

The Fiscal Year 2004 Performance and Accountability Report

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USAID at a Glance

- Authorities: Foreign Assistance Act of 1961. Statutory Agency
- Budget \$14.2 Billion in FY 2004 appropriations
- Workforce: 2,227 U.S. Direct Hire (USDH); Total 8,117 (Including Foreign Service Nationals and Personal Services Contractors)*
- Location: Four Regions - Africa; Asia and Near East; Latin America & Caribbean; and Europe & Eurasia
- Strategic Goal Areas: Regional Stability; Counterterrorism; International Crime and Drugs; Democracy and Human Rights; Economic Prosperity and Security; Social and Environmental Issues; Humanitarian Response; and Management and Organizational Excellence.



USAID
FROM THE AMERICAN PEOPLE

PERFORMANCE AND
ACCOUNTABILITY REPORT

FISCAL YEAR 2004



ON THE FRONT LINES

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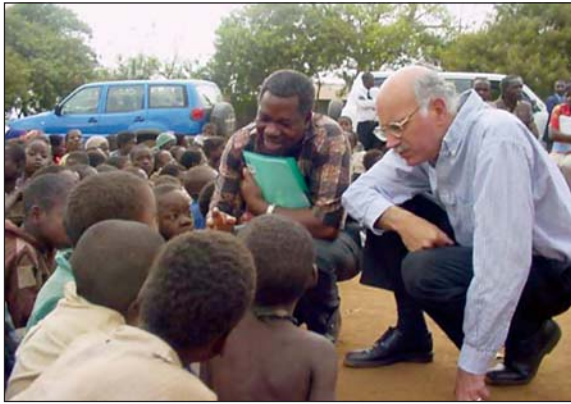
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A MESSAGE FROM THE USAID ADMINISTRATOR

“IRAQ. AFGHANISTAN. SUDAN. LIBERIA. HAITI. THESE WERE THE MAJOR NEWS STORIES THIS YEAR, AND USAID WAS RIGHT THERE... ON THE FRONT LINES.”



I am pleased to present our *Performance and Accountability Report (PAR)* for Fiscal Year 2004, which is designed to inform the Congress, the Administration and the public about how the principal U.S. government agency involved in foreign assistance has responded to the major crises in the developing world, such as reconstruction in Iraq and Afghanistan, averting famine in Ethiopia, and helping hurricane victims in Haiti.

The thousands of USAID employees working in Washington and around the world have been **on the front lines** in some of the world's most dangerous places, fighting malaria and AIDS as well as building schools and clinics as the dust of conflict settles. What is clear is that USAID and “development” are playing a critical role, along with diplomacy and defense, in addressing our nation's most pressing national security demands.

As President Bush has said, fighting disease and hunger remains a goal of the United States, and the U.S. Agency for International Development has continued to work hard over the past year to help the poor nations of the world improve the standard of living for their people.

As the Administrator of the nation's foreign assistance agency, I am extremely proud of our many major accomplishments during this Administration.

Our efforts this year focused on improving management so that the way we do business is consistent with the most efficient and modern systems and enables us to get the greatest impact for the budget we are given. In the area of management reforms, we have successfully realigned USAID strategy and resources to make the Agency and its programs more performance-based and focused on economic growth as the engine of poverty reduction. We continued to pursue Global Development Alliances to encourage private firms and foundations operating abroad to participate in foreign assistance projects with USAID. This has resulted in over 200 alliances that have leveraged over \$2 billion in private funding, building schools, protecting Central Africa's forests, and training ex-combatants to return to farming. We also established the USAID Office of Faith-based and Community Initiatives to broaden the base of our partners.

In major foreign policy and development crises, we have rushed experts, food, medicine and other help to prevent loss of life and help restore the ability of communities to function. In Iraq, more than 100 staffers and hundreds of Iraqi and other contractors are repairing schools, clinics, electric power plants, water and sewage systems and roads. Other Iraq projects have improved the Finance Ministry's and banking sector operations, and democracy projects have supported elections and local, regional and national governing councils.

