree of accuracy possible. All USAID and USAGM implementing partner responses came directly from implementors. However, some State implementing partner responses came from the State bureaus that issued the awards. To ensure data validity, we requested these State bureaus sign an attestation stating they had not sought to influence or change the response of their implementing partner in any way. However, no State bureau has signed the attestation form as of the publication of this report.

To obtain further clarity on the tax environment in Afghanistan, we conducted interviews with U.S. agencies and their implementing partners. Interviews were also conducted with public international organizations (PIOs), such as the World Bank, United Nations agencies, and their implementing partners, to determine what controls they employ to satisfy U.S. requirements, and to understand the extent to which multinational organization implementing partners remit funds to the Taliban through taxes, fees, import duties, permits, licenses, or public utility services.

We conducted our audit work in Arlington, Virginia, from April 2023, through May 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed this audit under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, 5 U.S.C. Chapter 4.

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[67] USAGM does not use foreign assistance funds; therefore, they are not required to report taxation incurred in Afghanistan and do not have policies for the inclusion of tax reporting language in their awards.

APPENDIX II - AGENCY GUIDANCE BY AWARD TYPE

Tax reporting guidance for the Department of State (State) and U.S. Agency for International Development (USAID) varies by award type. For example, State's Foreign Assistance Directive (FAD) requires award recipients with an award containing foreign assistance funds to submit a foreign tax report. However, this guidance is limited to grants and cooperative agreements, and does not include contracts or other award types. USAID's Automated Directives System (ADS) requires that implementing partners—including nongovernmental organizations (NGOs) and public international organizations (PIOs)—working on cooperative agreements, task orders, contracts, and grant awards, submit annual foreign tax reports detailing foreign taxes paid. Additionally, both USAID and State award requirements limit all award tax reporting to value-added tax (VAT) and customs duties. Table 2 displays the various guidance by award types.

Table 2 - Agency Guidance by Award Type

Award Type	State Guidance	USAID Guidance
Delegated Cooperation Agreement	Not applicable	ADS 351 states that Delegated Cooperation Agreements are a form of bilateral agreements with other donors. There are no specific tax reporting requirements provided for this type of award.
Loan Portfolio Guarantee Agreements	Not applicable	According to ADS 249, Development Credit Authority provides USAID with legislative authority to issue partial loan guarantees to private lenders to achieve the economic development along with the authorization to make direct loans. There are no policies or requirements provided for the reporting of taxes, fees, duties, and utilities in this or ADS 623.
Task Order	Not applicable	ADS 302 requires all contracts, including task orders, to include a clause requiring the submission of an annual foreign tax report by April 16 that details all assessed and paid taxes during the prior U.S. government fiscal year (FY) (October 1–September 30). This report must include the recipient's name, contact information, agreement number(s), and any reimbursements received by April 1 of the current year. The report must be submitted even if there were no taxes were paid or reimbursements received during the reporting period. The recipient must only report VAT and customs duties assessed by a foreign government on purchases of supplies, goods, materials, and equipment more than $500 per transaction.

