

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 24-32 Evaluation Report**

**U.S. Currency Shipments to Afghanistan:  
UN Shipments Stabilized the Afghan  
Economy but Benefit the Taliban**



**JULY  
2024**

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT SIGAR REVIEWED

Since 2001, the U.S. government and other donors have funded development and humanitarian assistance in Afghanistan; however, following the Taliban's August 2021 takeover, donors suspended assistance as they reassessed their programming. By 2022, humanitarian assistance had resumed, but donors found providing aid difficult due to sanctions against the Taliban and a shortage of cash circulating in the country; this resulted in the UN purchasing and transporting U.S. currency into Afghanistan. Since that time, the UN has purchased and transported at least \$3.8 billion in U.S. currency into Afghanistan to fund the operations of international aid organizations. When purchasing U.S. currency, the UN contracts with a money services business who, in turn, purchases it from the Federal Reserve Bank of New York. To transport the purchased U.S. currency in Afghanistan, the UN uses a transportation company to fly it into the country. Once in Afghanistan, the U.S. currency is deposited into the UN's bank account and then transferred to UN entities and UN-partnered organizations who requested U.S. currency.

On March 13, 2023, the Chairman of the U.S. House of Representatives Committee on Foreign Affairs sent SIGAR a letter requesting that it examine and report on 14 areas related to ongoing U.S. activities in Afghanistan, including the delivery, use, and oversight of U.S. funds intended to respond to Afghanistan's humanitarian crisis.

This is the second of two reports in response to that request, both of which focus on U.S. currency shipments to Afghanistan. The first report examined the process to purchase, transport, transfer, and convert U.S. currency in Afghanistan. This evaluation's objectives were to (1) evaluate the impact of introducing large amounts of U.S. currency into the Afghan economy; and (2) determine the benefits and challenges of using direct cash assistance as a form of aid, compared to other forms of assistance.

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July 2024

U.S. Currency Shipments to Afghanistan: UN Shipments Stabilized the Afghan Economy but Benefit the Taliban

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### SIGAR 24-32 EVALUATION REPORT

#### WHAT SIGAR FOUND

SIGAR found that Afghanistan suffers from a liquidity crisis due to its isolation from the international banking sector and the inability of its central bank—Da Afghanistan Bank (DAB)—to print new, or replace existing, afghani banknotes and its lack of technical expertise within the financial sector. Due to this liquidity crisis, the UN began purchasing and transporting U.S. currency to Afghanistan, which now serves as the country's primary source of liquidity. However, despite the UN's shipments of U.S. currency, Afghanistan's economy continues to be negatively affected by its liquidity shortage, and the reduction or cessation of the UN's shipments of U.S. currency would exacerbate Afghanistan's economic and humanitarian crises.

SIGAR also found that the reduction of economic activity and closure of Afghan businesses following the Taliban takeover led to a rise in unemployment. The World Bank has reported Afghan unemployment increased from October through December 2021 due to the "destruction of salaried employment." For example, the UN Development Programme (UNDP) estimated that from August 2021 through mid-2022, the Afghan economy lost 700,000 jobs. The World Bank has also noted that businesses of all sizes and in all sectors laid off employees, particularly women, which has led to extreme economic hardship and the widespread adoption of harmful coping mechanisms, including selling household assets, predatory loans, and selling daughters into child marriages.

The UN's U.S. currency shipments have had a positive economic impact, as the shipments eased Afghanistan's liquidity crisis. The shipments have allowed the Taliban-run DAB to implement monetary policies, such as easing cash withdrawal restrictions, and have helped alleviate the negative impacts of Taliban policies, such as restricting women's ability to travel or be employed. In June 2023, the UN Security Council reported that UN shipments have "...played a key role in stabilizing the Afghan currency, the afghani, and has provided an economic stimulus." While the shipments have improved Afghanistan's ongoing economic crisis, they have not eliminated all of its negative effects nor the negative effects of Taliban policies. For example, the World Bank has found the ongoing economic crisis has decreased Afghan businesses and household incomes, is a major reason for businesses closing, and still requires the Taliban to impose withdrawal limits on depositors' accounts at Afghan commercial banks.

However due to the Afghan economy's reliance on U.S. currency shipments, SIGAR found that a reduction or cessation of the shipments would result in a reversal of the economic and humanitarian gains. The World Bank reported that a halt in U.S. currency shipments would "aggravate the liquidity condition of hard currency," and would have a detrimental impact on Afghanistan's overall economic health, including the afghani's value and trade

levels. A U.S. Institute of Peace report confirmed these findings and determined that while Afghanistan's economy has begun to stabilize, the stability is dependent on continuing humanitarian aid, including the UN's shipments, and that a cessation in the shipments would precipitate a human catastrophe.

SIGAR also found that public international organizations (PIOs) and nongovernmental organizations (NGOs) use some of the U.S. currency for direct cash assistance to Afghans. According to a U.S. Agency for International Development (USAID) and World Food Programme (WFP) report, direct cash assistance is one of the few aid modalities capable of being deployed throughout Afghanistan, is the most cost-efficient aid modality, and is just as effective as in-kind assistance, such as food. The report concluded that direct cash assistance is 9 percent cheaper than vouchers and 75 percent cheaper than food transfers. UN and U.S. Institute for Peace reports confirmed these findings and did not identify other feasible modalities that are as cost-effective and efficient as direct cash assistance. Furthermore, a USAID report found that direct cash assistance stimulates the economy because beneficiaries spend that cash in local markets, instead of aid organizations purchasing in-kind assistance outside Afghanistan and then shipping it into the country. World Bank and NGO officials confirmed this finding to SIGAR, noting that direct cash assistance has significant positive economic impacts on local economies since beneficiaries' purchase necessities locally.

SIGAR found that while it is effective, direct cash assistance has limitations in its application and use. First, direct cash assistance cannot address all humanitarian needs, such as education or healthcare infrastructure. Second, inflation reduced Afghans' purchasing power. An NGO reported that between August 2021 and April 2022, the prices of goods in Afghanistan increased. This led to a reduction in beneficiaries' purchasing power, inflation forced aid organizations to increase the amount of direct cash assistance they provided to beneficiaries. Third, Taliban policies and attempts at interference complicate the deployment of direct cash assistance. For example, SIGAR found that Taliban attempts to misuse or divert direct cash assistance have led to the suspension of humanitarian activities, and Taliban polices often prevent the aid from reaching women and other vulnerable groups. In addition, under the guise of income taxation, the Taliban have targeted and extorted money from some recipients of direct cash assistance as a way of accessing international assistance.

However, SIGAR found that U.S. agencies and aid organizations have policies and procedures intended to prevent the Taliban from misusing and diverting direct cash assistance. For example, SIGAR has previously reported that the Department of State (State) and USAID maintain vetting processes intended to ensure that direct cash assistance is not provided to prohibited organizations, including the Taliban. Additionally, the UN addresses any purported attempts to misuse or divert direct cash assistance by suspending activities or engaging with the Taliban directly to discuss and investigate any misuse or diversion. Nonetheless, even with these controls in place, it is not possible to eliminate the benefits the Taliban garner from the cash transfers.

Finally, SIGAR found that U.S. currency shipments provide indirect benefits to the Taliban because the operating costs associated with humanitarian programming generate tax revenue and other fees. Additionally, the humanitarian assistance facilitated by the shipments provide indirect benefits to the Taliban by stabilizing and legitimizing them, because the funds allow the Taliban to focus on their priorities and policies instead of providing essential services to the Afghan people. For example, the Taliban take credit for the essential services provided by international donors, including the provision of food and healthcare, which can contribute to Afghans' perception of the Taliban as a legitimate authority. U.S. currency shipments also risk legitimizing and stabilizing the Taliban by allowing them to reallocate financial resources to other priorities and policies, including to the security ministries responsible for enforcing Taliban policies and disciplining and policing the Afghan population. Moreover, because U.S. currency is difficult to trace and can be used internationally as a means of exchange, the Taliban now have a greater ability to circumvent the controls of the international banking system that are intended to limit the Taliban's ability to conduct money laundering and fund terrorism. Therefore, although the shipment of U.S. currency has provided many benefits to the Afghan people, it is important that Congress consider how these shipments have also provided substantive benefits to the Taliban, and act accordingly.

## MATTER FOR CONGRESSIONAL CONSIDERATION

Congress may wish to determine whether the benefits that U.S. currency shipments provided to the Taliban regime outweigh the economic and humanitarian benefits associated with the shipments. If Congress determines the benefits to the Taliban are too great, Congress may wish to consider implementing limits to or requiring additional oversight of the purchase and transport of U.S. currency shipments to Afghanistan.

We received written comments on a draft of this report from State and USAID, which are reproduced in appendices III and IV, respectively. In its comments, State concurred with the report's findings. The department stated that (1) UN shipments of U.S. currency were not intended to resolve all of the factors contributing to Afghanistan's economic instability; (2) reducing U.S. currency shipments would negatively affect Afghanistan's economy and lead to a negative coping mechanism among Afghan households; (3) direct cash assistance is cost-effective and efficient, and remains a valuable and needed form of aid; and (4) the U.S. and UN maintain safeguards and monitoring over U.S. funding to prevent the diversion of direct cash assistance. In its response, USAID stated that the draft report did not contain any recommendations for the agency, and that it had no comments on the report. Treasury also reviewed a draft of this report and did not provide formal comments. We received technical comments from State, USAID, and Treasury, which we incorporated into the report as appropriate.



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Office of the Special Inspector General  
for Afghanistan Reconstruction

July 24, 2024

The Honorable Michael T. McCaul  
Chairman  
Foreign Affairs Committee  
United States House of Representatives

The Honorable Gregory W. Meeks  
Ranking Member  
Foreign Affairs Committee  
United States House of Representatives

This report discusses the results of SIGAR's evaluation of the impact of UN shipments of U.S. currency on Afghanistan's economy, and the benefits and risks associated with using direct cash assistance in Afghanistan. Since its first shipment in December 2021, the UN has purchased and transported at least \$3.8 billion in U.S. currency to fund the humanitarian operations of 19 UN entities, funds, and programs, and 48 public international organizations (PIOs) and nongovernmental organizations (NGOs) in Afghanistan. We found that the purchase and delivery of U.S. currency to Afghanistan has improved key economic factors, including stabilizing the Afghan economy and the value of Afghanistan's national currency against the U.S. dollar, increasing the money supply, and reducing inflation.

Furthermore, due to Afghanistan's lack of capacity, existing sanctions, and its isolation from the international banking sector, its central bank, Da Afghanistan Bank, is unable to produce new, or replace existing, afghani banknotes. Because of this issue, coupled with a lack of capacity and technical expertise within Afghanistan's Taliban-run financial sector, the UN's shipments of U.S. currency are Afghanistan's primary source of liquidity. However, money supply shortages continue to negatively impact the economy, and reducing or ceasing these shipments would result in a reversal of the economic and humanitarian gains made since August 2021 and exacerbate the ongoing economic and humanitarian crises.

We found that PIOs and NGOs prefer using direct cash assistance, as compared to other aid modalities, because it can be delivered in a large-scale, cost-effective, efficient, and dignified manner. Specifically, direct cash assistance can be delivered in both rural and urban settings, allowing PIOs and NGOs to reach beneficiaries that they may otherwise not have been able to. Direct cash assistance is also cheaper than in-kind assistance, such as food, because it has lower storage and transportation costs. Further, direct cash assistance provides beneficiaries more dignity than in-kind assistance because it allows beneficiaries to choose how to best meet their needs rather than relying on aid organizations to do so.

Direct cash assistance has its limitations, however. First, it is not always the appropriate or preferred modality, especially when healthcare or education services are needed. Second, it is subject to Taliban interference, such as the Taliban interfering with distribution to vulnerable groups or with beneficiary selection for the purpose of influencing and accessing humanitarian aid. Third, direct cash assistance cannot overcome all physical barriers, such as the lack of infrastructure. Finally, given Afghanistan's weakened economic state, the purchasing power of direct cash assistance fluctuates due to the price volatility of goods.



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Lastly, we found that U.S. currency shipments directly and indirectly benefit the Taliban. Specifically, the international donor community has essentially assumed the responsibility as the provider of basic services to the Afghan people, which has allowed the Taliban to take credit for these services despite it lacking the capacity to provide these same services. Additionally, the increase in economic activity due to UN shipments of U.S. currency has also generated tax revenue and other fees collected by the Taliban. Together, this has allowed the Taliban to avoid providing basic services to Afghans, and instead, reallocate financial resources to Taliban policy priorities, including punishing and policing the population. Finally, because U.S. currency is difficult to trace and can be used internationally as a means of exchange, the Taliban now have a greater ability to circumvent the controls of the international banking system that are intended to limit the Taliban's ability to conduct money laundering and fund terrorism.

We are raising a matter for congressional consideration. To help ensure that U.S. currency shipments to Afghanistan achieve their intended impact and purpose, Congress may wish to determine whether the benefits that U.S. currency shipments provided to the Taliban regime outweigh the economic and humanitarian benefits associated with the shipments. If Congress determines the benefits to the Taliban are too great, Congress may wish to consider implementing limits to or requiring additional oversight of the purchase and transport of U.S. currency shipments to Afghanistan.

We received formal written comments on a draft of this report from the Department of State (State) and the U.S. Agency for International Development (USAID), which are reproduced in appendices III and IV, respectively.