The October 9 Presidential election in Afghanistan, won by Hamid Karzai, was heavily supported by USAID. We have also built schools and clinics, rebuilt the ring road linking Kabul to Kandahar, and assisted the health and other ministries to rebuild shattered and neglected facilities, train staff and revive the elements of a modern state.

In Darfur, Sudan, we have led the world in responding rapidly to the attacks on ethnic African villagers that have driven about two million people from their homes, and left 70,000 dead since March 2004. Food, medicine, shelter and protection through monitoring have prevented the toll from rising even higher. In Ethiopia, rapid deliveries of assistance have prevented massive loss of life as harvests failed.

We have also developed new strategies and operational capacities to deal with fragile, failed, and recovering states and instituted programs in conflict mitigation and in human rights protection in conflicts. The Agency has also been instrumental in implementing the President's HIV/AIDS Initiative. Our "Last Mile" initiative is designed to promote the use of information and communications technology as a development tool in remote regions of the developing world.

USAID has developed and is now implementing a communications strategy to better explain U.S. foreign aid programs. This includes the assignment of Development Information Officers (DIOs) to all 80 USAID field missions, and a new curriculum to train DIOs in techniques to use in telling the USAID story. Additionally, our communications messaging is being standardized worldwide and **FRONTLINES**, the Agency's monthly newspaper, has been reformatted and modernized, and now boasts circulation of 35,000.

The dedicated men and women of USAID deserve great credit for their devotion to the achievements of the Agency's mission and goals. Yet, there remain many challenges. Many countries are struggling in their transition from authoritarianism, controlled economies, and closed markets. A number of the new democracies remain fragile. The HIV/AIDS pandemic is spreading, killing millions, threatening children orphaned from the disease with perennial poverty and hunger, and destabilizing governments. Famine continues to stalk entire regions, particularly in Africa. U.S. foreign assistance, and USAID, must move in new directions.

USAID will turn its attention toward failed and failing states, which the President's *National Security Strategy* recognizes as a source of our nation's most significant security threats—international terrorism and proliferation of weapons of mass destruction. The people of the United States are rightly proud of our nation's humanitarian contribution. Yet, to prevent human suffering and protect our national security, we must devise bold, new approaches to arrest the slide of weak states toward failure.

USAID's Business Transformation Executive Committee (BTEC) continues to modernize business systems and automate procurement and acquisition within the Agency. We have installed the first unified financial management system in Agency history, and have completed the first round of system deployments to the field. We have also launched the implementation phase of the Procurement System Improvement Project (PSIP), which brings to USAID a single, Agency-wide application to handle acquisition, assistance, and financial accounting needs. For the second year in a row, independent auditors have given our financial statements

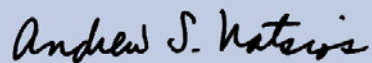
an unqualified ("clean") opinion. We have made every effort to verify the accuracy and ensure the completeness of the financial and performance data presented in this report. In the few instances where information has not been provided, we give specific reasons why.

We completed the first year of the Development readiness Initiative (DRI), which is actively recruiting staff through several hiring mechanisms, and preliminary activities to conduct the first comprehensive workforce analysis in the Agency's history has begun.

Despite financial management improvements to date, USAID is still not substantially compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996. The primary deficiency is that USAID's Mission Accounting and Control System (MACS), a feeder system to the core financial system, Phoenix, does not support a general ledger. Substantial compliance with the FFMIA will be achieved when Phoenix is fully deployed to the field by April 2006.

In summary, as of September 30, 2004, the management accountability and control systems of the U.S. Agency for International Development provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses and the material nonconformance of the financial management system noted within this report. This statement is based on the results of an Agency-wide management control assessment and input from senior officials. In addition, I hereby certify that the financial and performance data in the FY 2004 PAR are reliable and complete. A detailed discussion of the material inadequacies and actions that USAID is taking to resolve them is provided in this report.

Finally, this *Performance and Accountability Report* contains the Agency's performance information as required by the Government Performance and Results Act; our audited consolidated financial statements, as required by the Chief Financial Officers Act and the Government Management Reform Act; a report on management decisions and actions in response to audit reports issued by the Agency's Inspector General, as required by the Inspector General Act; and a report on our material weaknesses, as required by the Federal Managers' Financial Integrity Act.