PIO Grants	A grant or cooperative agreement to a foreign public entity uses a form DS-1909 accompanied by the Award Provisions for foreign public entities. A grant or cooperative agreement to a foreign public entity is the appropriate instrument when the purpose is to provide assistance to a foreign public entity to implement a specific project or to support an existing program or activity. In general, a grant is not used to fund the general operating budget of a foreign public entity.	ADS 308mab does not require UN or other tax-exempt PIO recipients to provide an annual foreign tax report. However, should they be obligated to pay taxes related to their awards that are not anticipated to be reimbursed, they must notify their agreement officer.
Grants and Cooperative Agreements	All recipients receiving an award containing foreign assistance funds must submit a foreign tax report. Recipients are required to submit a report detailing foreign taxes assessed under an award during the prior U.S. government FY (October 1–September 30). The report must be submitted to the Grants Officer on an annual basis by February 15. Recipients should also submit an updated report if the foreign government reimburses the recipient for any of the taxes reported in a previous report. The report must include the recipient's name, contact information, award number, and the amount of foreign taxes assessed by a foreign government. Taxes to be reported include VAT and customs duties assessed by each foreign government receiving foreign assistance under an award (listed separately) on any purchase of goods or services of $500 or more, or any other tax that is assessed in an amount of $100 or more on U.S. foreign assistance funds under an award. Recipients are not required to report on individual income taxes assessed to local staff or any taxes assessed by a third-party foreign government, which is not a beneficiary of the foreign assistance funds used to finance a particular award.	ADS 303mab and 303maa state all agreements with USAID since 2003 that obligate or subobligate funds must submit an annual foreign tax report by April 16 that details all assessed and paid taxes during the prior U.S. government FY (October 1–September 30). This report must include the recipient's name, contact information, agreement number(s), and any reimbursements received by April 1 of the current year. The report must be submitted even if there were no taxes were paid or reimbursements received during the reporting period. The recipient must only report VAT and customs duties assessed by a foreign government on purchases of supplies, goods, materials, and equipment more than $500 per transaction.
State: Voluntary Contribution **USAID:** Program Contribution Agreement	Voluntary contributions are a type of assistance to foreign public entities and have unique requirements. In general, foreign public entities refer to a foreign government or foreign government entity, and also include PIOs like the UN. Many of State's standard foreign public entity terms and conditions do not specifically apply to voluntary contributions. Additionally, foreign public entities are not expected to subject their records to inspection by officials of each country making an award or contribution to the entity. It is expected that the recipient foreign public entities will adhere to the rules, regulations, policies, and procedures of its organization, including the organization's audit standards.	ADS 308 does not require any type of program contribution agreements, including administrative agreements, to contain foreign tax reporting requirements. If standard provision applied to cost-type agreements with PIOs are applicable to a specific award, they may be included.

International Organization Letters of Agreement	International Organization Letters of Agreement are obligations that are binding under international law between the U.S. government and a foreign government or a multilateral organization and are negotiated under the authority of Department Circular 175 (11 FAM 720-Negotiation and Conclusion). These treaty-based agreements are considered binding international agreements, not federal assistance, and no other State grant policy requirements apply.	Not applicable
State: Interagency Agreements **USAID:** Participating Agency Agreement	An interagency agreement defines the financial details of an order, terms of reimbursement, itemized costs, and financial obligations when one agency performs services or provides items to another agency. An interagency agreement is often used with a corresponding memorandum of agreement, which describes the general terms and conditions of the service.	According to ADS 306mab, participating agency agreements are agreements between U.S. agencies. These types of awards do not provide specific policies or procedures for the reporting of foreign taxes. However, when working with a cooperative country, they must seek to obtain a tax-exempt status.
Contracts	A contract is for the acquisition, by purchase, lease, or barter, of property or services for the direct benefit or use of the U.S. government and is governed by different regulations than grants and cooperative agreements, such as the Federal Acquisition Regulation and State's Acquisition Regulations (agency supplement). While the Foreign Acquisition Regulation does provide specific contract clauses related to taxes in Afghanistan, such as requiring the contractor to exclude any Afghan taxes, fees, duties, and utilities from the contract price other than those charged to Afghans, it does not include a requirement for foreign tax reporting.	ADS 302 requires all contracts, including task orders, to include a clause requiring the submission of an annual foreign tax report by April 16 that details all assessed and paid taxes during the prior U.S. government FY (October 1–September 30). This report must include the recipient's name, contact information, agreement number(s), and any reimbursements received by April 1 of the current year. The report must be submitted even if there were no taxes were paid or reimbursements received during the reporting period. The recipient must only report VAT and customs duties assessed by a foreign government on purchases of supplies, goods, materials, and equipment of more than $500 per transaction.

Source: SIGAR analysis of foreign tax reporting requirements for State and USAID awards.

United States Department of State

Washington, DC 20520

UNCLASSIFIED

April 11, 2024

MEMORANDUM

TO: Special Inspector General – John F. Sopko

FROM: SCA Afghanistan – [redacted]

SUBJECT: Response to SIGAR Draft Audit Report 158A: "U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance"

SIGAR Comment #1

(U) Thank you for the opportunity to comment on the Special Inspector General for Afghanistan Reconstruction's draft audit report 158A. U.S. implementing partners receive financial support from multiple organizations and other donor countries. The report does not provide evidence that the amounts referenced as being paid by U.S. implementing partners for so-called "taxes," fees, duties, and public utilities were funded exclusively with U.S. assistance. Furthermore, most U.S. support goes through UN agencies, which generally do not pay taxes in the countries where they operate.