SIGAR 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 *Quality Standards for Inspection and Evaluation*, published by the Council of Inspectors General on Integrity and Efficiency.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

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## ABBREVIATIONS

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DAB	Da Afghanistan Bank
NGO	nongovernmental organization
OFAC	Office of Foreign Assets Control
PIO	public international organization
State	Department of State
Treasury	Department of the Treasury
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
USIP	U.S. Institute of Peace
WFP	World Food Programme



Prior to the Taliban's August 2021 overthrow of the democratically elected government of Afghanistan, on-budget foreign assistance financed as much as 80 percent of the Afghan government's expenditures and accounted for more than half of its budget.<sup>1</sup> Following the Taliban takeover, international donors stopped on-budget assistance, causing Afghanistan's gross domestic product to decline by at least 20 percent.<sup>2</sup> The reduction in international assistance, coupled with Taliban policy decisions, helped fuel an economic crisis that worsened an on-going humanitarian crisis. According to the UN, this economic crisis caused "near-universal level(s)" of poverty in Afghanistan and resulted in about 34 million Afghans needing humanitarian assistance.<sup>3</sup> To address the unfolding crises, the UN began transporting U.S. currency into the country on behalf of international donors to fund the operational and programming expenses associated with their humanitarian response. From December 2021 through January 2024, the UN purchased and transported at least \$3.8 billion in cash into Afghanistan. To purchase U.S. currency, the UN contracts with a money services business, who in turn, purchases U.S. currency from the Federal Reserve Bank of New York. Once purchased, the UN contracts with a transportation company to fly the U.S. currency to Afghanistan. After the U.S. currency arrives in Afghanistan, it is transported to the private commercial Afghan bank used by the UN. Then, it is deposited into the UN's account and the bank accounts of public international organizations (PIOs) and nongovernmental organizations (NGOs) who requested U.S. currency from the UN.<sup>4</sup>

On March 13, 2023, the Chairman of the U.S. House of Representatives Committee on Foreign Affairs sent SIGAR a letter expressing concerns that U.S.-funding for Afghanistan may be subject to waste, fraud, and abuse, or may benefit the Taliban. The letter requested that we examine and report on 14 areas related to ongoing U.S. activities in Afghanistan, including the delivery, use, and oversight of U.S. funds intended to respond to Afghanistan's humanitarian crisis.<sup>5</sup> Appendix II lists the 14 areas covered in the Chairman's request and the four engagements we initiated to respond to that request.

This report responds to two areas of the Chairman's request, examining how introducing billions in U.S. currency into Afghanistan impacted its economy, and how PIOs and NGOs use U.S. currency within Afghanistan. This report's objectives were to (1) evaluate the impact of introducing large amounts of U.S. currency into the Afghan economy; and (2) determine the benefits and challenges of using direct cash assistance as a form of aid, as compared to other forms of assistance.<sup>6</sup>

To accomplish our objectives, we analyzed documentation from the Department of State (State), the U.S. Agency for International Development (USAID), and the Department of the Treasury (Treasury) to determine the impact of U.S. currency shipments on the Afghan economy, and the potential benefits and challenges of using direct cash assistance. Using the information we obtained through responses to requests for information, interviews, and independent research, we determined how the inflow of U.S. currency shipments affected the Afghan economy, the policies and procedures applicable to using direct cash assistance, and how U.S. currency shipments may benefit the Taliban. We interviewed or submitted written questions to officials from

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<sup>1</sup> On-budget assistance is money provided directly to the Afghan government, either bilaterally from the donor country to the Afghan government or through a multilateral trust fund and is managed by the Afghan government.

<sup>2</sup> Congressional Research Service, *Afghanistan Central Bank Reserves*, March 13, 2023, p. 1. UN Development Programme (UNDP), *Afghanistan Socio-Economic Outlook Report 2023*, April 18, 2023, p. 18.

<sup>3</sup> UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, pp. 15, 16, 25.

<sup>4</sup> In January 2024, we reported on the UN's purchase, transport, and transfer of U.S. currency for use in Afghanistan since August 2021. That report examined the amount of U.S. funding provided to Afghanistan since August 2021, why the UN used donor funding to purchase U.S. currency to implement humanitarian assistance in Afghanistan, how the UN purchased and transported U.S. currency to Afghanistan, how the UN transferred U.S. currency to other PIOs and NGOs operating in Afghanistan, and how U.S. currency is converted into afghani, Afghanistan's national currency. (See, SIGAR, *U.S. Currency Shipments to Afghanistan: The UN Has Purchased and Transported More than \$2.9 Billion U.S. Dollars into the Country to Implement Humanitarian Assistance*, SIGAR 24-12-IP, January 26, 2024.)

<sup>5</sup> U.S. House of Representatives, Committee on Foreign Affairs, "Letter to John F. Sopko," March 13, 2023.

<sup>6</sup> We previously reported on seven areas of the chairman's request. See, SIGAR, *Afghan Fund Inquiry: Response to the U.S. House Foreign Affairs Committee*, SIGAR 24-07-LL, January 4, 2024; *U.S. Currency Shipments to Afghanistan*, SIGAR 24-12-IP, January 26, 2024; and *U.S. Funds Benefitting the Taliban-Controlled Government: Implementing Partners Paid At Least \$10.9 Million and Were Pressured to Divert Assistance*, SIGAR 24-22-AR, May 20, 2024.

State, USAID, Treasury, PIOs like the UN and the World Bank, NGOs, and individuals engaged in Afghanistan’s private sector. In September 2023, we interviewed seven Afghan money exchangers across six provinces in Afghanistan. We conducted our work in Arlington, Virginia, and various locations throughout Afghanistan from April 2023 through July 2024. Appendix I contains a detailed discussion of our scope and methodology.

## BACKGROUND

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Since 2001, Afghanistan has relied on U.S. foreign assistance to support and expand its economy.<sup>7</sup> Foreign on-budget assistance accounted for 40 percent of Afghanistan’s gross domestic product and financed as much as 80 percent of government expenditures, thus growing Afghanistan’s economy and allowing its central bank—Da Afghanistan Bank (DAB)—to increase its reserves to \$9.8 billion by the end of 2020.<sup>8</sup> Additionally, prior to August 2021, the Federal Reserve Bank of New York normally sent DAB quarterly shipments of \$249 million in U.S. currency, making Afghanistan’s banking sector heavily dollarized with about 60 percent of deposits being U.S. currency. However, the World Bank found that Afghanistan’s dependence on U.S. currency led to structural defects in the Afghan economy and its evolution into a country that primarily uses and relies on the U.S. dollar, in conjunction with its national currency.<sup>9</sup>

### The Taliban Takeover Impacted Afghanistan’s Economy

Immediately after the Taliban’s August 2021 takeover, Afghanistan’s fragile economic condition worsened due to a confluence of factors, including (1) the suspension, and subsequent reduction, of foreign assistance, including quarterly shipments of U.S. dollars; (2) the devaluation of the afghani, Afghanistan’s national currency; (3) a money supply shortage brought on by the international banking sector’s initial uncertainty related to the applicability of sanctions on the Taliban, which prevented DAB from accessing new currency, including new afghani banknotes that were needed to inject liquidity into the economy; (4) Taliban policies; and (5) capital flight that resulted from the evacuation of Afghans and their assets.<sup>10</sup> As a result, according to an October 2022 UN Development Programme (UNDP) report, in the months following August 2021, Afghanistan’s gross domestic product shrank by \$5 billion, or about 25 percent, causing an economic shock and “wiping out in 10 months what had taken [the Afghan economy] 10 years to accumulate.”<sup>11</sup> Within 4 months of the Taliban’s takeover, the severity of the economic crisis led the U.S. Secretary of State to say that the U.S. was “looking intensely at ways to put more liquidity into the Afghan economy, to get more money in other people’s pockets.”<sup>12</sup>

### The Taliban’s Takeover Impacted Afghanistan’s Humanitarian Crisis

The political and policy implications associated with the Taliban takeover of Afghanistan, and existing sanctions against the Taliban and its members, caused donors to suspend foreign assistance to Afghanistan.

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<sup>7</sup> World Bank, *Afghanistan’s Development Gains: Progress and Challenges*, January 21, 2020, pp. 2, 3, 5.

<sup>8</sup> Reserves serve as DAB’s primary instrument of monetary policy, enabling it to control the money supply throughout the economy, maintain a stable currency, fund government expenditures, stimulate cash flow, and support the banking sector. Congressional Research Service, *Afghanistan Central Bank Reserves*, p. 1. Center for Strategic and International Studies, *Assessing Economic Crisis Response Options for Afghanistan*, February 9, 2022. We reported on the status of DAB’s foreign currency reserves held in the Fund for the Afghan People (see, SIGAR, *Afghan Fund Inquiry*, SIGAR 24-07-LL).

<sup>9</sup> World Bank, *Afghanistan Development Update: Towards Economic Stabilization and Recovery*, April 13, 2022, pp. i, ii, 4.

<sup>10</sup> Money supply is the amount of cash circulating within an economy. Liquidity is the relationship between money supply and an economy’s demand for cash. In the context of this report, liquidity is the availability of cash on hand.

<sup>11</sup> Gross domestic product is a measure of a nation’s economic activity and health, and its value represents the total value of the goods and services produced within the nation during a given year. UNDP, *One Year in Review, Afghanistan Since August 2021: A Socio-Economic Snapshot*, October 5, 2022, p. 4.

<sup>12</sup> Congressional Research Service, *Afghanistan: Humanitarian Crisis, Economic Collapse, and U.S. Sanctions*, February 9, 2022, p. 1.

The U.S. government and other foreign countries also froze DAB's currency reserves held in foreign accounts, which prevented the Taliban from accessing DAB's currency reserves. In addition, Taliban policy decisions, such as restrictions on women's freedom of movement and education, worsened Afghanistan's economic prospects, caused increased inflation and a reduction in economic activity in the public- and private-sectors. This reduced Afghanistan's gross domestic product by \$5 billion, or 25 percent, and worsened Afghanistan's ongoing humanitarian crisis.<sup>13</sup>

High inflation and money supply shortages decreased Afghans' purchasing power and left many unable to pay for necessities such as food, medicine, or fuel. The UN reported that limited access to food was the most significant problem caused by these economic conditions, leading to more Afghans becoming food insecure.<sup>14</sup> According to the World Bank, from October through December 2021, about 90 percent of Afghan households reported a decline in income, with 70 percent of households having insufficient income to meet basic needs.<sup>15</sup> The World Food Programme (WFP) reported that by December 2021 that around 60 percent of Afghanistan's population, about 23 million people, were suffering severe levels of hunger, including 9 million people who were at risk of famine.<sup>16</sup>

Additionally, the reduction of economic activity and closure of Afghan businesses led to a rise in unemployment.<sup>17</sup> The World Bank reported that Afghan unemployment increased from October through December 2021 due to the "destruction of salaried employment" in both rural and urban areas.<sup>18</sup> UNDP found that from August 2021 through mid-2022, the Afghan economy lost an estimated 700,000 jobs, resulting in increased poverty.<sup>19</sup> World Bank reports confirmed this, finding that Afghan businesses of all sizes and in all sectors laid off employees, particularly women, which led to extreme economic hardship and the widespread adoption of harmful coping mechanisms, including selling household assets, predatory loans, and selling daughters into child marriages.<sup>20</sup>

## International Donor Response to Economic and Humanitarian Crises

Less than 1 month after the Taliban's takeover, the UN appealed to international donors for more than \$606 million in humanitarian assistance to address the needs of the Afghan people. In response, international donors, including the U.S., pledged a total of about \$995 million.<sup>21</sup> Beginning in September 2021, Treasury's Office of Foreign Assets Control (OFAC) issued a series of General Licenses to authorize certain transactions and activities that are necessary for the flow of humanitarian assistance but that involve the Taliban or

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<sup>13</sup> UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, pp. 23, 25, 29. UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, January 23, 2023, p. 18.

<sup>14</sup> USAID has provided emergency food assistance to Afghanistan for many years. For example, for fiscal years 2010 through 2019, USAID emergency food assistance to Afghanistan totaled over \$733 million. USAID increased emergency food assistance funding to Afghanistan from October 2019 through December 2022, awarding nearly \$900 million to its implementing partners to provide the assistance (see, SIGAR, *Emergency Food Assistance to Afghanistan: USAID Has Improved Oversight, But Could Better Align Monitoring with Increasing Aid Levels*, SIGAR-23-30-AR, August 29, 2023). UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, pp. 23, 25, 29. UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, pp. 18, 21.

<sup>15</sup> World Bank, *Afghanistan Development Update*, April 2022, p. 11.

<sup>16</sup> WFP, "WFP Afghanistan Situation Report," December 8, 2021, p. 1.

<sup>17</sup> World Bank, *Afghanistan Private Sector Rapid Survey: A Snapshot of the Business Environment—Round 1*, March 2022, p. vi; and *Afghanistan Development Update: Adjusting to the New Realities*, October 18, 2022, p. 23.

<sup>18</sup> World Bank, *Afghanistan Development Update*, April 2022, pp. 10–11.

<sup>19</sup> UNDP, *One Year in Review*, p. 4.

<sup>20</sup> World Bank, *Afghanistan Development Update*, April 2022, p. 11; *Afghanistan Private Sector Rapid Survey*, March 2022, p. 20; and "Afghanistan Welfare Monitoring Survey (AWMS): Round 3," October 3, 2023, p. 13.

<sup>21</sup> UN Office for the Coordination of Humanitarian Affairs, "Flash Appeal Afghanistan," September 5, 2021, p. 6. UN Office for the Coordination of Humanitarian Affairs—Financial Tracking Services, "Afghanistan Flash Appeal 2021: Coordinated Plan Data," September 13, 2021.

Haqqani Network.<sup>22</sup> For example, OFAC began by permitting transactions that were “ordinarily incident and necessary to the provision of humanitarian assistance to Afghanistan,” even if they involved the Taliban or the Haqqani Network.<sup>23</sup> As the months went on, OFAC granted further exceptions through additional General Licenses, until February 2022, when the office authorized “all transactions involving Afghanistan or governing institutions in Afghanistan prohibited by the Global Terrorism Sanctions Regulations, 31 CFR part 594, the Foreign Terrorist Organizations Sanctions Regulations, 31 CFR part 597, or Executive Order 13224, as amended,” with some limitations.<sup>24</sup> These General Licenses allowed the international donor community to respond to Afghanistan’s humanitarian crisis without violating applicable OFAC sanctions.<sup>25</sup> Nonetheless, delivering critical aid to Afghans has remained difficult because some in the international banking community remain reluctant to engage with Afghanistan’s banking sector out of fear of violating sanctions or suffering reputational damage for assisting the Taliban.

