



GAO

Accountability \* Integrity \* Reliability

---

United States General Accounting Office  
Washington, DC 20548

February 20, 2004

The Honorable Mitch McConnell  
Chairman  
The Honorable Patrick Leahy  
Ranking Minority Member  
Subcommittee on Foreign Operations  
Committee on Appropriations  
United States Senate

The Honorable Jim Kolbe  
Chairman  
The Honorable Nita M. Lowey  
Ranking Minority Member  
Subcommittee on Foreign Operations,  
Export Financing and Related Programs  
Committee on Appropriations  
House of Representatives

Subject: *Foreign Assistance: USAID and the Department of State Are Beginning to Implement Prohibition on Taxation of Aid*

In 2002, Congress learned that the Palestinian Authority had collected \$6.8 million<sup>1</sup> in taxes on U.S. humanitarian assistance meant for the people of the West Bank and Gaza and subsequently learned that some other foreign governments were also taxing U.S. assistance. U.S. Agency for International Development (USAID) officials estimate that at least several million dollars in taxes are collected annually on U.S. assistance programs, although some of this amount is reimbursed by recipient governments. This situation raised concerns in Congress that U.S. assistance funds for programs to help developing country populations were instead being diverted to the treasuries of foreign governments. In response to these concerns, Congress included a prohibition against such taxation in its Consolidated Appropriations Resolution for fiscal year 2003,<sup>2</sup> and provided for a 200 percent penalty for taxes levied but not reimbursed.<sup>3</sup> This legislation defines “taxes” and “taxation” as value added taxes (VAT) and customs duties imposed on commodities

---

<sup>1</sup>These taxes had been collected at least since 1998.

<sup>2</sup>Division E, Title V, § 579, Pub. L. No. 108-7 (2003).

<sup>3</sup>This prohibition applies only to funds appropriated in fiscal year 2003.

financed with U.S. assistance for programs for which funds are appropriated by the act.

This report responds to a requirement in that legislation that we report to the committees on appropriations concerning these provisions. In discussions with staff of the House Appropriations' Subcommittee on Foreign Operations, Export Financing and Related Programs, we agreed to determine (1) the extent to which USAID bilateral framework agreements or other arrangements include exemption from taxation and (2) the progress that the Department of State has made in developing and distributing guidance to implement the prohibition.

To accomplish these objectives, we reviewed U.S. government bilateral framework agreements with countries receiving USAID assistance, State Department guidance to implement the prohibition, and other relevant documentation and met with cognizant officials in USAID and State. As agreed with congressional staff, we did not review bilateral agreements that other U.S. government agencies, including State, have with recipient governments. Also, we were unable to identify the amount of taxes levied and reimbursed during fiscal year 2003<sup>4</sup> because State is still in the process of collecting this information.

## **Results in Brief**

Of the 90 countries or entities<sup>5</sup> to which USAID provided bilateral assistance in fiscal year 2003,<sup>6</sup> 77 have bilateral framework agreements<sup>7</sup> that include some type of prohibition on taxation, 6 have other agreements that include such prohibitions, and 7 do not have agreements that include such prohibitions. Of the 77 bilateral agreements that have some type of prohibition, 45 of them state that supplies, materials, equipment, or other property may be imported into or acquired within country free from any tariffs, customs duties, import taxes, and other taxes or similar charges. The other 32 agreements contain prohibitions against taxing commodities imported or introduced for use in assistance projects but do not address commodities purchased in-country. USAID has arrangements or agreements other than bilateral framework agreements with 6 countries and entities that include tax prohibitions. For example, regarding assistance to the West Bank and Gaza, USAID received a letter from the Palestinian Authority in March 2002 stating that it would not assess

---

<sup>4</sup>This applies to the period from February 20 (the date that the legislation was enacted) to September 30, 2003.

<sup>5</sup>USAID provides assistance to 2 entities that are not foreign governments. It provides assistance to Kosovo through the United Nations and to the West Bank and Gaza in coordination with the Palestinian Authority and the Israeli Government.

<sup>6</sup>See enclosure I for a list of the 90 countries and entities and the USAID assistance allocated to them for fiscal year 2003.

<sup>7</sup>Bilateral framework agreements are intended to identify the privileges and immunities to be provided to USAID personnel overseas, set forth USAID's policy that assistance should be exempt from host government taxes, and list other general terms and conditions for USAID assistance.