SIGAR Comment #2

(U) Without knowing which partners responded to the survey and where their funding comes from, the Department would like to note that the $10.9 million figure SIGAR references in the title of the report represents only .14% of the $7.9 billion in international humanitarian assistance delivered to benefit the people of Afghanistan since the U.S. withdrawal in 2021. SIGAR's draft report states that, of this amount, more than $8.6 million (78%) represents payments for salary withholdings and so-called income

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"taxes." We note, as in almost all cases where the United States provides assistance around the world, Afghan nationals whom the United States employs (whether by contract or arrangement) or finances (whether by contract, grant, or otherwise) and who are present in Afghanistan to perform work in connection with U.S. assistance are not exempt from the payment of income, withholding, or social security taxes imposed under the laws of Afghanistan.

(U) Furthermore, risk management procedures in Afghanistan are among the most extensive in the world. Third-party monitors for UN agencies, bilateral donors, and the World Bank having conducted thousands of site visits to verify principled service delivery. The UN is one of many organizations that implements rigorous risk management practices to ensure that there is no diversion of assistance to the Taliban.

(U) After thoughtful consideration of the SIGAR's recommendations, the Department has the following responses:

Recommendation 1: "Expand the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs, and to all types of taxes, fees, duties, and public utilities."

SIGAR Comment #3

Management Response (4/11/2024): The Department concurs with the intent of SIGAR's recommendation.

The Department respectfully requests that SIGAR revise the recommendation to: "Explore expanding the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs, and to all types of taxes, fees, duties, and public utilities."

The Department will assess the appropriateness of expanding the requirements as recommended, which requires thorough analysis and may require additional steps. The Department will also assess the recommendation against related requirements in section 7013 of the

Department of State, Foreign Operations, and Related Programs Appropriations Acts (SFOAA)).

Recommendation 2: "Take action to help ensure that responsible officials include foreign tax reporting requirements in applicable award agreements."

Management Response (4/11/2024): The Department concurs with SIGAR's recommendation.

The Department's Bureau of Administration, Office of the Procurement Executive, Office of Acquisition Policy, Federal Assistance (A/OPE/OAP/FA) will send notification in the next issuance of the OAP newsletter, reminders to the community of the policy outlined in the Federal Assistance Directive (FAD), Chapter 4, Section D.7., of the foreign tax reporting requirements.

Recommendation 3: "Take action to help ensure that responsible officials collect required foreign tax reports from implementing partners."

Management Response (4/11/2024): The Department concurs with SIGAR's recommendation.

The Department's Office of Foreign Assistance (F) regularly provides Department bureaus and posts with guidance related to responsibilities to report on the taxation of U.S. assistance, consistent with U.S. law.

Recommendation 4: "Direct implementing partners to adhere to the OFAC requirement to maintain records of transactions with the Taliban-controlled government for 5 years."

SIGAR Comment #4:

Management Response (4/11/2024): The Department concurs with the intent of SIGAR's recommendation.

The Department will assess whether to include language highlighting existing OFAC requirements in its award provisions.

OFAC regularly advises nongovernmental organizations (NGOs) and U.S. government contractors and grantees about OFAC's recordkeeping requirements. The OFAC recordkeeping requirements are set out in public regulations and apply to transactions conducted by U.S. persons or through the United States that are subject to OFAC's sanctions regulations. Of relevance to Afghanistan, the OFAC sanctions apply to transactions involving the Taliban, the Haqqani Network, and any Taliban-associated individuals or entities on OFAC's Specially Designated Nationals and Blocked Persons List, as well as their 50%-or-more owned entities. As stated in OFAC FAQ 993: *"Generally speaking, when a designated individual has a leadership role in a governing institution, the governing institution itself is not considered blocked. Accordingly, engaging in a routine interaction with an agency in which a blocked individual is an official, but that does not involve the blocked individual in question, is not prohibited."* Only transactions by implementing partners that are subject to OFAC's regulations and involve a blocked person would be subject to OFAC's recordkeeping requirements.

Sincerely,

[redacted]

[redacted]

Office of Afghanistan Affairs

Bureau of South and Central Asian Affairs

SIGAR's Response to Comments from the U.S. Department of State

SIGAR Comment 1: As stated in the report, including Appendix I, which outlines our scope and methodology, our questionnaire expressly requested implementing partners provide information on taxes, fees, duties, and utilities assessed on U.S. government-funded activities. Furthermore, although State is correct in stating that UN agencies generally do not pay taxes in the countries where they operate, UN agencies confirmed to us, as we note in our report, that their subawardees do pay taxes to the Taliban-controlled government. Moreover, UN agencies often serve as pass-through entities for the purposes of aid implementation, with their subawardees being more directly responsible for program implementation. Therefore, the UN's tax-exempt status does not obviate the fact that at least some of its subawardees are paying taxes and making other payments to Taliban-controlled government in Afghanistan.