After August 2021, with a money supply shortage, suspended and subsequently reduced donor support, rising inflation, and ongoing humanitarian crises, the UN—after consulting with State and Treasury—determined it needed to transport U.S. currency into the country to fund humanitarian efforts. Consequently, the UN established what it informally refers to as a “cash transfer mechanism,” wherein it imports into Afghanistan U.S. currency purchased with U.S. and international donor contributions. The purpose of these shipments is to provide other aid organizations the funds they need to pay for operating costs and to purchase items necessary to deliver assistance. The first UN shipment of U.S. currency arrived in Afghanistan in December 2021. As of January 2024, the UN had purchased, transported, and transferred at least \$3.8 billion in U.S. currency to fund the humanitarian operations of 19 UN entities, funds, and programs, and 48 other PIOs and NGOs operating in Afghanistan.<sup>26</sup>

## U.S. CURRENCY SHIPMENTS STABILIZED AFGHANISTAN’S NATIONAL CURRENCY, GREW THE ECONOMY, AND NOW SERVE AS AFGHANISTAN’S PRIMARY SOURCE OF CURRENCY

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U.S. and international organizations reported that U.S. currency shipments to Afghanistan have helped stabilize the Afghan economy. An October 2022 World Bank report found that UN shipments of U.S. currency to Afghanistan increased the amount of available currency in Afghanistan, which has helped increase and stabilize the value of the afghani against the U.S. dollar. The report determined halting these shipments would not only “aggravate the liquidity condition of hard currency,” but would also have a detrimental impact on Afghanistan’s overall economic health, including the afghani’s value and trade levels.<sup>27</sup> According to a separate World Bank report, Afghanistan would suffer negative economic impacts if U.S. currency shipments were reduced or stopped because this would decrease the amount of available currency in Afghanistan, which would contract economic activity as Afghan’s purchasing power decreased due to rising inflation and the

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<sup>22</sup> A General License is an OFAC authorization for organizations and individuals to engage in transactions that would otherwise be prohibited under U.S. sanctions. OFAC, “Fact Sheet: Provision of Humanitarian Assistance to Afghanistan and Support for the Afghan People,” April 13, 2022.

<sup>23</sup> OFAC, “General License 14: Authorizing Humanitarian Activities in Afghanistan,” September 24, 2021.

<sup>24</sup> These General Licenses do not authorize “[f]inancial 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, other than for the purpose of effecting the payment of taxes, fees, or import duties, or the purchase or receipt of permits, licenses, or public utility services, provided that such payments do not relate to luxury items or services.” OFAC, “General License 20: Authorizing Transactions Involving Afghanistan or Governing Institutions in Afghanistan,” February 25, 2022.

<sup>25</sup> We previously reported on the impact of OFAC’s General Licenses in *U.S. Currency Shipments to Afghanistan* (SIGAR 24-12-IP).

<sup>26</sup> In January 2024, we reported on the UN’s process of purchasing, transporting, and converting U.S. currency on behalf of PIOs and NGOs in Afghanistan in *U.S. Currency Shipments to Afghanistan* (SIGAR 24-12-IP).

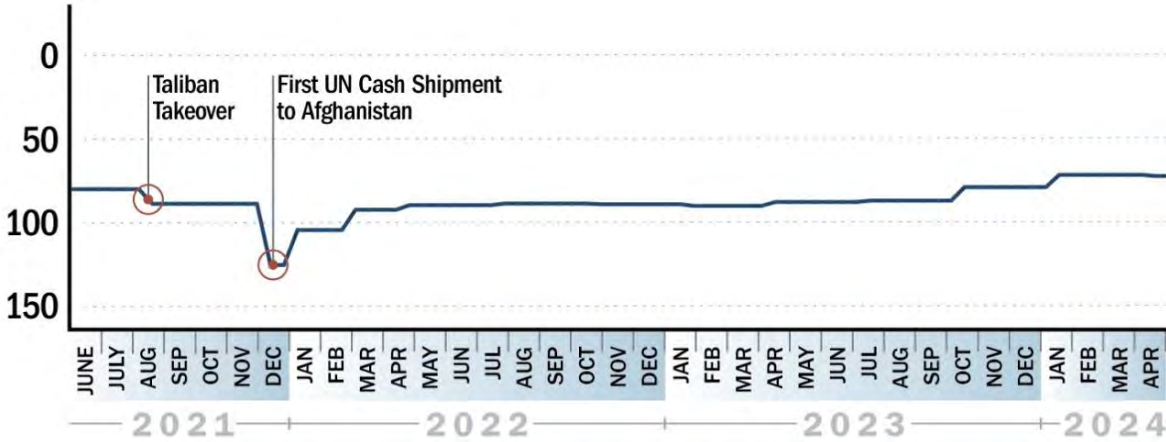
<sup>27</sup> World Bank, *Afghanistan Development Update*, October 2022, pp. 2, 23.

declining value of the afghani. A November 2022 U.S. Institute of Peace (USIP) report similarly determined that while Afghanistan’s economy has stabilized to a degree, the stability is dependent on continuing humanitarian aid, including the UN’s U.S. currency shipments. USIP noted that stopping the shipments would precipitate a “human catastrophe.”<sup>28</sup> A separate USIP report found that reducing or stopping U.S. currency shipments would be detrimental to the stability of the Afghan economy, and could “complicate the Taliban’s task of macroeconomic management.”<sup>29</sup> By June 2023, the UN Security Council reported that UN shipments have “...played a key role in stabilizing the Afghan currency, the afghani, and has provided an economic stimulus.”<sup>30</sup>

### U.S. Currency Shipments Helped Stabilized the Afghani to Pre-August 2021 Values Against the U.S. Dollar

Immediately following the Taliban’s takeover in August 2021, the afghani’s value depreciated by 54 percent due to the political instability within Afghanistan. However, in December 2021, the UN announced the initiation of U.S. currency shipments to provide liquidity so aid organizations would have cash to pay for the operational and programming costs associated with delivering humanitarian assistance. These shipments were needed because aid organizations could not access adequate amounts of cash to carry out their operations due to Afghanistan’s liquidity crisis and Taliban withdrawal limits on bank deposits. After months of depreciation following the Taliban’s August 2021 takeover, the afghani’s value began to increase compared to the U.S. dollar. In December 2023, nearly 2 years after the UN’s first currency shipment, the afghani appreciated to a rate of exchange higher than when the Taliban took over in August 2021: 70.5 afghani per 1 U.S. dollar. Figure 1 shows the afghani’s devaluation after the Taliban takeover and its appreciation after UN shipments began in December 2021.

**Figure 1 - Exchange Rate from August 2021 to April 2024 (Monthly Averages of AFN per USD)**



The UN made its first shipment of U.S. currency to Afghanistan in December 2021 but did not specify the exact timing or transfer amount.

Source: SIGAR-generated using Treasury Reporting Rates of Exchange effective through April 30, 2024. Treasury, “Currency Exchange Rates Converter,” accessed May 1, 2024, <https://fiscaldata.treasury.gov/currency-exchange-rates-converter/>.

<sup>28</sup> William Byrd, USIP, “Afghans Adapting to Economic Decline, Social Restrictions,” November 30, 2022.

<sup>29</sup> William Byrd, USIP, “Afghanistan’s Crisis Requires a Coherent, Coordinated International Response,” May 16, 2023.

<sup>30</sup> UN Security Council, “The situation in Afghanistan and its implications for international peace and security: Report of the Secretary-General,” A/77/914-S/2023/453, June 20, 2023, p. 11.

The amount of U.S. currency circulating in Afghanistan's economy increased due to the UN's shipments of U.S. currency as international donors and aid organizations resumed program activities and used cash to pay staff and purchase goods and services. As a result, the afghani's value stabilized against the U.S. dollar. This increased Afghans' purchasing power and economic activity, including their ability to purchase essential food and non-food items. For example, in October 2022, the UN reported that its shipments gave some "impetus to economic activity" in Afghanistan by addressing the money supply shortage, thus providing Afghans and organizations operating in Afghanistan with access to U.S. currency.<sup>31</sup> Similarly, a January 2023 report by the humanitarian data analysis firm ACAPS stated that U.S. currency inflows from the UN's shipments helped stabilize the afghani exchange rate against the U.S. dollar and reduced the price volatility of essential food and non-food items.<sup>32</sup> World Bank reports from April and October 2023 confirmed that the UN's shipments contributed to the afghani's appreciation and stabilization.<sup>33</sup>

Despite the afghani's appreciation and stabilization against the U.S. dollar, various World Bank and UN reports have concluded that the continued stability of the afghani depends, in large part, on the continuation of UN shipments of U.S. currency. According to the World Bank, stopping UN shipments to Afghanistan could cause "a sharp depreciation in the afghani," and could "undermine exchange rate stability and reverse the anemic recovery," reversing any economic gains associated with the UN shipments and causing the afghani to decline in value once again.<sup>34</sup> This is because the stability of the afghani is largely dependent on DAB's ability to sell afghanis in exchange for U.S. dollars, which serves as the primary mechanism for maintaining exchange rate stability. However, restrictions on DAB's access to foreign currency reserves and its isolation from the international banking sector rendered DAB unable to conduct these sales until foreign currency was made available through UN shipments of U.S. currency.<sup>35</sup> Without the ability to acquire foreign currency through trade and investment, Afghanistan relies on the UN to provide money into the country in order to maintain price stability and the value of the afghani. A February 2023 joint UN-NGO report came to the same conclusion, finding that the afghani remained volatile and continued U.S. currency shipments were necessary to sustain its value.<sup>36</sup> Similarly, the World Bank concluded in October 2023 that any reduction or stoppage of U.S. currency shipments "could cause problems with the exchange rate and undo some of the progress made" in the years since August 2021, and that the UN's shipments are the "mainstay of [Afghanistan's] economy" and its recovery.<sup>37</sup>

## U.S. Currency Shipments Led to Growth of the Afghan Economy at the Local and National Levels

The UN's shipments of U.S. currency helped stabilize the afghani's exchange rate against the U.S. dollar, improved liquidity, and helped grow Afghanistan's local and national economies. World Bank has reported that

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<sup>31</sup> UNDP, *One Year in Review*, p. 17.

<sup>32</sup> At its founding in 2009, ACAPS stood for "Assessment Capacities Project," and its primary focus was to conduct needs assessments. Since then, the organization's services largely center on providing humanitarian data and analysis. As a result, the organization no longer spells out its name. ACAPS, "Afghanistan: A Forward-Looking Snapshot of the Afghan Economy," January 5, 2023, p. 2.

<sup>33</sup> World Bank, *Macro Poverty Outlook for Afghanistan: April 2023*, April 1, 2023, p. 1; and *Afghanistan Development Update: Uncertainty After Fleeting Stability*, October 3, 2023, p. 15.

<sup>34</sup> World Bank, *Afghanistan Development Update*, October 2022, p. 23.

<sup>35</sup> From August 2021 through January 2022, only one currency auction was held as U.S. currency began arriving through UN shipments in December 2021. DAB held 54 auctions between February 2022 and December 2022 to stabilize the afghani's value. USAID, *Assessment and Third-Party Monitoring of Afghanistan's Central Bank: Final Report—Detailed Assessment*, March 2023, pp. 50–51.

<sup>36</sup> REACH, "Joint Market Monitoring Initiative Key Findings Brief," February 2023, p. 2. REACH, a humanitarian initiative, is a joint initiative of IMPACT Initiatives, ACTED, and the United Nations Institute for Training and Research. REACH conducts its activities within the framework of inter-agency coordination to enhance the capacity of aid actors to make evidence-based decisions in an emergency.

<sup>37</sup> World Bank, *Afghanistan Development Update*, October 2023, pp. 16–17, 40.

the UN shipments provided the necessary liquidity to help organizations pay their staff and vendors, who in turn, were able to purchase more goods from local markets. This then contributed to the stabilization of the economy, and ultimately, to an increase in the purchasing power of Afghan households.<sup>38</sup> By January 2024, the World Bank reported that the price of basic household goods decreased more than 24 percent compared to 2023, and inflation fell below August 2021 levels. This reflects economic improvements that offered “temporary financial relief to the most vulnerable households by reducing the cost of living.”<sup>39</sup> A UN report confirmed these findings, concluding that the afghani’s appreciation, brought on by the UN shipments, played a “crucial role in keeping inflation in check,” and prevented further economic decline and increases in household poverty levels.<sup>40</sup> In August 2023, a senior World Bank economist we spoke with confirmed that the UN’s shipments have helped appreciate the afghani, but cautioned that stopping those shipments would devalue the afghani and reduce consumer demand for goods.