VAT for any U.S. assistance activities. In addition, imported items are exempt from customs duties through separate administrative procedures involving the Palestinian Authority and the Israeli Customs Department. Of the 7 countries without agreements that include the prohibition, 2 have bilateral framework agreements with USAID, and 5 do not. USAID officials noted that, although bilateral framework agreements are an important tool for establishing the tax-exempt status of U.S. assistance, USAID has additional tools to obtain tax exemptions in actual practice, such as including tax prohibitions in individual grant agreements. However, USAID officials told us they could not provide comprehensive information on the use and effectiveness of such tools because they currently have no mechanism for collecting such information from individual missions.

In response to the legislation's requirements, the State Department has developed guidance on implementing the prohibition on taxation of U.S. assistance and disseminated the guidance to all applicable offices and U.S. missions for implementation. For taxes charged in fiscal year 2003, State's guidance calls for the country to provide full reimbursement by January 31, 2004. If it does not, the government is to withhold 200 percent of the unreimbursed taxes assessed in fiscal year 2003 from that government's assistance allocation for fiscal year 2004. The guidance calls for State to collect in December 2003 preliminary estimates of taxes collected and reimbursed. As of mid-January 2004, State's Bureau of Resource Management had received only partial reports from the regional bureaus because some countries or programs had not yet provided the needed information. State officials noted that, of the reports received thus far, most countries or programs had reported that either no taxes had been charged or that relatively minor amounts (generally less than \$100,000) had been charged. Of the few exceptions that were higher, none approached the \$7 million that had been previously charged under the West Bank/Gaza program.<sup>8</sup> State officials also noted that the interim reporting deadlines were meant to provide preliminary information on the magnitude of the problem and to ensure that fiscal year 2004 funds that may be subject to the 200 percent penalty are not obligated for release to the central government. Final reports will provide the basis for actually imposing the 200 percent penalty, if applicable, and are due to the Bureau of Resource Management by May 17, 2004. State's guidance also contains suggested language for implementing the prohibition, which is to be included in new agreements and amendments to agreements that do not contain the prohibition.

## **Background**

USAID provided bilateral assistance estimated at more than \$5 billion for fiscal year 2003. A provision in the fiscal year 2003 Consolidated Appropriations Resolution forbids assistance under that act through any new bilateral agreement unless the agreement includes a provision stating that such assistance shall be exempt from taxation or that taxes collected shall be reimbursed. The act also provides that the

---

<sup>8</sup>The Palestinian Authority had refunded about \$6 million of this amount as of March 2002, according to USAID documentation.

Secretary of State shall expeditiously seek to negotiate amendments to existing bilateral agreements, as necessary, to conform to this requirement. If a country does not reimburse the United States for taxes it charged, a 200 percent penalty is to be withheld from the country or entity. Half of that amount may be reprogrammed consistent with the purposes for which such funds were originally appropriated. The other half of the funds were to be deposited in the General Fund of the Treasury by September 6, 2004, on the basis of certifications provided by the Secretary of State.<sup>9</sup>