SIGAR Comment 2: As stated above, our questionnaire was geared specifically toward U.S.-funded activities in Afghanistan since August 2021. Furthermore, the $10.9 million in taxes, fees, duties, and utilities paid on U.S.-funded assistance uncovered in this report is based on the sample of implementing partners who responded to our questions. This was not based on a questionnaire of the entire population of implementing partners working in Afghanistan, nor the total amount of international humanitarian assistance funding. Therefore, State's response is statistically misrepresentative and inapposite. Finally, rather than justifying State's decision to not collect basic information regarding payments made to the Taliban-controlled government in Afghanistan, the fact that the U.S. does not consider Afghanistan to possess legitimate government underscores how closely these payments are associated with the direct support of a recognized terrorist entity.

SIGAR Comment 3: While State concurred with the intent of the recommendation, the bureau suggests exploring the expansion of the tax reporting requirements. We are encouraged that State will assess the appropriateness of expanding the requirement, as recommended. While we understand that thorough analysis and additional steps are required for this assessment, we believe that by expanding the foreign tax reporting requirements both to all U.S. award agreements in Afghanistan and to all types of taxes, fees, duties, and utilities, rather than limiting reporting to certain arbitrary categories, State, Congress, and U.S. taxpayers can be better informed on how U.S.-funded assistance are being spent.

SIGAR Comment 4: State concurred with the intent of the recommendation. While we are encouraged that the Bureau will assess whether to include language highlighting existing OFAC requirements in its award provisions, we continue to urge State to emphasize to its implementing partners the importance of safeguarding funds, following applicable regulations, and maintaining records of transactions with the Taliban-controlled government.

APPENDIX IV - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: The Honorable John F. Sopko, The Special Inspector General for Afghanistan Reconstruction (SIGAR)

FROM: [redacted]

DATE: April 10, 2024

SUBJECT: **Management Comments to Respond to the Draft Performance Audit Report and Recommendations Provided by the SIGAR titled, "*U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance.*" (SIGAR 24-XX /SIGAR 158A)**

The U.S. Agency for International Development (USAID) would like to thank SIGAR for the opportunity to provide comments on the subject draft report and accompanying recommendations. The Agency has reviewed the recommendations and provides our response to each recommendation.

Recommendation 1: We recommend that the USAID expand the foreign tax reporting requirements to all U.S. award agreements in Afghanistan, including agreements with PIOs, and to all types of taxes, fees, duties, and public utilities.

SIGAR Comment #1

Management Comments: USAID concurs with the intent of the recommendation but recommends revising the recommendation from "expand" to "explore the expansion".

USAID's policy on tax reporting, including its standard provisions on reporting host government taxes, conforms with the definition of "taxes and taxation" found in Pub. L. 113-76, 128 Stat. 5, § 7013 (Section 7013 of the 2014 State Foreign Operations Appropriations Act (SFOAA)) and subsequent SFOAAs. Specifically, it conforms with section g(2) which states that "the term 'taxes and taxation' shall include value added taxes and customs duties but shall not include individual income taxes assessed to local staff or personal services contractors." USAID concurs with the importance of adhering to U.S. law but does not concur with expanding tax reporting beyond the definition established in the law.

USAID has taken action to expand reporting related to payments to sanctioned individuals or entities in humanitarian awards. USAID issued Acquisition & Assistance Policy Directive (AAPD) 24-01 to collect information on taxes, tolls, and fees to, or for the benefit of, sanctioned individuals or entities in International Disaster Assistance (IDA) and emergency Title II Food for Peace humanitarian assistance solicitations and awards issued by the Bureau for Humanitarian Assistance (BHA). This provision requires semi-annual reporting from implementing partners (IPs).