U.S. currency shipments also grew Afghanistan’s local and national economies by facilitating the importation of goods needed to support economic activity. Afghanistan’s economy relies heavily on imports; however, due to the afghani’s volatility, exporters request payment in widely traded foreign currencies such as the U.S. dollar. This requires Afghanistan’s public and private sectors to have access to foreign currency to finance its imports. However, the liquidity crisis that followed August 2021 limited Afghanistan’s private sector from accessing foreign currency, hindering Afghan businesses from importing goods for domestic trade. The World Bank found in October 2023 that the suspension of foreign assistance in August 2021 resulted in a decrease in imports due to the lack of accessible foreign currency.<sup>41</sup> Similarly, a UN report found that as of September 2021, Afghanistan only had enough foreign currency to finance 1 week of imports.<sup>42</sup> The UN also found that by January 2023, its U.S. currency shipments provided Afghanistan with the foreign currency necessary to resume its importation of food, medicine, and other supplies.<sup>43</sup>

Multiple organizations have determined that stopping or reducing the UN’s shipments of U.S. currency would undermine Afghanistan’s economy. According to the World Bank, more than 90 percent of Afghan businesses rely on imported goods, underscoring the importance of imports to Afghanistan’s economy. However, reducing or stopping U.S. currency shipments could undermine the stability of Afghanistan’s economy. The World Bank has concluded that reducing shipments by 25 percent would result in a decline in Afghanistan’s gross domestic product and reduce the ability of Afghan households to meet their basic needs, which could lead to the widespread adoption of harmful coping mechanisms, such as selling household assets, predatory loans, and selling daughters into child marriages.<sup>44</sup> The World Bank also determined that the reduction or cessation of UN shipments would also exacerbate Afghanistan’s liquidity crisis, setting off a series of interconnected events that could harm Afghanistan’s economy, including increased unemployment, lower demand for goods and services, and higher inflation.<sup>45</sup>

An Asian Development Bank report confirmed the World Bank’s findings. It warned that reducing the UN’s shipments of U.S. currency would stymie Afghan businesses’ ability to import the goods necessary for their operations, and therefore result in an economic contraction, devaluation of the afghani, increase in inflation,

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<sup>38</sup> World Bank, *Afghanistan Development Update*, April 2022, p. ii.

<sup>39</sup> World Bank, *Afghanistan Economic Monitor*, February 2024, pp. 2, 4.

<sup>40</sup> UNDP, *Two Years in Review: Changes in Afghan Economy, Households and Cross-Cutting Sectors (August 2021 to August 2023)*, December 2023, pp. 23–24.

<sup>41</sup> World Bank, *Afghanistan Development Update*, October 2023, p. 17.

<sup>42</sup> UNDP, *Economic Instability and Uncertainty in Afghanistan after August 15: A Rapid Appraisal*, September 9, 2021, p. 3.

<sup>43</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, p. 18.

<sup>44</sup> World Bank, *Afghanistan Private Sector Rapid Survey: An Assessment of the Business Environment—Round 2*, September 3, 2022, pp. 16, 25; *Afghanistan Development Update*, October 2022, p. 23; *Potential Macroeconomic Impact of Reduction in Cash Shipments*, February 2023, pp. 1–2; and *Afghanistan Development Update*, April 2022, pp. 10–11. ACAPS, “Coping with the Crisis: Conversations with Households in Kabul Province”, June 16, 2023, pp. 9–10.

<sup>45</sup> World Bank, *Potential Macroeconomic Impact of Reduction in Cash Shipments*, February 2023, pp. 1–2.

and an overall detrimental effect on Afghanistan's local and national economies.<sup>46</sup> A UN official confirmed the importance of direct cash assistance made possible by the UN's shipments to Afghans and Afghanistan's economy, noting that 96 percent of the direct cash assistance distributed in 2023 stimulated local economies and populations. A World Bank senior economist told us that the UN's shipments have helped improve Afghanistan's national economy and stated that the economy would be in much worse shape without UN shipments because they "have helped to protect the economy from external shocks." Specifically, a January 2023 ACAPS report found that UN shipments of U.S. currency stabilized the prices of essential food and non-food items for Afghans, which has mitigated the impact of global price increases on food and energy.<sup>47</sup>

Despite the risks of reducing its shipments of U.S. currency, the UN expects to make such reductions due to waning donor support. In a December 2023 briefing to the UN Security Council, the UN Secretary-General's Special Representative for Afghanistan acknowledged that declining donor support for Afghanistan will lead to a reduction in program spending, and as a result, its UN shipments of U.S. currency to the country.<sup>48</sup> According to its 2024 Humanitarian Needs and Response Plan, the UN anticipates a 34 percent reduction in programming budgets as compared to 2023.<sup>49</sup> According to the Plan, at this reduced funding level, UN organizations will only be able to provide humanitarian assistance for 17.3 million of the 23.7 million Afghans in need. WFP officials confirmed the decreased programming budgets, noting that the reduction in donor support has forced WFP to reduce the amount of direct cash assistance it provides by 30 percent, resulting in fewer Afghans receiving assistance than in prior years.

## U.S. Currency Shipments Are Afghanistan's Primary Source of Liquidity

Following its takeover of Afghanistan, the Taliban have been limited in their ability to enact monetary policy. Afghanistan's economy largely relied on cash transactions after the takeover, rather than on electronic transactions like credit card purchases or bank transfers. This is due to the Taliban's lack of capacity to print afghanis and their inability to access DAB's foreign held cash reserves, which have prevented them from addressing Afghanistan's money supply shortage. As such, the Taliban-controlled DAB has needed access to cash so it could address Afghanistan's money supply shortage to help stabilize the economy. However, after August 2021, DAB lacked access to cash after the U.S. ceased its \$249 million quarterly currency shipments and Treasury blocked U.S. banks from transferring DAB's foreign held cash reserves into Afghanistan. In addition, DAB's access to cash was further restricted because of uncertainty about the application of existing international sanctions against the Taliban and concerns about the Taliban's terrorist financing activities, which caused the international banking sector to isolate Afghanistan's banking sector from wire transfers. International currency printing companies delayed delivering the newly printed afghani banknotes DAB intended to replace aging afghani banknotes until October 2022, when the printers received assurances and a license from State and Treasury to do so.

A lack of capacity within the Taliban-run DAB and within the Taliban themselves has also restricted the Taliban's ability to implement monetary policies to address the money supply shortage. According to a World Bank report, "major capacity gaps" have existed in Afghan economic institutions after August 2021. The report noted that technical assistance would be required to restore functionality to DAB and Afghanistan's financial sector.<sup>50</sup> An October 2022 UN report confirmed these gaps, noting that while DAB retained civil servants, other finance-related ministries lost their technical capacity. For example, both the Ministry of Finance and Ministry

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<sup>46</sup> Asian Development Bank, *Asian Development Outlook*, April 2023, pp. 134–135.

<sup>47</sup> ACAPS, "Afghanistan: A Forward-Looking Snapshot of the Afghan Economy," p. 2.

<sup>48</sup> UN Assistance Mission in Afghanistan, "Briefing to the United Nations Security Council by the Secretary-General's Special Representative for Afghanistan," December 20, 2023, pp. 1–2.

<sup>49</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, December 23, 2023, p. 33.

<sup>50</sup> World Bank, *Afghanistan Development Update*, April 2022, pp. 27–28.



of Economy lost more than 65 percent of their civil servants from 2021 to 2022, including technical experts, which has restricted Afghanistan's economic recovery.<sup>51</sup>

A March 2023 USAID-funded report sought to assess DAB's compliance with international banking laws and regulations, including the effectiveness of its anti-money laundering and counter financing of terrorism measures, overall independence, organizational structure, resource allocation, and progress on regulating informal money service providers. The report determined that DAB (1) does not have the ability to function as an independent central bank apart from the Taliban, noting that the DAB executive board is comprised entirely of senior Taliban officials with full decision-making authority, and that DAB has complied with Taliban leadership decrees related to the Afghan banking sector; (2) does not exchange or receive information pertaining to anti-money laundering and counterterrorism financing; (3) is not adequately examining financial institutions for potential money laundering and terrorist financing activities; (4) cannot adequately impose punitive measures against Afghan financial institutions that engage in money laundering and terrorism financing; (5) lacks the technical ability to prevent terrorist financing due to reduced resources; and (6) has minimal controls and oversight over hawalas for tracking and prohibiting transactions by sanctioned and politically connected individuals.<sup>52</sup> This report also concluded that Taliban monetary policies aimed at improving Afghanistan's cash supply levels, such as preventing cross-border currency transfers and bank withdrawal limits, have been ineffective, increased distrust in the formal banking system, and caused Afghans to switch to the informal banking sector.

With other sources of financing and banknotes cut off and a lack of capacity within the Taliban-run DAB to alleviate money supply shortages, UN shipments of U.S. currency have provided much needed liquidity to Afghanistan's economy. The UN and the World Bank have described how UN shipments of U.S. currency helped to alleviate the money supply shortage by serving as the primary source of liquidity for the Afghan economy. For example, an April 2023 UN report found that its shipments have provided liquidity that has supported economic activity and financial stability in Afghanistan.<sup>53</sup> A World Bank official confirmed the UN report's findings, telling us that while the UN's shipments of U.S. currency were only intended to provide physical currency so the UN could carry out its humanitarian programming, the shipments had an unintended positive economic impact since the shipments provided much needed liquidity.

Immediately following the Taliban takeover, Afghans began withdrawing their funds from local Afghan banks, resulting in Afghan banks lacking the cash-on-hand to fulfill customer withdrawal requests. However, the liquidity provided by the UN depositing U.S. currency into commercial Afghan banks allowed those banks to use available U.S. dollars to purchase afghani from the Taliban-controlled DAB, thus alleviating bank reserve shortages and allowing banks to ease withdrawal restrictions and meet depositors' withdrawal demands. A former Afghan government official reiterated this positive impact, telling us that the UN shipments deliver U.S. currency to the private Afghan commercial bank used by the UN, but is then dispersed to other private commercial Afghan banks, thereby increasing liquidity and contributing to the stabilization of the afghani and Afghanistan's economy.

Furthermore, the UN's shipments of U.S. currency mitigate the liquidity crisis and provide the Taliban-run DAB the opportunity to implement some monetary policies, such as easing bank withdrawal limits. Specifically, as the liquidity position of banks improved, DAB eased withdrawal restrictions, allowing for increased access to capital and enabling economic activity to resume. UN shipments have also helped mitigate the negative effects of Taliban policies, such as their restrictions on women's ability to travel or be employed, on Afghanistan's economic development. For example, NGO officials told us that providing direct cash assistance to women

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<sup>51</sup> UNDP, *One Year in Review*, pp. 30–31.

<sup>52</sup> The hawala system is an informal money transmission network that arranges for the transfer and receipt of funds or assets of equivalent value and to settle their accounts through trade and cash. Afghans use the hawala system to remit payments to individuals and businesses within Afghanistan and internationally.

<sup>53</sup> UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, p. 25.

ensures they have access to cash to purchase what they and their households need, despite barriers caused by Taliban policies that make it difficult for them to access cash.

Although the UN's shipments of U.S. currency have improved liquidity, they have not eliminated the liquidity crisis or domestic economic challenges like the inability of Afghan households and businesses to access their savings. UN and World Bank officials told us that the U.S. currency shipments were only intended to provide liquidity to carry out humanitarian programming. World Bank officials also acknowledged that the shipments have unintentionally helped stabilize the Afghan economy, but stressed that the shipments will not solve Afghanistan's economic and liquidity crises. A September 2022 World Bank survey found that the local and foreign currency shortages and withdrawal limits, reduced the incomes of businesses and households, and are cited as major reasons for businesses closing in Afghanistan.<sup>54</sup> Additionally, the liquidity provided by UN shipments has enabled the Taliban-controlled DAB to raise—though not eliminate—weekly withdrawal limits for individuals and businesses, allowing Afghan commercial banks to better meet depositors' withdrawal requests.<sup>55</sup> For example, DAB increased the withdrawal limits for individuals from \$200 per week in August 2021, to nearly \$600 per week as of April 2023, and allowed corporate accounts to withdraw up to \$25,000 per month. These limits were still in place as of May 2024.<sup>56</sup>

Similarly, an April 2023 UN report found that the increased liquidity from its shipments of U.S. currency allowed Afghans and businesses to engage in more transactions, which will improve Afghanistan's economic activity and increase its gross domestic product.<sup>57</sup> Further, a separate UN report found that the Taliban takeover severely limited the ability of Afghan households and businesses to access their savings and therefore to carry out transactions. However, once the UN shipments began, DAB increased withdrawal limits, allowing Afghan households and businesses to access their savings and engage in more economic transactions, thus improving Afghanistan's economy.<sup>58</sup>

### The Taliban Are Not Printing Sufficient Afghanis to Alleviate Afghanistan's Money Supply Shortages

Although circulating banknotes continue to wear out and become unusable, the Taliban have not printed additional new banknotes and Afghanistan's overall money supply continues to dwindle.<sup>59</sup> A December 2023 UN report determined that the amount of unusable banknotes circulating has remained a "significant challenge" for DAB and its ability to improve Afghanistan's economy, and that there continues to be a "pressing need for a net injection of new banknotes to ensure that the currency in circulation aligns with the economy's requirements."<sup>60</sup> As of February 2024, the Taliban has not printed additional banknotes for introduction into Afghanistan's economy. However, even if the Taliban did print additional banknotes, it would likely not resolve the money supply shortage without DAB's ability to access its foreign-held reserves.

Ultimately, the UN's shipments of U.S. currency cannot replace the stability provided by a functional central bank and banking sector, according to the UN and World Bank. They assert that the shipments are a temporary

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<sup>54</sup> World Bank, *Afghanistan Private Sector Rapid Survey*, September 2022, pp. 1, 5.

<sup>55</sup> World Bank, *Afghanistan Development Update*, October 2023, pp. 40–41; UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, p. 25. UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, p. 65.

<sup>56</sup> U.S. dollar amounts were converted using the April 2023 exchange rate of 86.75 afghani per U.S. dollar.

<sup>57</sup> Following the Taliban's takeover, Afghanistan's gross domestic product contracted by 20.7 percent in 2021 and 3.6 percent in 2022. UNDP, *Afghanistan Socio-economic Outlook Report 2023*, pp. 12, 25, 33, 35, 76.

<sup>58</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, p. 18. World Bank, *Macro Poverty Outlook for Afghanistan: April 2023*, pp. 1–2; *Afghanistan Development Update*, October 2023, p. 40. Asian Development Bank, *Asian Development Outlook*, April 2023, pp. 134, 135.

<sup>59</sup> The prior Afghan government paid for 10 billion in new afghani banknotes but only 7 billion were transferred to DAB before August 2021. The remaining 3 billion in afghani banknotes contracted by the previous administration were eventually transferred to DAB in 2022 after receiving assurances from the U.S. Department of the Treasury with respect to the relevant transactions. A banknote becomes unusable when its physical condition is so poor that merchants and individuals no longer accept it as legal tender.