### **USAID Bilateral Framework or Other Agreements with Most Aid Recipients Contain Some Prohibition on Taxation**

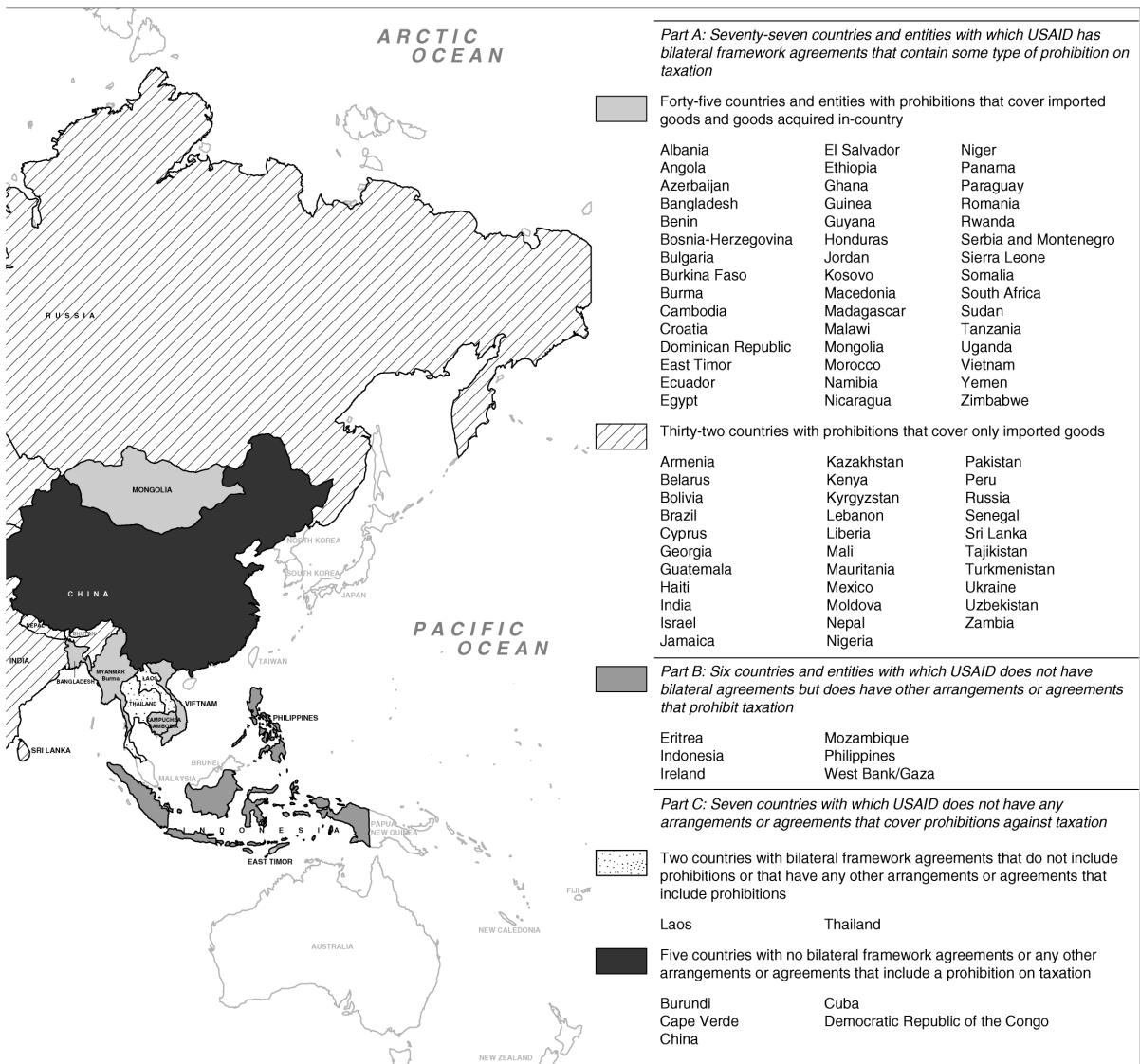
Of the 90 countries or entities to which USAID provided bilateral assistance in fiscal year 2003, 77 of them have bilateral framework agreements with USAID that include some type of prohibition on taxation, although the comprehensiveness of the prohibitions varies. Similarly, 6 have project implementing agreements or other agreements with varying degrees of tax prohibitions. Seven do not have agreements that include prohibitions on taxation. USAID officials said that, although bilateral framework agreements are an important tool for establishing tax-exempt status for U.S. assistance, USAID has additional tools for obtaining tax exemptions in actual practice. Figure 1 identifies the countries and entities with which USAID (1) has bilateral framework agreements that contain prohibitions against taxation of U.S. assistance, (2) has program implementing and other agreements that contain these prohibitions, and (3) does not have agreements that contain a prohibition.

---

<sup>9</sup>State Department officials said that the fiscal year 2004 Foreign Operations Appropriations Act allows an amount representing the 200 percent penalty on fiscal year 2003 assessments to be reprogrammed instead of returning half to the Treasury.

[This page is intentionally left blank]





## Comprehensiveness of Tax Prohibition Provisions Varies in 77 Bilateral Framework Agreements

For the 77 countries and entities with bilateral framework agreements that include some sort of prohibition on taxation of assistance, the comprehensiveness of the prohibition provisions varies, with the most recent agreements generally containing the most comprehensive language. The most inclusive language states that supplies, materials, equipment, and other property imported into or acquired in-country by the U.S. government are exempt from any taxes on ownership or use of property. This language also generally states that the import, export, purchase, use, or disposition of any such property in connection with any assistance program shall be exempt from any tariffs, customs duties, import taxes, and other taxes or similar charges in that country. This language covers commodities imported into the recipient country and those purchased locally and is in 45<sup>10</sup> of the 77 agreements with tax prohibitions. Included among the 45 agreements with the most comprehensive language are all 7 agreements implemented within the last 5 years (since 1998).