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION (SIGAR) TITLED "U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance" (SIGAR 24-XX/SIGAR 158A)

As AAPD 24-01 is limited to USAID's humanitarian awards, USAID is considering broader reporting requirements for its acquisition and assistance awards. The Agency is planning to publish a Request for Information (RFI) in the Federal Register to solicit public input on incorporating increased data collection into its awards. The responses to this RFI, along with feedback from implementation of the new AAPD 24-01 provision, will be used to assess whether and how to proceed with the formal rulemaking process to update sanctions-related award provisions and contract clauses in USAID's acquisition and assistance awards. The formal rulemaking process is an iterative, lengthy process that incorporates public feedback and consultation across the interagency, so this will take some time to complete if the Agency determines to proceed. Further, adding more reporting requirements into awards results in significant staff time and additional burden on partners, which will increase the cost of activities.

In summary, USAID currently complies with statutory requirements related to tax reporting. In the interest of considering options to further strengthen oversight, USAID will continue to assess the feasibility of incorporating additional reporting requirements into awards.

Recommendation 2: We recommend that USAID take action to help ensure that responsible officials include foreign tax reporting requirements in applicable award agreements.

Management Comments: USAID concurs with the recommendation.

USAID concurs with the importance of ensuring responsible officials include tax reporting in applicable award agreements. USAID reviewed its standing policy and applicable procedures. USAID policy includes the requisite requirements for foreign tax reporting consistent with guiding laws and regulations. Furthermore, USAID's procedures for acquisition and assistance ensure requisite award agreements include provisions for tax reporting. Thus, USAID concurs that maintaining adherence to standing policy is important.

References:

ADS 302.3.8.8 for Contracts: AIDAR clause 752.229-71 requires contractors to annually report by April 16 on whether foreign taxes, including value-added taxes and custom duties, have been imposed on U.S. foreign assistance and, if so, whether the foreign government reimbursed the taxes.

ADS 303.3.1 for Grants and Cooperative Agreements: ADS 303mab, Standard Provisions for Non-U.S. Non-governmental Organizations, RAA11 establishes reporting requirements for host government taxes, specifically value-added taxes and custom duties.

AAPD 24-01 (ADS 303) effective October 30, 2023: USAID established modified contract guidance for International Disaster Assistance and Title II humanitarian assistance solicitations and awards (AAPD 24.01).

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION (SIGAR) TITLED "U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance" (SIGAR 24-XX/SIGAR 158A)

ADS 308.2.f for Public International Organizations: ADS 308mab, Standard Provisions for Cost-Type Agreements with Public International Organizations (PIOs), RAA 12 establishes reporting requirements for host government taxes.

Recommendation 3: We recommend that USAID take action to help ensure that responsible officials collect required foreign tax reports from implementing partners.

Management Comments: USAID concurs with the recommendation.

USAID concurs that responsible officials have and maintain an understanding of the tax reporting requirements. USAID will implement refresher training for responsible officials and implementing partners, which should improve compliance with requisite reporting requirements. Thus,

1) The Office of the Chief Financial Officer will provide training for Contracting and Agreement Officers, Contract Officers' and Agreement Officers' Representatives, and other Agency staff with activity oversight, contracting, or financial management responsibilities related to programs implemented in Afghanistan, on the tax reporting requirements and procedures by no later than June 2024.
2) The Mission and BHA will host implementing partners meetings at which USAID will present the requirements for foreign tax reporting and provide written instructions to partners by no later than September 2024.

Recommendation 4: We recommend that USAID direct implementing partners to adhere to the OFAC requirement to maintain records of transactions with the Taliban-controlled government for 5 years.

SIGAR Comment #2

Management Comments: USAID concurs with the intent of the recommendation.

USAID concurs, to the extent applicable, with the importance of record keeping and maintaining records in accordance with OFAC requirements. All USAID implementing partners are subject to award provisions related to anti-terrorism financing. While the exact provision used in each award may vary, depending on award type and when it was signed, every award includes an anti-terrorist financing clause. Three examples from current Mission awards include: 1) USAID/Afghanistan Implementation of Executive Order 13224 on Terrorism Financing, August 2016 (contract); 2) Preventing Transactions with, or the Provision of Resources or Support to, Sanctioned Groups and Individuals, May 2020 (assistance agreement), and 3) Terrorist Financing Clause, April 2011 (cost-type PIO grants). Per these provisions, USAID IPs are prohibited from engaging in transactions with parties subject to the OFAC recordkeeping requirement (31 CFR 501.601). This requirement does not necessarily apply to all transactions with the so-called "Taliban-controlled government".