<sup>60</sup> UNDP, *Two Years in Review*, p. 25.

response to Afghanistan’s money supply shortage and are not sustainable in the long term.<sup>61</sup> UN officials told us that its shipments were a quick response to work around Afghanistan’s ongoing money supply shortage, and that if a permanent solution to the banking crisis is found, then there would be no need for U.S. currency shipments. A World Bank senior economist confirmed this, telling us that UN shipments are necessary in the absence of a functional Afghan banking system and international banking relationships, and any cessation or reduction in shipments would severely curtail essential services and impact the most vulnerable in Afghan society, such as women and children.

## AID ORGANIZATIONS ASSERT THAT DIRECT CASH ASSISTANCE IS THE MOST COST-EFFECTIVE AND EFFICIENT MEANS OF PROVIDING AID TO AFGHANISTAN, DESPITE THE BENEFITS IT PROVIDES TO THE TALIBAN

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Afghanistan has long been a recipient of foreign assistance. As a result, various aid modalities have been used to implement foreign assistance. For example, since 1963, the WFP has provided assistance in the form of food, while other aid organizations have provided assistance through services, including medical assistance and education. However, following the Taliban takeover, the near insolvency of the Afghan banking sector reduced the available modalities that aid organizations could use to deliver assistance across Afghanistan.<sup>62</sup> Because of this, PIOs and NGOs increased their use of direct cash assistance, as compared to other assistance modalities like vouchers or mobile money, after August 2021.<sup>63</sup> In its 2022 Humanitarian Response Plan, the UN found that using direct cash assistance is feasible in most locations across Afghanistan—both rural and urban—and for this reason, the UN would increase its use.<sup>64</sup> Similarly, data from the Afghanistan Cash and Voucher Working Group confirmed the increased use of direct cash assistance in Afghanistan, with the amount of cash and voucher assistance increasing from \$56 million in 2020 to \$900 million in 2022.<sup>65</sup>

Although the UN’s 2024 Humanitarian Needs and Response Plan found that direct cash assistance “has gained substantial traction in Afghanistan” and has become “a favored response approach among both humanitarian actors and recipients,” it faces limitations and risks.<sup>66</sup> Specifically, direct cash assistance cannot address all humanitarian needs or overcome physical barriers, such as the lack of healthcare and education infrastructure in specific areas, or policy barriers, such as the ban on girls’ and women’s participation in secondary and higher education, which require in-kind assistance as the main modality.<sup>67</sup> Additionally, foreign assistance, including direct cash assistance, may also directly and indirectly benefit the Taliban, despite policies and procedures in place to prevent the diversion and misuse of aid to Afghanistan.

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<sup>61</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview: Afghanistan*, January 2023, p. 65. World Bank, *Afghanistan Development Update*, October 2022, pp. 1, 9.

<sup>62</sup> “Modality” is a term used by the U.S. government and its implementing partners to refer to the differing methods through which assistance can be provided to beneficiaries. Examples of different modalities includes in-kind food assistance, cash, and vouchers.

<sup>63</sup> Direct cash assistance refers to assistance provided in the form of currency; beneficiaries can choose how to use that money. “Vouchers” encompass activities ranging from provision of meals to beneficiaries to voucher redemption against fixed quantities of predefined food items and do not enable beneficiary choice. “Mobile money” includes electronic money (e-money) that is transferred using mobile networks and SIM-enabled devices, primarily mobile phones. WFP, “Cash policy,” May 18, 2023.

<sup>64</sup> UN Office for the Coordination of Humanitarian Affairs, *Afghanistan Humanitarian Response Plan*, January 2022, pp. 39–40.

<sup>65</sup> The Afghanistan Cash and Voucher Working Group is composed of PIO and NGOs whose goal is to ensure that when humanitarian aid organizations use direct cash assistance, those efforts are coordinated, follow common principles, are context specific, and are undertaken in a manner that does not inflict or exacerbate harm on program beneficiaries.

<sup>66</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, p. 33.

<sup>67</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, pp. 33, 38, 47.

## Aid Organizations Assert Direct Cash Assistance Is the Only Aid Modality that Is Nationally Scalable While Also Being Cost-Effective, Efficient, and Dignified

According to a USAID and WFP joint assessment report published in March 2022, direct cash assistance is one of the few aid modalities capable of being used to deliver assistance throughout Afghanistan. This report on the effectiveness and efficiency of different aid modalities determined that direct cash assistance is the most cost-efficient aid modality that can be deployed on a large-scale, countrywide basis in Afghanistan, and is just as effective as in-kind assistance like food. Specifically, the assessment concluded that direct cash assistance is 9 percent cheaper than vouchers, and 75 percent cheaper than food transfers.<sup>68</sup> A May 2022 Center for Global Development report on using digital payments as an aid modality in Afghanistan came to the same conclusion, noting that direct cash assistance is the most cost-efficient modality that can be deployed on a countrywide scale.<sup>69</sup>

The USAID and WFP report noted that while mobile money transfers are more efficient and cost effective than direct cash assistance, mobile banking is not a viable large-scale modality in Afghanistan due to Afghanistan's limited infrastructure and connectivity.<sup>70</sup> A May 2022 Center for Global Development report echoed this, noting efforts to develop Afghanistan's mobile banking system have been an ongoing priority since the late 2000s, including a \$100 million USAID initiative. However, the growth of the mobile money sector in Afghanistan plateaued before ever reaching a meaningful and useful scale.<sup>71</sup>

The UN asserts that direct cash assistance is a more cost-effective and efficient aid modality than in-kind assistance, and that its agencies have not been able to identify other feasible modalities that are as cost-effective and efficient. The UN's 2024 Humanitarian Needs and Response Plan states that the UN's increased use of direct cash assistance has allowed it to reduce costs, allowing the UN to assist more Afghans for a lower cost when using direct cash assistance instead of in-kind assistance.

UN and UN-partnered officials confirmed these findings to us. For example, an official associated with a UN-partnered NGO that receives U.S. currency via UN shipments told us their organization uses U.S. currency shipments due to limitations associated with Afghanistan's operating environment. The NGO official also told us that direct cash assistance is cost-effective due to the reduction in aid delivery costs, while also stimulating local markets and economies. Similarly, officials at various UN entities told us that the UN has been unable to find another aid modality as cost-effective and efficient at overcoming large-scale, countrywide challenges as direct cash assistance. WFP officials also explained that the delivery of in-kind assistance, such as food, is costlier due to storage and transportation costs, and takes longer to deliver. In contrast, direct cash assistance is an effective alternative because it simplifies logistics, lowers implementation costs, and quickens delivery response times. International Organization for Migration officials confirmed this, telling us that direct cash assistance lowers its implementation costs and allows it to reach more people than other modalities would permit.

Moreover, the UN and its entities found that direct cash assistance improves the effectiveness of how aid organizations respond to vulnerable populations in Afghanistan. For example, a 2022 International Organization for Migration report found that direct cash assistance serves as a timely way to respond to needs of internally displaced populations and Afghan returnees from Pakistan.<sup>72</sup> The report went on to note that direct cash assistance enabled natural disaster-affected communities to recover and reintegrate quicker by allowing them to pay for basic needs, shelter construction, rent, and essential health and legal services,

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<sup>68</sup> In-kind transfers include goods, commodities, or services rather than money. USAID and WFP, *Cash and In-Kind Transfers in Humanitarian Settings: A Review of Evidence and Knowledge Gaps*, March 28, 2022, pp. 23, 34.

<sup>69</sup> Michael Pisa, Center for Global Development, "Responding to Afghanistan's Humanitarian Crisis: The Role of Digital Payments," May 3, 2022, pp. 5, 13, <https://www.cgdev.org/publication/responding-afghanistans-humanitarian-crisis-potential-role-digital-payments>.

<sup>70</sup> USAID and WFP, *Cash and In-Kind Transfers in Humanitarian Settings*, pp. 2, 4.

<sup>71</sup> Pisa, "Responding to Afghanistan's Humanitarian Crisis," p. 8.

<sup>72</sup> UN International Organization for Migration, *IOM Cash-Based Interventions Annual Report and Case Studies 2022*, June 20, 2023, pp. 39–40.

instead of aid organizations determining their needs.<sup>73</sup> The UN's 2024 Humanitarian Needs Response Plan confirmed that direct cash assistance is the most effective modality for vulnerable populations, finding it has been effective in responding to the small scale acute emergencies in Afghanistan, such as natural disasters and sudden influxes of forcibly returned refugees.

Direct cash assistance has also been found to be effective in supporting women and girls. One NGO report found that direct cash assistance positively impacts women's household decision-making power since it allows women to prioritize their household needs.<sup>74</sup> An official from an NGO that uses the UN's currency shipments told us that using direct cash assistance supports women receiving humanitarian aid because it bypasses the social and cultural restrictions—including those imposed by the Taliban—that prevent women from accessing aid that donors would alternatively deposit into a bank account. Similarly, according to an April 2023 UN report, Afghan women have a strong preference for direct cash assistance because they are, on the whole, more economically disadvantaged compared to men, restricted from accessing bank accounts, unable to work outside of the home, are subject to Taliban-imposed travel restrictions, and cannot access education to improve their earning potential.<sup>75</sup> The UN report also found that direct cash assistance has helped to prevent some Afghan households from adopting negative coping mechanisms, such as engaging in trafficking by selling daughters into child marriages, selling household assets, or engaging in predatory loans.

USAID has reported that direct cash assistance also stimulates local economies because beneficiaries spend the cash in local markets instead of aid organizations purchasing in-kind assistance outside Afghanistan and then shipping into the country.<sup>76</sup> World Bank and NGO officials confirmed this, telling us that direct cash assistance has significant positive economic impacts on local economies and communities when compared to other aid modalities because beneficiaries purchase basic necessities locally.

Lastly, direct cash assistance gives beneficiaries dignity by providing them the power and flexibility to choose how to meet their needs rather than aid organizations making those decisions for them. An NGO report from November 2021 stated that 96 percent of its direct cash beneficiaries used cash to purchase food, 61 percent used it for medical care, 39 percent for housing costs, 35 percent for debt repayment, and 19 percent for utilities.<sup>77</sup> Save the Children has found that beneficiaries considered direct cash assistance the most useful form of assistance, especially for households coping with a lack of income-generating opportunities, price increases, or disruptions of public services.<sup>78</sup> Similarly, the International Rescue Committee wrote in August 2023 that direct cash assistance stimulates local economies while also being more cost-effective and efficient than other modalities. The report concluded that “providing cash directly to crisis-affected individuals is a dignified and effective form of humanitarian aid.”<sup>79</sup>

Officials from various UN organizations confirmed these reports' findings. Officials from the UN High Commissioner for Refugees told us that direct cash assistance is more sustainable than other modalities because it allows beneficiaries to prioritize how and when they spend their assistance. These officials explained that some beneficiaries in Afghanistan have used direct cash assistance to start a small business or combined it with a loan that allows the beneficiary to invest in a future sustainable income source. Similarly, a WFP official explained that direct cash assistance also allows beneficiaries to buy things that other modalities could not otherwise provide, such as perishable items like fresh fruit and vegetables, since they would have spoiled during transport. A UN High Commissioner on Refugees official confirmed this, stating that one advantage of using direct cash assistance is that it provides beneficiaries with flexibility when making

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<sup>73</sup> UN International Organization for Migration, *IOM Cash Based Interventions Annual Report and Case Studies 2022*, p. 40.

<sup>74</sup> CARE Afghanistan, *Multi-Purpose Cash Assistance Post-Distribution Monitoring Report*, November 24, 2021, p. 8.

<sup>75</sup> UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, p. 72.

<sup>76</sup> USAID, “USAID/BHA Multipurpose Cash Assistance Update Fiscal Year 2022,” September 4, 2023, p. 1.

<sup>77</sup> CARE International, *Multipurpose Cash Assistance: Post-Distribution Monitoring Report*, November 24, 2021, p. 8.

<sup>78</sup> Save the Children, *An Unprecedented Crisis: Meeting Humanitarian Needs Through Integrated Cash, Nutrition and WASH Interventions*, November 9, 2022, p. 9.

<sup>79</sup> International Rescue Committee, “Why Is Cash Assistance a Critical Form of Humanitarian Aid,” August 15, 2023, <https://www.rescue.org/article/why-cash-assistance-critical-form-humanitarian-aid>.

purchasing decisions, which has led to Afghan households improving their ability to meet basic needs and have better health outcomes.

## Direct Cash Assistance Has Limitations

Despite reports and officials' statements that direct cash assistance is the most efficient, effective, and feasible aid modality in Afghanistan, some organizations have noted limitations to its use. One limitation is that direct cash assistance is not the appropriate or preferred modality to respond to every humanitarian or development need. For example, interventions in the health and education sectors require in-kind assistance such as the establishment of educational services and functional health-care facilities that have the capability to provide medicines.<sup>80</sup> As a result, in-kind assistance is still necessary in Afghanistan, according to the UN's 2024 Humanitarian Needs and Response Plan. It notes that 78 percent of its \$3 billion budget is in-kind assistance.<sup>81</sup> Additionally, a WFP official told us that WFP is sometimes limited to using in-kind assistance because of donor or implementing partner requirements.

A second limitation to direct cash assistance is Afghanistan's inflation and changing economic conditions; in other words, the amount of goods a beneficiary may be able to purchase changes from month-to-month despite the amount of direct cash assistance they are given remaining the same. For example, between August 2021 and April 2022, Save the Children reported that prices of goods increased while the amount of direct cash assistance given to program beneficiaries remained constant. As a result, some program beneficiaries had to borrow money to pay for food and other goods because direct cash assistance could not buy the same amount of items as they could in previous months.<sup>82</sup> WFP officials confirmed this reporting, stating price increases on goods reduced beneficiaries purchasing power, and as a result, required WFP to increase the amount of direct cash assistance to equal beneficiary's prior purchasing power.