The remaining 32 agreements prohibit taxation of items imported or introduced into the host country for use in assistance projects but do not specifically discuss items acquired in-country, which is one basis for assessing VAT. These agreements prohibit customs duties or import taxes on any materials and equipment introduced into the country, but the agreements do not specifically include items acquired in the host country. Twenty-one of these agreements were signed between 1950 and 1971, while the other 11, all with countries of the former Soviet Union, were developed in the 1990s.

## Six Other Arrangements Contain Prohibitions on Taxing Assistance

USAID and six countries or entities have entered into arrangements other than bilateral framework agreements that provide some exemption from taxation. For example, although USAID has no bilateral framework agreement with the Palestinian Authority for assistance to the West Bank and Gaza, it did receive a letter from the authority in March 2002 granting U.S. assistance projects VAT-free status. In addition, USAID-financed goods are exempted from customs duties through a separate administrative procedure involving the Palestinian Authority and the Israeli Customs Department, according to USAID officials.<sup>11</sup> USAID documentation indicated that as of March 2002, the Palestinian Authority had reimbursed about \$6 million in taxes it had collected. The estimated fiscal year 2003 USAID allocation for the West Bank and Gaza program was \$75 million.

---

<sup>10</sup>Six of these agreements, all with countries in the Latin American and Caribbean region, use the generic term “property” when referring to items eligible for tax exemption, rather than specifying supplies, materials, and equipment.

<sup>11</sup>To obtain this exemption, contractors or grantees must submit a letter identifying the products to be imported to the Palestinian Ministry of Finance, which then forwards a request for tax exemption to the Ministry of Civil Affairs for approval and coordination with the Israeli Customs Department.



USAID stated that although it has no bilateral framework agreements with Eritrea and Mozambique, it has grant agreements covering specific assistance projects in both countries that include exemption from all taxes, including customs duties and VAT. USAID has been attempting to negotiate bilateral framework agreements with both governments since the 1990s. USAID expects to conclude an agreement with Mozambique containing the appropriate tax and duty exemptions soon. Extensive negotiations had been conducted with Eritrea, but the parties had not been able to reach agreement on an acceptable document as of November 2003.

USAID has bilateral framework agreements with the Philippines and Indonesia that do not include prohibitions on taxation of U.S. assistance. However, it has grant and other agreements covering specific projects in these countries that include exemptions from any taxation or fees on commodity procurement transactions financed under these agreements, including the import, export, purchase, use, or disposition of any equipment or property. USAID also stated that it provides assistance to Ireland through cash transfers to the International Fund for Ireland—a tax-exempt organization.

#### Seven Countries Do Not Have Agreements with USAID Prohibiting Taxation of U.S. Assistance

Seven countries that receive USAID assistance do not have agreements with the agency that include prohibitions on taxation. Two of these countries—Laos and Thailand—have bilateral framework agreements with USAID, but these agreements, do not contain tax prohibition provisions. USAID stated that currently it has no plans to renegotiate these bilateral agreements since program activities in the two countries are not conducted by USAID under government-to-government agreements, but rather are carried out directly by nongovernmental organizations.

Regarding the other five countries, agency officials stated that they do not have agreements with Cuba or China since assistance to these two countries is also provided through private organizations outside of official government channels. USAID does not have a bilateral agreement with the Democratic Republic of the Congo because assistance to that country had been prohibited for many years until June 2003. According to USAID officials, since 1996 Burundi has been subject to the military coup sanction of the Foreign Assistance Appropriations Act, which limits the amount of assistance that USAID can provide. USAID stated that it might be willing to initiate negotiations with the governments of the Democratic Republic of the Congo and Burundi when it becomes feasible to resume normal government-to-government assistance programs. Finally, USAID does not have a bilateral framework agreement with Cape Verde, where the agency has no presence. The only assistance it currently provides to Cape Verde, according to USAID, is Public Law 480 food assistance that is funded under another statute and therefore is not subject to the tax prohibition.