USAID consulted with OFAC regarding 31 CFR 501.601 and received the following guidance (March 27, 2024):

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION (SIGAR) TITLED "U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance" (SIGAR 24-XX/SIGAR 158A)

> "OFAC regularly advises nongovernmental organizations (NGOs) and U.S. government contractors and grantees about OFAC's recordkeeping requirements. With respect to Afghanistan, OFAC and USAID joined at least three engagements in 2021 and 2022 to provide guidance to humanitarian and development partners on the scope of OFAC sanctions regulations and general licenses. The OFAC recordkeeping requirements are set out in public regulations and apply to transactions conducted by U.S. persons, or through the United States, that are subject to OFAC's sanctions regulations. Of relevance to Afghanistan, the OFAC sanctions apply to transactions involving the Taliban, the Haqqani Network, and any Taliban-associated individuals or entities on OFAC's Specially Designated Nationals and Blocked Persons List, as well as their 50%-or-more owned entities. However, as stated in OFAC FAQ 993: 'Generally speaking, when a designated individual has a leadership role in a governing institution, the governing institution itself is not considered blocked. Accordingly, engaging in a routine interaction with an agency in which a blocked individual is an official, but that does not involve the blocked individual in question, is not prohibited.' Only transactions by implementing partners that are subject to OFAC's regulations and involve a blocked person would be subject to OFAC's recordkeeping requirements."

SIGAR's Response to Comments from the U.S. Agency for International Development

SIGAR Comment 1: While the U.S. Agency for International Development (USAID) concurred with the intent of the recommendation, it did not concur with expanding the tax reporting beyond the definition established in Pub. L. No. 113-76, 128 Stat. 5, § 7013 (Section 7013 of the 2014 State Foreign Operations Appropriations Act), and subsequent appropriations acts. The latter definition is specifically limited to VAT and customs duties but excludes "individual income taxes assessed to local staff or personal services contractors." We are encouraged that USAID is assessing the feasibility of incorporating additional reporting requirements into its awards. We are further encouraged that USAID has taken action to expand reporting related to payments to sanctioned individuals or entities in humanitarian awards and that USAID is considering a similar requirement for its acquisition and assistance awards. However, as noted in this report, the majority of the tax payments being made by USAID implementing partners were related to employee income tax withholding. Therefore, if U.S. agencies, policymakers, and U.S. taxpayers are to understand the full extent of how assistance to Afghanistan is funding the Taliban, then the reporting requirements must be expanded to include all significant sources of that funding.

SIGAR Comment 2: USAID concurred with the intent of the recommendation. Specifically, USAID concurred with the importance of maintaining records in accordance with OFAC requirements. While we are encouraged by USAID's concurrence, however, we continue to urge USAID to emphasize the importance of safeguarding funds, following applicable regulations, and maintaining records of transactions with the Taliban-controlled government to its implementing partners.

APPENDIX V - COMMENTS FROM THE U.S. AGENCY FOR GLOBAL MEDIA

U.S. AGENCY FOR
GLOBAL MEDIA

330 Independence Avenue SW | Washington, DC 20237 | usagm.gov

April 5, 2024

Mr. Chris Borgeson
Deputy Assistant Inspector General for Audits and Inspections
Special Inspector General for Afghanistan Reconstruction (SIGAR)
U.S. Department of State

Dear Mr. Borgeson:

The U.S. Agency for Global Media (USAGM) extend its gratitude for the opportunity to provide comment to the Special Inspector General for Afghanistan Reconstruction (SIGAR) draft report on the audit of *U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid at Least $10.9 Million and Were Pressured to Divert Assistance*, SIG 24-XX Audit Report. USAGM appreciates your receptiveness to technical comments during the initial review and comment period.

USAGM acknowledges the importance of ensuring accuracy and completeness in audit reports and is pleased that the agency's comments have been duly considered for updating the report as necessary. We do not have any comments on the recommendations in the draft audit report.

Should there be any further discussions or clarifications required by USAGM, please do not hesitate to contact [redacted].

Thank you once again for the opportunity to provide input on the draft audit report.

Sincerely,

Amanda Bennett

Amanda Bennett
Chief Executive Officer

VOA Voice of America | RadioFreeEurope RadioLiberty | Office of Cuba Broadcasting | rfa | Middle East Broadcasting Networks, Inc. MBN | Open Technology Fund

APPENDIX VI - ACKNOWLEDGMENTS

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This performance audit was conducted
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SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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SIGAR's Mission

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