A third limitation to using direct cash assistance is the Taliban's attempted interference with its distribution. NGO officials told us that the Taliban have made attempts to divert direct cash assistance provided to the education sector.<sup>83</sup> One NGO official told us in November 2022 that under the guise of income taxation, the Taliban targeted and extorted money from Afghan teachers and students who received direct cash assistance. In April 2023, another NGO official told us that the Taliban were taxing people informally, including those receiving funding from international donors, as a way of accessing international assistance. Similarly, a September 2023 USAID report found that attempted Taliban interference in the selection of humanitarian beneficiaries and staff members increased by 25 percent when compared to the same reporting period in 2022.<sup>84</sup> For example, to obtain aid money, including direct cash assistance, the Taliban have attempted to establish Taliban-friendly or -controlled NGOs or pressure Afghan NGOs to hire Taliban officials.<sup>85</sup> As a result of Taliban interference, nearly 110 humanitarian activities were suspended in July and August 2023 alone according to USAID.

The Taliban also interfere with direct cash assistance to vulnerable groups. For example, the UN's 2024 Humanitarian Needs and Response Plan reported that Taliban interference "remains the foremost access challenge, with more than 1,000 incidents reported in 2023," primarily due to Taliban policies that have interfered with and hindered UN entities from providing direct cash assistance to women and other vulnerable groups.<sup>86</sup> The plan noted that while the UN has increased its use of direct cash assistance because it remains the best modality to reach women and vulnerable groups, direct cash assistance still cannot overcome all the

<sup>80</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan 2023*, pp. 38–39.

<sup>81</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, pp. 2, 33.

<sup>82</sup> Save the Children, *An Unprecedented Crisis*, pp. 9, 12.

<sup>83</sup> We previously reported on this issue in 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.

<sup>84</sup> USAID, "Afghanistan – Complex Emergency Fact Sheet," September 30, 2023, p. 2.

<sup>85</sup> SIGAR, *Status of Education in Afghanistan*, SIGAR-24-01-IP.

<sup>86</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, pp. 29, 33.

barriers the Taliban and local leaders have put in place, thus preventing some direct cash assistance from reaching women and other vulnerable groups.<sup>87</sup> Taliban policies continue to restrict the distribution of humanitarian assistance across Afghanistan, according to the International Rescue Committee. It found that Taliban decrees, such as restrictions on female aid workers, “...will continue to complicate humanitarian operations, even if enforcement varies as humanitarian actors have negotiated regional improvements.”<sup>88</sup>

## U.S. Currency Shipments Provide Direct and Indirect Benefits to the Taliban

We found that the UN’s shipments of U.S. currency provide direct and indirect benefits to the Taliban. One direct benefit is that UN shipments of U.S. currency allow the Taliban to generate revenue through taxes and other fees on aid organizations’ purchases and programming activities, and on direct and indirect recipients of humanitarian assistance.<sup>89</sup> For example, in April and May 2023, the World Bank reported that the consistent availability of U.S. dollars in Afghanistan’s economy allowed Afghans to enter into more economic transactions; this generated taxes and other fees for the Taliban that they would not otherwise have generated, which in turn enabled the Taliban to pay for an estimated \$2 billion budget deficit for 2022.<sup>90</sup> We confirmed these findings in our October 2023 report, *Status of Education in Afghanistan*. As our report notes, because PIOs and NGOs are complying with Afghan tax laws by withholding income taxes on Afghan employee salaries and vendors payments, and paying utility bills such as water and electricity—essential Taliban-controlled services—the Taliban are now able to generate revenue that was previously unattainable when international assistance was suspended. We also reported in a May 2024 report, *U.S. Funds Benefitting the Taliban-Controlled Government*, that U.S. implementing partners have paid at least \$10.9 million to the Taliban in taxes, fees, duties, and utilities since August 2021.<sup>91</sup> (The true amount, however, is significantly higher due to subcontractors paying taxes but not reporting those payments to implementing partners, and implementing partners not fully reporting tax payments to U.S. agencies.)<sup>92</sup> In its response to our May 2024 report, State confirmed Afghans employed in connection with U.S. assistance are not exempt from income or payroll taxes. Our report concluded that the Taliban’s 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.

A second direct benefit from U.S. currency shipments is that the Taliban generate revenues from currency exchange fees paid by aid organizations when they exchange U.S. currency for afghanis. Our January 2024 report on the purchase, transfer, and conversion of U.S. currency detailed how aid organizations make some transactions in afghanis.<sup>93</sup> Aid organizations obtain afghanis by purchasing them on the open market, such as from Afghan commercial banks. However, due to the lack of usable Afghans, Afghan commercial banks do not hold supplies of afghanis large enough to satisfy the orders of aid organizations, requiring the banks to purchase afghanis from currency auctions convened by the Taliban-controlled DAB. DAB—and thus the Taliban—can generate revenue by charging currency exchange fees on these currency auction transactions, fees that are ultimately passed on to the aid organizations who utilize the UN’s shipments of U.S. currency.

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<sup>87</sup> UN Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs and Response Plan Afghanistan*, pp. 33–34.

<sup>88</sup> International Rescue Committee, “2024 Emergency Watchlist,” December 13, 2023, p. 53.

<sup>89</sup> We reported on this issue across various SIGAR reports, including in our *2023 High-Risk List* (SIGAR 32-21-HRL) and in *Status of Education in Afghanistan* (SIGAR-24-01-IP). In addition, we have ongoing audits to determine the extent to which the Taliban are benefitting from U.S. assistance in Afghanistan, and to determine the extent to which State complied with implementing partner vetting requirements.

<sup>90</sup> World Bank, “Poverty Outlook,” April 2023, p. 1; and “Afghanistan Economic Monitor,” May 30, 2023, pp. 2–3.

<sup>91</sup> The \$10.9 million figure is based on the sample of 38 implementing partners of U.S.-funded assistance activities in Afghanistan from August 2021 through May 2023. The figure is not based on the entire population of implementing partners working in Afghanistan.

<sup>92</sup> SIGAR, *U.S. Funds Benefitting the Taliban-Controlled Government*, SIGAR 24-22-AR, pp. 6, 11.

<sup>93</sup> NGO officials told us that they use afghanis to pay the salaries of local staff and vendor payments. SIGAR, *Cash Shipments to Afghanistan*, SIGAR 24-12-IP.

U.S. currency shipments indirectly benefit the Taliban by stabilizing and strengthening the regime in other ways. For example, the Taliban takes credit for the improved living conditions brought about by the cash shipments. According to the UN, the Taliban's inability to provide basic services for Afghans necessitated the ongoing international humanitarian response. The UN, along with that of the international donor community at large, have principally replaced the Taliban as the provider of basic services.<sup>94</sup> However, a May 2023 USIP report found the Taliban is prone to claiming credit for the benefits provided to Afghan communities by international humanitarian or development assistance.<sup>95</sup> Implementing partners confirmed this finding and told us the Taliban take credit for the humanitarian assistance and are using the delivery of basic services as propaganda to create support for the regime.<sup>96</sup>

Another way the Taliban indirectly benefits from U.S. currency shipments is from the liquidity the shipments provide aid organizations to carry out humanitarian efforts. As aid organizations bear the cost of providing many basic services, the Taliban is able to allocate more of their domestic budget for their own policy priorities, including their security ministries.<sup>97</sup> According to a June 2023 Institute for Development and Economic Affairs report, the Taliban stated they are not responsible for providing basic services to the Afghan people, in part because they know that UN agencies will shoulder this responsibility. Accordingly, the Taliban are able to allocate only small amounts of their budgetary resources towards basic services such as health and education, while reserving most funding for their policy priorities, including to security ministries that police and punish the Afghan population.<sup>98</sup> The report found that beginning in December 2021, international humanitarian assistance subsidized a 50 percent increase for Taliban-controlled security ministries and their priorities, such as funding state radio and television propaganda campaigns. A World Bank report confirmed this, stating that the Taliban are prioritizing "non-productive security sector spending" over addressing population needs, such as poverty and food insecurity, which has had a significant impact on Afghans' health, agriculture, and social protection.<sup>99</sup>

Thirdly, the Taliban indirectly benefits from U.S. currency shipments through the improved domestic economic conditions and the increased stability of the afghani's value. For example, U.S. currency shipments provided Afghan businesses the ability to import goods, because, as a widely accepted means of exchange, U.S. currency could more easily be used to purchase foreign goods. In turn, the importation of more foreign goods increased the Taliban's ability to generate the customs revenue needed to fund and maintain its control over Afghanistan's governing institutions. According to an April 2023 UN report, the Taliban's ability to finance those governing institutions is largely dependent on sustained levels of foreign assistance, which provides the economic growth and exchange rate stability needed for imports.<sup>100</sup> As a result of these revenues, the Taliban were able to resume payments to the civil servants the governing institutions depend on to carry out some basic services. However, the World Bank reported in October 2023 that without the macroeconomic stability and eased supply constraints provided by the U.S. currency shipments, the import-related revenues on which the Taliban heavily rely on would decrease as a result of a decrease in imports.<sup>101</sup> Furthermore, without the

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<sup>94</sup> Office for the Coordination of Humanitarian Affairs, *Humanitarian Needs Overview Afghanistan*, pp. 28, 67.

<sup>95</sup> USIP, *Political Economy Analysis Afghanistan*, May 2023, pp. 5, 33.

<sup>96</sup> SIGAR, *U.S. Funds Benefitting the Taliban-Controlled Government*, SIGAR 24-22-AR, p. 10.

<sup>97</sup> Since August 2021, the Taliban have enacted two budgets. The first was an interim 3-month budget for December 21, 2021, to March 20, 2022. The Taliban then enacted an annual budget for fiscal year 2022–2023. The Ministry of Finance briefly posted the 3-month interim budget on its website before removing it. Similarly, the Taliban have not made public their budget for fiscal year 2022–2023.

<sup>98</sup> The Institute for Development and Economic Affairs is an independent, non-partisan, and not-for-profit think tank that conducts research and provides policy advice on sustainable economic development, community involvement, and human rights. Alokozai, Salma and Payenda, Khalid, Institute for Development and Economic Affairs, *Analysing Taliban's Budget Expenditures and Revenues: Understanding the Regime's Policies and Priorities*, June 2023, pp. 8–10.

<sup>99</sup> World Bank, *Macro Poverty Outlook for Afghanistan: April 2024*, April 3, 2024, pp. 1–2

<sup>100</sup> UNDP, *Afghanistan Socio-Economic Outlook Report 2023*, April 2023, p. 32.

<sup>101</sup> World Bank, *Afghanistan Development Update*, October 2023, pp. 17, 33.



macroeconomic stability and associated import revenues needed to pay and retain civil servants, the Taliban-controlled ministries and local departments would lose “even the most basic functionality.”<sup>102</sup>

Finally, the Taliban indirectly benefits from U.S. currency shipments by having access to large amounts of untraceable currency. As noted above, the international banking system has been cautious about facilitating capital flows into and out of Afghanistan due to the Taliban’s involvement in international terrorism. However, because U.S. currency is difficult to trace and used internationally as a means of exchange, it can be used to circumvent the international banking system and, in so doing, it presents greater money laundering and terrorist financing risks. UN and NGO officials told us that the international donor community enables the Taliban to circumvent the restrictions placed on Afghanistan by the international banking system by providing an untraceable medium to launder money and fund its activities.

Despite the direct and indirect benefits provided to the Taliban, U.S. agencies, PIOs, and NGOs told us that they have policies and procedures intended to prevent the misuse and diversion of direct cash assistance. Our January 2024 report, *Implementing Partner Vetting in Afghanistan*, detailed the policies and procedures that USAID put in place to ensure that it does not fund or contract with prohibited organizations, individuals, or terrorist groups, including the Taliban. USAID has a screening process referred to as “partner vetting,” which screens organizations, their executive officers, sub-awardees, and other relevant parties to determine if any entities or personnel have ties to terrorist groups.<sup>103</sup> Similarly, State’s risk mitigation guidelines include counterterrorism vetting of program staff, participants, and beneficiaries, and adding standard antiterrorism clauses in its awards.<sup>104</sup> State told us that when the Taliban makes financial demands of State implementing partners beyond incidental operational costs, implementing partners report those cases to State and pause or adjust operations accordingly.<sup>105</sup> For example, State told us that U.S. partners, such as the WFP and United Nations Children’s Fund, suspended operations in Ghor province following evidence of continued Taliban attempts to divert assistance. State also reported that from January to April 2023, WFP halted distributions in two Ghazni province districts when local Taliban representatives attempted to interfere in distribution efforts.

PIO and NGO officials told us that they engage in practices to prevent fraud during cash distributions. A UN official told us that the UN has policies and procedures to ensure direct cash assistance is not misused or diverted, and that each UN entity or program may have additional policies and procedures specific to its programming. For example, UN officials told us that beneficiaries are identified at the local level using a needs assessment and in consultation with targeted communities. Once identified, they are digitally registered using national identification cards and biometric data. WFP also requires beneficiaries to show identification prior to receiving direct cash assistance and monitors cash distribution to ensure compliance with internal requirements.<sup>106</sup>

A World Bank official told us the one Afghanistan project it implements using direct cash assistance has controls to ensure that the cash is being properly disbursed and used; these include using a community profiling system to ensure no Taliban members are selected as beneficiaries. NGO officials told us they use community committees to help monitor cash distributions; encourage beneficiaries and communities to use the NGO’s accountability and feedback mechanisms to report instances of misuse, fraud, or diversion; and use

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<sup>102</sup> USIP, *Political Economy Analysis Afghanistan*, May 2023, p. 37.

<sup>103</sup> SIGAR, *Implementing Partner Vetting in Afghanistan: The USAID Mission to Afghanistan Complied with Vetting Requirements but USAID’s Bureau for Humanitarian Assistance Did Not*, SIGAR 24-11-AR, January 16, 2024. We have a separate, ongoing audit that details State’s policies and procedures to ensure it does not fund or contract with prohibited organizations, entities, or groups, including the Taliban. We anticipate publishing this audit’s report in July 2024.