## USAID Has Other Tools for Obtaining Tax Exemption

USAID officials said that, although bilateral framework agreements are an important tool for establishing tax-exempt status for U.S. assistance, USAID has additional tools for obtaining tax exemptions. For example, USAID inserts tax-exemption clauses into grant agreements with host governments for individual projects. This mechanism can be used in cases where bilateral agreements do not exist or where bilateral framework agreements exist but do not contain prohibitions on taxation. It can also be used in cases where bilateral framework agreements containing tax prohibitions exist but where the relevant language is not sufficiently comprehensive.

According to USAID officials, in cases where bilateral framework agreements include tax prohibitions but do not specifically exempt items acquired in the host country, USAID has interpreted such agreements to implicitly include such an exemption. The officials added that such less inclusive language had generally not been an obstacle to obtaining tax exemption in actual practice because USAID had been able to persuade recipient governments to accept its interpretation of the agreements. However, USAID officials told us they could not provide comprehensive information on the use and effectiveness of this approach or that of inserting tax prohibitions into individual grant agreements, because the situation varies at each overseas mission and a mechanism for collecting such information from individual missions does not currently exist.

USAID officials told us that, in some countries, using these other tools to obtain tax exemptions could be preferable to either negotiating a new bilateral framework agreement or renegotiating an existing agreement. For example, the U.S. Ambassador may want to avoid putting pressure on a foreign government to renegotiate a bilateral framework agreement that is politically controversial in that country. In other cases, the Ambassador may want to avoid initiating negotiations that would provide an opening for the foreign government to raise other issues that could have a negative impact on U.S. foreign policy objectives.

## **State Department Has Issued Guidance for Implementing the Prohibition**

As required by legislation, the State Department developed guidance on implementing the prohibition on taxation and disseminated it in September 2003 to all applicable offices and U.S. missions for implementation. The guidance calls for collecting in December 2003 preliminary estimates of taxes collected and reimbursements owed and for reporting final information by May 17, 2004. As of mid-January 2004, State's Bureau of Resource Management had received only partial reports from the regional bureaus because some countries or programs had not yet provided the needed information. State officials noted that, of the reports received thus far, most countries and programs had reported that either no or relatively minor amounts of taxes had been collected. State officials said that the interim estimates were intended primarily to (1) identify countries that may be subject to withholding of assistance and (2) ensure that the corresponding funds are not obligated from the fiscal year 2004 appropriations. The information provided in the final reports will form the basis for actually imposing the 200 percent penalty and deducting it from

each applicable country program allocation for 2004. State's guidance also contains suggested language for new assistance agreements and for amending existing agreements to ensure that they include a prohibition on taxation, as required.

#### State Department's Guidance Provides Direction to Agencies and Overseas Missions for Penalizing Taxing Governments and Preventing Future Taxation

State's guidance to overseas and Washington missions and bureaus outlines the steps needed to prevent countries from imposing VAT and customs taxes on commodities purchased with U.S. foreign assistance funds. Commodities (defined in the guidance as any material, article, supplies, goods, or equipment) subject to this provision are those that were acquired with fiscal year 2003 or prior year foreign assistance funds and on which taxes were assessed from February 20, 2003 (the date that the legislation was enacted) through September 30, 2003.

Consistent with the de minimis exception provided for in the legislation, State has defined this limit as \$500 or more. Thus, the guidance states that those providing reports are to include information on all VAT and customs taxes charged on commodity transactions valued at \$500 or more.

The guidance further restates the legislative requirements that if taxes are charged, the country should provide full reimbursement, and that funding for foreign assistance be withheld from the taxing government's 2004 allocations unless there is full reimbursement. In these cases, the U.S. government is to withhold from fiscal year 2004 foreign assistance funds to that country, 200 percent of the amount of unreimbursed taxes assessed in fiscal year 2003. State officials said that, consistent with the statute, such penalties would only be applied to funds allocated directly to central governments and that they would not be deducted from funds that are directed to nongovernmental and private voluntary organizations, or other organizations that implement projects. These officials added that if sufficient funding is not available to deduct the full amount from programs directed to individual central governments, the full amount of the penalty would not be deducted for that country.

The guidance also specifies what assistance should and should not be considered as covered by the prohibition on taxation for purposes of complying with the legislation. Assistance covered by the prohibition is further divided into two categories—embassy-reported program assistance and special Washington reporting office program assistance. See enclosure II for a list of all embassy and special Washington reporting office programs to be included for the purpose of complying with this legislation and examples of specific assistance that is not to be reported under the legislation.

#### Embassy Reports Will Provide Basis for Collecting Reimbursements and Imposing Penalties

Embassies are required to collect and report information concerning any VAT and customs duties charged by a foreign country or entity on commodity transactions

during fiscal year 2003 valued at \$500 or more. Embassies are also required to collect information on reimbursements. According to the guidance, taxation reports are to reflect all VAT or customs taxes assessed during the same period on commodities acquired with foreign assistance funds for program activities that received any fiscal year 2003 funding, regardless of whether the taxed commodities were actually purchased with fiscal year 2003 funds. The guidance also states that embassies and State regional bureaus were to urge the taxing foreign country, no later than December 15, 2003, to provide complete reimbursement by January 31, 2004.

The guidance calls for embassies to provide interim estimates in December 2003 on taxes levied and reimbursed. As of mid-January 2004, State's Bureau of Resource Management had received only partial reports from the regional bureaus because some countries or programs had not yet provided the needed information. State officials noted that, of the reports received thus far, most countries and programs had reported that no taxes had been charged. Where taxes had been charged, they appeared to be relatively minor, with a few exceptions. For most countries, the total was less than \$100,000. Although a few were higher, State officials said that the amounts were far less than the \$7 million that had previously been charged under the West Bank/Gaza program. State would not provide more detailed information on the interim estimates reported to date because they view such information as preliminary in nature and only for State's internal use.

State officials said that although some offices experienced delays in collecting and reporting the estimated tax and reimbursement information, the December time frame for providing interim estimates was meant to provide preliminary information on the magnitude of the problem. According to State officials, the final reports—due May 17, 2004—will form the basis for actually imposing the 200 percent penalty and deducting it from each applicable country program for 2004. The interim estimates therefore allow fiscal year 2004 programs to move forward at least in part until the host government can provide reimbursement and the final data can be collected.

The second report will update and finalize the information contained in the interim report. Time frames for submitting the final reports are:

- April 16, 2004—Contractors, grantees, and U.S. government agencies and entities administering or implementing foreign assistance programs are required to submit their final report to embassies on VAT and customs duties assessed against all commodity transactions valued at \$500 or more, from February 20 through September 30, 2003, as well as any reimbursements received from the host government.
- May 3, 2004—Embassies and special Washington reporting offices are to provide final consolidated information to the relevant regional bureaus.
- May 17, 2004—Regional bureaus are to provide consolidated reports to State's Bureau of Resource Management on the net tax amount (taxes minus reimbursements) by country and account. Decisions to withhold funds will be based on these final net amounts.

## Process for Collecting Reimbursements Varies by Country

The process for obtaining reimbursement for VAT and customs duties levied by recipient governments varies from country to country, according to the guidance. Embassies and program implementers are to work out the details of collecting reimbursement on the basis of mechanisms already existing at post. If no reimbursement mechanism exists, embassies are encouraged to establish one with the host government since the State Department expects this requirement to continue beyond fiscal year 2003. State officials said that early indications are that embassy, contractor, nongovernmental organization, and other officials are actively working with recipient governments to ensure that reimbursements are received before penalties are imposed.

Program implementing agencies, offices, and recipients are encouraged to work closely with foreign government counterparts to seek reimbursement on a regular basis where possible. To the extent that reimbursements are still being processed and are not received within the time frame necessary to be captured in the final report, the proper amount must be withheld in fiscal year 2004, even though reimbursement would be forthcoming at a later date.

## New Bilateral Framework Agreements and Amendments to Existing Agreements Must Include a Prohibition on Taxation

According to State's guidance, U.S. government agencies administering assistance programs are required to include provisions in any new bilateral framework agreements stating that the purchase of commodities funded by U.S. foreign assistance shall be exempt from any VAT, and that the import or entry of such commodities shall be exempt from any customs duties. Otherwise, the recipient government must reimburse the U.S. government for any such VAT and customs duties charged. No assistance is to be provided under a new bilateral agreement unless it contains such a provision.

The guidance also states that U.S. government agencies should expeditiously negotiate amendments, as necessary, to existing agreements to conform to the tax-exemption and reimbursement requirements of the legislation. The guidance adds that where existing agreements already include a provision for tax exemption, this may suffice if assistance has generally not been taxed or if any taxes charged have been reimbursed.

## **Agency Comments**

We provided USAID and State with a draft copy of this report for review and comment. USAID provided written comments on the draft (see enc. III). USAID stated that it generally concurred with the report's findings. Both USAID and State provided technical comments that we have incorporated as appropriate.