<sup>104</sup> State, “Federal Assistance Directive,” October 2022, pp. 42–45, 50–51, 158.

<sup>105</sup> According to State, aid organizations in Afghanistan may need to pay the same incidental expenses to operate that humanitarian organizations elsewhere in the world pay. State told us that Treasury’s OFAC issued General License 20, which authorizes certain transactions involving Afghanistan or governing institutions in Afghanistan that would otherwise be prohibited by sanctions on the Taliban or the Haqqani Network, including the payment for certain fees, permits, and licenses, subject to certain conditions. State also told us that it would not be possible for their partners to provide life-saving support to the Afghan people without paying certain required operational costs.

<sup>106</sup> SIGAR, *Emergency Food Assistance to Afghanistan*, SIGAR 23-30-AR, pp. 5–6.

post-distribution monitoring surveys to obtain beneficiary feedback. According to these officials, the NGO immediately investigates any reported or rumored instances of cash diversion.

Furthermore, a money service business official told us that no donor funds are directly at risk if U.S. currency is stolen while transporting it to beneficiaries because funds are transported by contracted courier companies who assume responsibility for the shipments. While donors do not bear any risk for funds stolen during transport, the Taliban, or potentially other sanctioned entities, still benefit by stealing U.S. currency that they would otherwise not possess. As a result, UN officials told us that when attempts are made to divert aid, all UN agencies respond as a united front by either pausing assistance or holding discussions with the Taliban to relay that any diversion or interference will not be tolerated.

## CONCLUSION

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The Taliban's August 2021 overthrow of the U.S.-backed government of Afghanistan resulted in the collapse of Afghanistan's economy and a humanitarian crisis. To address some of the problems related to those crises, the UN has purchased, transported, and distributed \$3.8 billion in U.S. currency to Afghanistan since December 2021. Although the infusion of U.S. currency has improved the Afghan economy, the use of U.S. currency as a method of delivering aid has significant drawbacks. Most immediately, it increases the amount of revenue flowing to the Taliban through their collection of taxes from aid organizations and their local employees. The Taliban also benefits from the revenue generated by the Taliban-controlled DAB through the collection of currency exchange fees resulting from aid organizations needing to exchange U.S. dollars for afghanis. This increased revenue and the increased stability of the afghani as a means of exchange have enhanced the Taliban's ability to fund its security priorities. Additionally, because U.S. currency is difficult to trace and is an internationally used means of exchange, the Taliban now have greater ability to circumvent the controls of the international banking system that are intended to limit the Taliban's ability to conduct money laundering and fund terrorism. Therefore, although the shipment of U.S. currency has provided many benefits to the Afghan people, it is important that Congress consider how these currency shipments have also provided substantive benefits to the Taliban, and act accordingly.

## MATTER FOR CONGRESSIONAL CONSIDERATION

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Congress may wish to determine whether the benefits that U.S. currency shipments provided to the Taliban regime outweigh the economic and humanitarian benefits associated with the shipments. If Congress determines the benefits to the Taliban are too great, Congress may wish to consider implementing limits to or requiring additional oversight of the purchase and transport of U.S. currency shipments to Afghanistan.

## AGENCY COMMENTS

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We received written comments on a draft of this report from State and USAID, which are reproduced in appendices III and IV, respectively. In its comments, State concurred with the report's findings. The department stated that (1) UN shipments of U.S. currency were not intended to resolve all of the factors contributing to Afghanistan's economic instability; (2) reducing U.S. currency shipments would negatively affect Afghanistan's economy and lead to a negative coping mechanism among Afghan households; (3) direct cash assistance is a cost-effective and efficient, and remains a valuable and needed form of aid; and (4) the U.S. and UN maintain safeguards and monitoring over U.S. funding to prevent the diversion of cash assistance. In its response, USAID stated that the draft report did not contain any recommendations for the agency, and that it had no comments on the report. Treasury also reviewed a draft of this report and did not provide formal comments. We received technical comments from State, USAID, and Treasury, which we incorporated into the report as appropriate.

## APPENDIX I - SCOPE AND METHODOLOGY

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This report provides the results of our evaluation of the impact of the UN's shipments of U.S. currency on Afghanistan's economy, and the benefits and risks of public international organizations (PIOs) and nongovernmental organizations (NGOs) using direct cash assistance in Afghanistan. On March 13, 2023, the U.S. House of Representatives, Committee on Foreign Affairs directed SIGAR to examine and report on 14 specific areas related to ongoing U.S. activities in Afghanistan, including the delivery, use, and oversight of U.S. funds intended to respond to Afghanistan's humanitarian crisis since the collapse of its government in August 2021.<sup>107</sup> In response, we initiated four engagements, as detailed in appendix II. This is the second of two reports on this subject; the first report examined the process to purchase, transport, transfer, and convert U.S. currency in Afghanistan.<sup>108</sup>

The objectives of this evaluation were to (1) evaluate the impact of introducing large amounts of U.S. currency into the Afghan economy; and (2) determine the benefits and challenges of using direct cash assistance as a form of aid, as compared to other forms of assistance.

To achieve our objectives, we reviewed documentation and information related to the macroeconomic impact of the UN's shipments of U.S. currency on Afghanistan, which we obtained through responses to requests for information, interviews, and publicly available reports from PIOs, NGOs, the U.S. Department of State (State), the U.S. Agency for International Development (USAID), subject matter experts, and independent research.

To determine the impact of introducing large amounts of U.S. currency into the Afghan economy, we analyzed publicly available economic reports and data from the UN, the World Bank, and other organizations such as the U.S. Institute of Peace (USIP) and Congressional Research Service. We interviewed or submitted written questions to officials from State, USAID, the U.S. Department of the Treasury (Treasury), the UN, World Bank, and various subject matter experts, Afghan money market exchangers, and organization officials. We also used information provided in interviews from our first report.

To determine the benefits and challenges of using direct cash assistance as a form of aid, we acted similarly to the first objective, analyzing publicly available foreign assistance and economic reports and data from the State, USAID, Treasury, the UN, and other organizations. We also interviewed or submitted written questions to officials from State, USAID, Treasury, the UN, and the World Bank.

We conducted our evaluation work in Arlington, Virginia, and various locations throughout Afghanistan from April 2023 through July 2024, in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our evaluation objectives. SIGAR performed this evaluation 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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<sup>107</sup> U.S. House of Representatives, Committee on Foreign Affairs, "Letter to John F. Sopko," March 13, 2023.

<sup>108</sup> The objectives of the first report, *Cash Shipments to Afghanistan: The UN Has Purchased and Transported More than \$2.9 Billion to Afghanistan to Implement Humanitarian Assistance* (SIGAR 24-12-IP, January 26, 2024), were to (1) determine the amount of U.S. funding provided to Afghanistan through PIOs and NGOs since August 15, 2021, and what amount of that was used to purchase U.S. currency; (2) the processes and procedures used by the UN, and other PIOs and NGOs as applicable, to transport and transfer U.S. dollars to Afghanistan for humanitarian and development assistance; and (3) processes and procedures used by the receiving private Afghan bank to convert U.S. dollars into local currency for humanitarian and development aid use in Afghanistan.

## APPENDIX II - U.S. HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS LETTER TO SIGAR

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On March 13, 2023, the U.S. House of Representatives, Committee on Foreign Affairs sent SIGAR a letter expressing concerns that U.S.-funding for Afghanistan may be subject to waste, fraud, and abuse, or may be benefiting the Taliban. We reproduced the Committee's letter in this appendix. The letter requested that we examine and report on the following 14 areas related to ongoing U.S. activities in Afghanistan. Specifically, the letter requested we report to the Committee on

1. the extent to which U.S.-funding provided for Afghanistan has been provided to the Taliban via taxes, fees, import duties, or for purchasing permits, licenses, or utility services since August 15, 2021;
2. the amount of U.S. funding provided to Afghanistan through international aid organizations since August 15, 2021;
3. how the UN transfers U.S. currency into Afghanistan;
4. how U.S. currency is converted into local currency;
5. the impact of the resumption of U.S. currency inflows on Afghanistan's economy under the Taliban;
6. how international aid organizations provide direct cash assistance in Afghanistan, the extent to which it is subject to misuse or diversion, and its costs and benefits compared to other aid modalities;
7. U.S. agency policies and procedures that limits the oversight of U.S.-funding to international aid organizations;
8. international aid organization policies or procedures that limits the oversight of U.S. agencies and their funding for Afghanistan related activities;
9. the sufficiency of the oversight and monitoring mechanisms used by the U.S., UN, and other international aid organizations in preventing fraud, waste, abuse, and diversion, particularly towards the Taliban regime and other terrorist organizations;
10. the extent to which international aid organizations have policies and procedures for overseeing U.S.-funding for Afghanistan activities;
11. administrative fees, or other fees, paid by U.S. agencies to international aid organizations to carry out assistance in Afghanistan;
12. the policies and procedures of the Afghan Fund to protect against waste, fraud, and abuse;
13. the vetting of all Afghan Fund Board Members and contracts; and

In response to the Committee's request, we initiated the following four new engagements:

- An audit of U.S. funds directly benefitting the Taliban (SIGAR-24-22-AR) to examine the use of appropriated funds to directly benefit the Taliban in response to request 1.<sup>109</sup>
- An evaluation of the purchase, transport, transfer, conversion, and use of U.S. currency for activities in Afghanistan (SIGAR-24-12-IP) to examine and describe the process for purchasing, transferring, converting, and using U.S. currency for activities in Afghanistan in response to requests 2, 3, 4, 5, and 6.<sup>110</sup>
- An audit of U.S. agencies' oversight of funds provided to public international organizations (PIOs) for activities in Afghanistan (SIGAR 159-A) to examine U.S. agency's oversight of PIOs receiving U.S. funds in Afghanistan in response to requests 7, 8, 9, 10, and 11.
- An evaluation of the Afghan Fund (SIGAR LL-22) to describe the Fund's policies and procedures, vetting process, and provide suggestions to Congress in response to requests 12, 13, and 14.<sup>111</sup>

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<sup>109</sup> SIGAR, U.S. Funds Benefitting the Taliban-Controlled Government, SIGAR-24-22-AR.

<sup>110</sup> SIGAR, Cash Shipments to Afghanistan, SIGAR-24-12-IP.

<sup>111</sup> SIGAR, Afghan Fund Inquiry, SIGAR 24-07-LL.

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One Hundred Eighteenth Congress  
U.S. House of Representatives  
Committee on Foreign Affairs  
2170 Rayburn House Office Building  
Washington, DC 20515

March 13, 2023

The Honorable John F. Sopko  
Special Inspector General for Afghanistan Reconstruction  
1550 Crystal Drive, Suite 900  
Arlington, Virginia, 22314

Dear Inspector General Sopko:

I write today to express my concern about ongoing U.S. assistance to Afghanistan and to request your continued help in ensuring that taxpayer dollars supporting the Afghan people do not benefit the Taliban regime or are otherwise subject to waste, fraud, or abuse.

SIGAR's January 2023 Quarterly Report to Congress stated that since the disastrous collapse of the former Afghan government in August 2021:

“...the United States has appropriated or otherwise made available over \$8 billion in assistance to Afghanistan and Afghan refugees. This includes more than \$2 billion, primarily for humanitarian and development aid in Afghanistan, and \$3.5 billion transferred to a newly created Afghan Fund to recapitalize the Afghan central bank and for related purposes. In addition, the United States obligated \$2.7 billion in FY 2022 for the Department of Defense (DOD) to transport, house, and feed Afghan evacuees.”<sup>1</sup>

In the wake of the calamitous withdrawal of U.S. personnel and the collapse of the former Afghan government, SIGAR's independent and objective oversight of the billions of dollars continuing to support the people of Afghanistan remains as vital as ever. Specifically, despite the withdrawal, the Department of State and U.S. Agency for International Development (USAID), among other entities, have continued to spend billions across multiple humanitarian

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<sup>1</sup>Special Inspector Gen. for Afg. Reconstruction, January 2023 Q. Rep. to the U.S. Cong. at 1 (2023) [hereinafter SIGAR Jan. 2023 Q. Rep.], <https://www.sigar.mil/pdf/quarterlyreports/2023-01-30qr.pdf>.

and development sectors, including support for women's rights, healthcare, food assistance, agriculture, education, and assisting internally displaced persons in Afghanistan.

SIGAR remains uniquely positioned with the purview, authority, and expertise to audit, evaluate, and investigate ongoing assistance to Afghanistan. I have reviewed SIGAR's fiscal year 2023 Oversight Plan, which includes ongoing and planned work related to U.S. humanitarian and development assistance to support Afghans. It is imperative that SIGAR continue to complete this work. I also understand that SIGAR's fiscal year 2023 Oversight Plan has been coordinated and deconflicted with the Department of State Office of Inspector General and USAID Office of Inspector General, among other entities.