## Scope and Methodology

To determine the extent to which USAID bilateral framework agreements include exemption from taxation and the extent of USAID's effort to ensure that all agreements include such an exemption, we

- analyzed existing agreements to determine whether they included the prohibition and, if so, whether the prohibition covered the types of taxes identified in the legislation;
- reviewed USAID's guidance to its missions implementing the legislation's reporting and tax reimbursement collection requirements; and
- met with cognizant officials at USAID headquarters to discuss efforts USAID is making to ensure that its bilateral agreements comply with the legislation.

To identify the State Department's progress in developing and implementing guidance to identify taxes levied on U.S. assistance, and to ensure that such amounts are reimbursed to the U.S. government or that an appropriate penalty is levied against unreimbursed taxes, we

- analyzed the implementing guidance to determine whether it addressed all of the legislative requirements and
- met with cognizant department officials to determine the status of initial reporting efforts, including whether the required information was being collected and reported.

Our review was conducted from July through December 2003 in accordance with generally accepted government auditing standards.

-----

We are sending copies of this report to the appropriate congressional committees, the Secretary of State, and the Administrator of USAID. We will also make copies available to others upon request. In addition, this report will be available at no charge on our Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-4128 or Michael Courts, Assistant Director, at (202) 512-8980. Other key contributors to this report were Janey Cohen and Edward Kennedy.

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive, flowing style with a large initial "J" and "F".

Jess T. Ford, Director  
International Affairs and Trade

Enclosure I

**USAID Estimated Assistance Allocations, by Country, for Fiscal Year 2003**

<b>Country and entity, by region</b>	<b>Total allocated</b>
	(Dollars in millions)
<b>Africa</b>	
Angola	\$16.2
Benin	18.3
Burkina Faso	10.1
Burundi	4.0
Cape Verde	3.5
Democratic Republic of the Congo	23.5
Eritrea	11.9
Ethiopia	77.3
Ghana	53.7
Guinea	26.4
Kenya	58.8
Liberia	6.2
Madagascar	29.0
Malawi	37.2
Mali	34.6
Mauritania	3.5
Mozambique	62.4
Namibia	7.0
Niger	6.9
Nigeria	65.2
Rwanda	29.2
Senegal	28.4
Sierra Leone	3.9
Somalia	2.9
South Africa	61.4
Sudan	22.3
Tanzania	32.9
Uganda	78.8
Zambia	50.3
Zimbabwe	16.1
<b>Subtotal</b>	<b>\$881.9</b>
<b>Asia and Near East</b>	
<u>Asia</u>	
Bangladesh	\$110.5
Burma	6.5
Cambodia	39.5
China	5.0
East Timor	19.0
India	191.5
Indonesia	141.5
Laos	2.0
Mongolia	12.0
Nepal	37.7
Pakistan	250.0
Philippines	71.2
Sri Lanka	10.1
Thailand	3.3
Vietnam	12.5



## Enclosure I

<u>Near East</u>	
Egypt	615.0
Israel	800.0
Jordan	250.0
Lebanon	32.5
Morocco	6.7
West Bank/Gaza	75.0
Yemen	10.0
<b>Subtotal</b>	<b>\$2,701.5</b>
<b>Europe and Eurasia</b>	
<u>Europe</u>	
Albania	\$28.0
Bosnia-Herzegovina	50.0
Bulgaria	28.0
Croatia	30.0
Cyprus	15.0
Ireland	29.0
Kosovo	85.0
Macedonia	50.0
Romania	29.0
Serbia and Montenegro	135.0
<u>Eurasia</u>	
Armenia	70.0
Azerbaijan	46.0
Belarus	9.5
Georgia	87.0
Kazakhstan	43.0
Kyrgyzstan	36.0
Moldova	32.5
Russia	148.0
Tajikistan	22.5
Turkmenistan	7.0
Ukraine	155.0
Uzbekistan	31.5
<b>Subtotal</b>	<b>\$1,167.0</b>
<b>Latin America and Caribbean</b>	
Bolivia	\$62.3
Brazil	18.5
Cuba	6.0
Dominican Republic	22.9
Ecuador	29.4
El Salvador	33.7
Guatemala	52.2
Guyana	3.2
Haiti	47.4
Honduras	40.3
Jamaica	16.8
Mexico	30.4
Nicaragua	37.7
Panama	10.5

Enclosure I

Paraguay	10.1
Peru	78.2
<b>Subtotal</b>	<b>\$499.6</b>
<b>Total – 90 countries and entities</b>	<b>\$5,250.0</b>

Source: USAID.

**Embassy and Special Washington Reporting Office Programs  
to be Included in Tax Collection and Reimbursement Reporting  
Requirement, and Programs That Are Not to Be Addressed**

**Part A: Embassy Programs That Are to Be Included in Tax  
Collection and Reimbursement Reporting Requirement**

- Economic Support Fund;
- Nonproliferation, Anti-terrorism, Demining, and Related Programs  
Export Control and Related Border Security Assistance programs;
- Development Assistance;
- Child Survival and Health;
- International Disaster Assistance;
- Transition Initiatives;
- Support for East European Democracy;
- Assistance for the Independent States,
- Andean Counterdrug Initiative; and
- International Narcotics Control and Law Enforcement.

Embassies will also be responsible for reporting on programs funded and managed by the Peace Corps and any Treasury Technical Assistance programs or other independent programs.

**Part B: Special Washington Reporting Office Programs That Are to Be  
Included in Tax Collection and Reimbursement Reporting Requirement**

Embassies do not have responsibility for programs managed largely by Washington offices (called special Washington reporting offices). These offices are responsible for developing tax and reimbursement information for the following programs:

- Migration and Refugees Assistance and Emergency Refugee and Migration Assistance (provided other than as contributions to international organizations);
- International Military Education and Training;
- Foreign Military Financing Used for Foreign Military Sales and Direct Commercial Contract Sales;
- Peacekeeping Operations;
- Anti-Terrorism Assistance;
- Terrorist Interdiction Program;
- Nonproliferation and Disarmament Fund;
- Small Arms/Light Weapons Destruction;
- Humanitarian Demining;
- Nonproliferation, Anti-terrorism, Demining, and Related Programs/Science Centers;

## Enclosure II

- Human Rights and Democracy Economic Support Fund, Support for European Democracy, and Assistance for the Independent States programs administered by the Department of State's Bureau of Democracy, Human Rights, and Labor;
- State's Bureau of Oceans and International Environmental Scientific Affairs Initiatives programs funded with Economic Support Funds;
- U.S. Trade and Development Agency programs;
- Trafficking in Persons programs; and
- Selected Support for European Democracy and Assistance for the Independent States programs implemented by non-State/USAID agencies, based on embassy discussion with Army Corps of Engineers/Europe.

### **Part C: Assistance That Is Not to Be Included Under the Tax Collection and Reimbursement Reporting Requirement**

The guidance identifies specific assistance that is not to be reported on under this legislation:

- Funds not for specific goods such as cash transfers and nonproject assistance grants to, or debt relief for, a foreign government.
- Funds that consist of a general contribution to a public international organization that typically funds the organization's general budget, or special trust fund that does not identify specific goods and services for funding.
- Funds that consist of loan guarantees (e.g., Development Credit Authority agreements) or are with intermediate credit institutions for services only.
- Funds that consist of assistance that is not funded by annual foreign operations, export financing, and related programs appropriations acts. Such nonforeign assistance appropriations act assistance includes, for example, Department of Energy nuclear cities programs.
- The State Department may consider not imposing the withholding penalty on taxes imposed on urgent disaster assistance used for relief and rehabilitation (versus reconstruction).

**Comments from the U.S. Agency for International Development**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

February 12, 2004

Jess T. Ford  
Director, International Affairs and Trade  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Ford:

I am pleased to provide the U.S. Agency for International Development's (USAID's) formal response on the draft GAO report entitled "USAID and State Beginning to Implement Prohibition on Taxation of Aid" (February 2004).

We have no significant problems with the draft report and have appreciated very much the opportunity to work with Mr. Kennedy and Mr. Courts in their preparation of the report. We have informally provided to them comments of a technical nature, including on some of the data presented in the report, and would hope that these comments will be considered in preparation of the final report.

Again, thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

A handwritten signature in black ink, appearing to read "John Marshall".

John Marshall  
Assistant Administrator  
Bureau for Management

1300 PENNSYLVANIA AVENUE, N.W.  
WASHINGTON, D.C. 20523

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

## GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site ([www.gao.gov](http://www.gao.gov)) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone:   Voice:   (202) 512-6000  
                                  TDD:    (202) 512-2537  
                                  Fax:     (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548