It is essential that U.S. funds should be spent on U.S. priorities and not benefit that the Taliban, which represses women and girls, imposes a cruel interpretation of Sharia law, and remains unrecognized as a legitimate government by the U.S. and international community. However, as you know, since August 2021, the Department of the Treasury's Office of Foreign Assets Control (OFAC) has issued multiple General Licenses to provide for the continued flow of assistance to support Afghanistan through "legitimate and transparent channels."<sup>2</sup>

In February 2022, OFAC issued General License 20 which authorizes direct payments for the Taliban for the payment of "taxes, fees, or import duties, or the purchase or receipt of permits, licenses, or public utility services," associated with assisting Afghanistan.<sup>3</sup> On December 20, 2022, the head of the United Nations Office for the Coordination of Humanitarian Affairs, Martin Griffiths, reported that UN agencies and non-governmental (NGO) partners have been conducting authorized transactions with Taliban-controlled entities for the delivery of humanitarian aid and basic services. According to Griffiths, these payments are essential to ongoing humanitarian activities.<sup>4</sup> SIGAR reported in January 2023 that "neither the State Department nor SIGAR have visibility on how much revenue the Taliban-controlled ministries may be collecting from fees and other payments from UN agencies or NGOs."<sup>5</sup>

Given the significant concerns about U.S. taxpayer dollars benefitting the Taliban regime, I request that SIGAR:

- Report 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,

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<sup>2</sup> Off. of Foreign Assets Control, Dep't of Treasury, Fact Sheet: Provision of Humanitarian Assistance to Afg. and Support for the Afghan People (Apr. 2022), [https://home.treasury.gov/system/files/126/afg\\_factsheet\\_20220413.pdf](https://home.treasury.gov/system/files/126/afg_factsheet_20220413.pdf)

<sup>3</sup> OFF. OF FOREIGN ASSETS CONTROL, DEP'T OF THE TREASURY, GENERAL LICENSE NO. 20, AUTHORIZING TRANSACTIONS INVOLVING AFG. OR GOVERNING INST. IN AFG. (Feb. 25, 2022), [https://home.treasury.gov/system/files/126/et\\_gl20.pdf](https://home.treasury.gov/system/files/126/et_gl20.pdf).

<sup>4</sup> Martin Griffiths, Under Sec'y Gen. for Humanitarian Affairs and Emergency Relief Coordinator, U.N. Off. for the Coordination of Humanitarian Affairs, Statement for the Sec. Council Briefing on the Humanitarian Situation in Afg. (Dec. 20, 2022), <https://reliefweb.int/report/afghanistan/under-secretary-general-humanitarian-affairs-and-emergency-relief-coordinator-martin-griffiths-statement-security-council-briefing-humanitarian-situation-afghanistan-20-december-2022>.

<sup>5</sup> SIGAR Jan. 2023 Q. Rep., *supra* note 1, at 70.

import duties, or for the purchase or receipt of permits, licenses, or public utility services since August 2021.

Additionally, SIGAR has consistently reported on challenges to executive branch and congressional oversight of U.S. funds channeled through international organizations, such as the UN, World Bank, and the Colombo Plan. For example, in March 2022, SIGAR found “...issues persisted with the [World] Bank’s monitoring, performance, management, and oversight of the \$13 billion international investment in Afghanistan reconstruction [through the Afghanistan Reconstruction Trust Fund].”<sup>6</sup> Similarly, in September 2020, SIGAR identified more than \$23 million in questioned costs – or 59% of audited expenditures – related to Department of State efforts to develop and sustain a drug treatment program in Afghanistan through the Colombo Plan.<sup>7</sup>

Since the Taliban’s return to power in August 2021, State and USAID have continued providing billions in humanitarian and development assistance, including funds provided through international organizations. The United States is the single largest donor to the UN’s 2022 Humanitarian Response Plan (HRP) for Afghanistan, contributing over \$1.1 billion of the HRP’s \$3.32 billion in funding (or 34.3%) as of February 26, 2023.<sup>8</sup> Similarly, in September 2022, USAID provided \$53.7 million to the Afghanistan Reconstruction Trust Fund.<sup>9</sup> I remain concerned that the Department of State and USAID lack visibility into the expenditure of funds once they are transferred to international organizations and that funds may not be used as intended. To assist the committee’s efforts in enhancing transparency of such funds, I request that SIGAR report to the committee on:

- The total amount of U.S. funding provided to Afghanistan through the UN, World Bank, Colombo Plan, and other multilateral international organizations since August 15, 2021.
- The processes and procedures used by the UN in transferring U.S. dollars to Afghanistan and utilizing them for humanitarian aid.
- The processes and procedures used by Afghanistan International Bank to convert U.S. dollars into local currency for humanitarian use in Afghanistan.
- The impact of the introduction of large amounts of U.S. dollars into the Afghanistan economy and their beneficiaries.
- The use of direct cash assistance in U.S.-funded humanitarian aid efforts in Afghanistan, including the processes and procedures under which it is provided, the extent to which it

<sup>6</sup> Special Inspector Gen. for Afg. Reconstruction, March 2022 Q. Rep. to the U.S. Cong. at 18 (2022), <https://www.sigar.mil/pdf/evaluations/SIGAR-22-15-IP.pdf>.

<sup>7</sup> Special Inspector Gen. for Afg. Reconstruction, Dep’t of State’s Efforts to Develop and Sustain Afg.’s Drug Treatment Sys.: Audit of Costs Incurred by the Colombo Plan for Coop. Econ. and Soc. Dev. in Asia and the Pac. Results in More than \$23 Million in Questioned Costs at 6 (Sept. 2020), <https://apps.dtic.mil/sti/pdfs/AD1137554.pdf>.

<sup>8</sup> U.N. Off. for the Coordination of Humanitarian Affairs, Afg. Humanitarian Response Plan 2022, Fin. Tracking Serv. Appeal Summary (2022), <https://fts.unocha.org/appeals/1100/summary>.

<sup>9</sup> SIGAR Jan. 2023 Q. Rep., *supra* note 1, at 69.

is subject to misuse and diversion, and its costs and benefits compared to less fungible forms of assistance.

- Any Department of State or USAID regulations, policies, or practices that limit or restrict direct U.S. government oversight of funds provided to international organizations. Please identify the effect of such regulations, policies, or practices, and, if appropriate, suggest actions for congressional consideration that would improve transparency of such funds.
- Any regulations, policies, or practices imposed by an international organization receiving U.S. funding that limits or restricts direct oversight by U.S. government entities of those funds. SIGAR shall also identify the effect of such regulations, policies, or practices, and if appropriate, suggest actions for congressional consideration that would improve transparency of such funds.
- The sufficiency of oversight, monitoring, due-diligence, and safeguards used by the U.S., UN, and other international organizations in providing humanitarian aid in Afghanistan in preventing waste, fraud, abuse –to include diversion (or other direct or indirect support) to the Taliban regime and terrorist organizations.
- The extent to which the aforementioned international organizations have established policies and practices for overseeing U.S. funds that align with established requirements for funds provided directly by the U.S. government to NGOs or other implementing partners.
- Any amounts paid by the U.S. to international organizations, including the U.N. and the World Bank, in administrative fees and whether those fees are in addition to or taken from the amounts intended for assistance to Afghanistan.

Finally, as you are aware, the executive branch has taken action to seize \$7 billion in Afghan central bank assets that were deposited in the United States prior to the Taliban's return to power in August 2021. On September 14, 2022, the White House and Department of the Treasury announced the creation of the Fund for the Afghan People ("Afghan Fund"), and subsequently transferred \$3.5 billion of the seized assets to the Fund.<sup>10</sup> The purpose of the Afghan Fund is to recapitalize the Afghan central bank and otherwise help stabilize the Afghan economy.

I understand that SIGAR has begun looking into the oversight and management mechanisms of the Afghan Fund. I agree that independent, external, U.S. government oversight of the Afghan Fund is needed, as the fund was capitalized with funds seized by the U.S. government and subsequently made available by the U.S. government to assist Afghanistan. Therefore, I request that SIGAR report to the committee on:

- The operations, policies, and expenditures of the "Afghan Fund" and determine whether adequate safeguards have been put into place for protecting Fund disbursements from

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<sup>10</sup> Press Release, Dep't of State, The U.S. and Partners Announce Establishment of Fund for the People of Afg. (Sept. 14, 2022), <https://www.state.gov/the-united-states-and-partners-announce-establishment-of-fund-for-the-people-of-afghanistan/>.



waste, fraud, and abuse – to include diversion (or other direct or indirect support) to the Taliban regime.

- The vetting of all appointments to the management and operation of the Afghan Fund and its boards as well as the vetting of all contracts for the Fund.
- Suggestions for Congress to consider to improve the operations and effectiveness of the Afghan Fund.

I greatly appreciate SIGAR's assistance in these matters and continued work to ensure that U.S. government funds provided for Afghanistan are used as intended, in the most efficient manner possible, and do not benefit the Taliban regime. In the interest of expediency, SIGAR may respond to these requests in multiple reports, as appropriate.

Please immediately notify the Committee if SIGAR encounters any obstruction, noncompliance, obfuscation, or unreasonable delay in the provision of requested information from the Department of State, the Department of the Treasury, USAID, or any other executive branch agency. Likewise, I expect to be notified without delay if SIGAR encounters any obstruction, noncompliance, obfuscation, or unreasonable delay in the provision of requested information from the UN, World Bank or other international organizations in receipt of U.S. government funds.

Sincerely,



Michael T. McCaul  
Chairman  
House Foreign Affairs Committee

CC:  
Rep. Gregory Meeks, Ranking Member  
House Foreign Affairs Committee

## APPENDIX III - COMMENTS FROM THE DEPARTMENT OF STATE

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United States Department of State

Washington, D.C. 20520

July 10, 2024

Mr. John M. Sopko  
Special Inspector General  
Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)  
2350 Crystal Drive  
Arlington, VA 22202

Dear Special Inspector General Sopko

The Department of State appreciates the opportunity to review and comment on SIGAR's second of two reports for the evaluation of E-20 "U.S. Currency Shipments to Afghanistan: U.S. Currency Has Reportedly Stabilized the Afghan Economy but Benefits the Taliban." We take seriously our duty as stewards of American taxpayer money and hold our implementing partners to the highest standards to ensure that U.S. assistance funds are used wisely, effectively, and for their intended purposes.

SIGAR notes the success of the UN shipments of U.S. currency in stabilizing the Afghan economy. This report highlights the significant challenges facing the economy of Afghanistan in the months following the Taliban takeover in August 2021, noting Afghanistan's gross domestic product shrank by \$5 billion, or about 25 percent, causing an economic shock and "wiping out in 10 months what had taken [the Afghan economy] 10 years to accumulate." As the report accurately documents, the international community was working to mitigate catastrophic humanitarian consequences and was able to avert the worst-case scenarios. It is important that this report underlines the tremendous harm of a potential reduction or cessation of the UN's shipments of U.S. currency.

The Department understands there are a number of factors that contribute to the instability of the Afghan economy: Taliban edicts restricting women's employment opportunities and access to education; high unemployment and underemployment; reputational risk associated with doing business in Afghanistan; low demand for goods and services; insufficient access to Afghan financial institutions; a complex and in certain cases opaque regulatory environment; the appreciation of the Afghan currency leading to trade deficits, etc. UN shipments of U.S. currency are not, and were never intended to be, a silver bullet for the panoply of Afghanistan's economic challenges. As the Department has stressed repeatedly to the Taliban, Taliban policies and edicts are the biggest obstacles to a functioning and stable Afghan economy.

The Department concurs with the World Bank's assessment that reducing UN currency shipments would result in a significant decline in Afghanistan's gross domestic product and, as SIGAR notes, reduce the ability of already stressed Afghan households to meet their basic needs. Such a reduction in household incomes could lead to the widespread adoption of harmful and drastic measures, which SIGAR has assessed could include "selling household assets, bodily organs, and daughters." The United States, in coordination with the international community, is using foreign assistance to help

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prevent Afghan families from having to resort to such extreme and negative coping strategies. Further economic hardship could also lead to conflict, mass population displacement, or other negative pressures on regional stability.

Regarding the specific assistance modality of direct cash assistance, the Department emphasizes SIGAR's findings recognizing the demonstrated need and value of the provision of direct cash assistance. As SIGAR notes, "providing direct cash assistance to women ensures they have access to cash to purchase what they and their households need, despite barriers caused by the Taliban policies that make it difficult to access cash" through the banking system. The Department concurs with SIGAR's findings that "[d]irect cash assistance is the most cost-effective" and in many circumstances "an efficient aid modality for Afghanistan."

The U.S. government maintains robust oversight measures to monitor the implementation of U.S. taxpayer-funded humanitarian assistance around the world, and Afghanistan is no exception. Any interference with, or diversion of U.S. government assistance is unacceptable. The Department appreciates SIGAR's acknowledgment that U.S. agencies and aid organizations have policies and procedures intended to prevent the misuse and diversion of direct cash assistance and other assistance modalities, as well as SIGAR's acknowledgement that "U.S. partners, such as the World Food Programme (WFP) and UN Children's Fund, suspended operations following evidence of continued Taliban attempts to divert or interfere with assistance." We require all U.S. government humanitarian partners to have safeguards in place to ensure assistance reaches those who need it. USG-funded partners also have independent controls and processes in place to vet and select those who receive direct cash assistance, ensuring that this assistance targets the most vulnerable individuals. Our partners must also adhere to State and USAID reporting requirements with respect to allegations of fraud, waste, or abuse.

We remain committed to providing critical, life-saving humanitarian assistance to the Afghan people. We will continue to monitor assistance programs and seek to mitigate the risk that U.S. assistance could benefit the Taliban or could be diverted to unintended recipients.

Sincerely,

*Adam West*

Adam West  
Acting Director  
Office of Afghanistan Affairs  
Bureau of South and Central Asian Affairs

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

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### MEMORANDUM

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

**FROM:** Joel Sandefur, USAID/Afghanistan Mission Director *Joel Sandefur*

**DATE:** June 25, 2024

**SUBJECT:** Management Comments to respond to the draft SIGAR audit report, "U.S. Currency Shipments to Afghanistan: U.S. Currency Has Reportedly Stabilized the Afghan Economy but Benefits the Taliban" (SIGAR E-20).

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The U.S. Agency for International Development (USAID) thanks SIGAR for the opportunity to provide comments/feedback on the subject draft report, which does not contain any recommendations for the Agency. USAID has no comments on the draft report.

## APPENDIX V - ACKNOWLEDGMENTS

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Adriel Harari, Senior Audit Manager

Julianna Barr, Analyst-in-Charge

Noah Clarke, Program Analyst

John Cafferty, Program Analyst

This evaluation was conducted  
under project code SIGAR E-020.

## 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.

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publicly released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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## SIGAR's Mission

Public Affairs Officer

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