Andrew S. Natsios
Administrator
U.S. Agency for International Development

November 15, 2004

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



The *Performance and Accountability Report* for Fiscal Year 2004 is the Agency's principal publication and report to the President and the American people on our stewardship and management of the public funds to which we have been entrusted. In addition to financial performance, this Report also covers policy and program performance – how well the Agency implemented its goals and objectives.

I am pleased to report that, for the second year in a row, USAID received an unqualified or “clean” opinion from our Inspector General (IG) on all five of the Agency's principal financial statements. In addition, we have met accelerated financial and performance reporting deadlines. With these accomplishments, the American people can have confidence that the financial and performance information presented here is timely, accurate, and reliable. At the same time, we achieved a number of other key goals:

- ◆ As part of USAID's commitment to implement a unified, integrated financial management system that substantially complies with system requirements under the Federal Financial Management Improvement Act (FFMIA), we successfully implemented Phoenix, the new financial management system, in five overseas missions – Egypt, Ghana, Peru, Colombia, and Nigeria – on August 10, 2004. This project has stayed within budget and has rolled out with “few hitches.” The Agency plans to deploy Phoenix to other field missions throughout the world by the end of April, 2006.
- ◆ USAID successfully assigned all strategic objectives to the performance goals set forth in the new joint State-USAID Strategic Plan. The Agency's performance reporting platform for FY 2004, as reflected in this report, uses the new planning framework and goal structure. FY 2003 targets developed within the previous framework have been reorganized to conform to the new framework.
- ◆ The Agency continues to make progress in implementing the Government Performance and Results Act (GPRA). We continue to evaluate and improve our performance indicators, targets, and reporting system. We are in the midst of introducing reforms that will more directly link budgeting to specific operational goals.
- ◆ With respect to the President's Management Agenda (PMA), USAID has maintained a “green” progress score on the scorecard for Improving Financial Management. To get to a “green” status score, USAID needs to have systems and processes institutionalized that will provide accurate and timely data that can be used by managers to answer critical business and management questions. In addition to the continued rollout of the Phoenix system, approximately 20 new and enhanced reports have been developed and deployed to provide users with complete, accurate, and timely financial information needed for decision-making purposes.

- ◆ The Agency has closed one of three longstanding Federal Managers' Financial Integrity Act (FMFIA) material weaknesses, computer security, leaving just two remaining weaknesses - Primary Accounting System and Information Resources Management Processes – both of which we expect to close by the end of FY 2005 with the deployment of Phoenix overseas and the full implementation of tactically- oriented information technology project management oversight and practices.
- ◆ USAID took appropriate actions to close three of three material auditor-reported internal control weaknesses identified in the FY 2003 Government Management Reform Act (GMRA) audit.

The Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for FY 2004 contains one new material weakness – USAID's Process for Reviewing and Reporting its Quarterly Accounts Payable. The audit report also includes several audit recommendations and reportable conditions. We have accepted responsibility for addressing these issues and expect to take final actions by the end of FY 2005. We foresee no major impediments to correcting these weaknesses. Additional details regarding the weaknesses and our specific plans for addressing the audit recommendations can be found in the Management's Discussion and Analysis and Financial Sections of this Report. Actions taken regarding issues from the FY 2003 audit are also included in these sections.

While we are pleased with our accomplishments in FY 2004, we will continue to improve all aspects of performance and strive to maintain higher financial management standards in FY 2005. We will also continue to promote effective management controls and focus on implementation of the President's Management Agenda and other financial management initiatives. As CFO, I remain committed to continuing to improve the quality of USAID's financial management systems by deploying an integrated accounting system to our overseas missions. I am confident that we will resolve any impediments that could affect the IG's ability to issue an unqualified audit opinion next year, and we will continue to meet accelerated financial reporting deadlines.



Lisa D. Fiely
Chief Financial Officer

November 15, 2004

ABOUT THIS REPORT

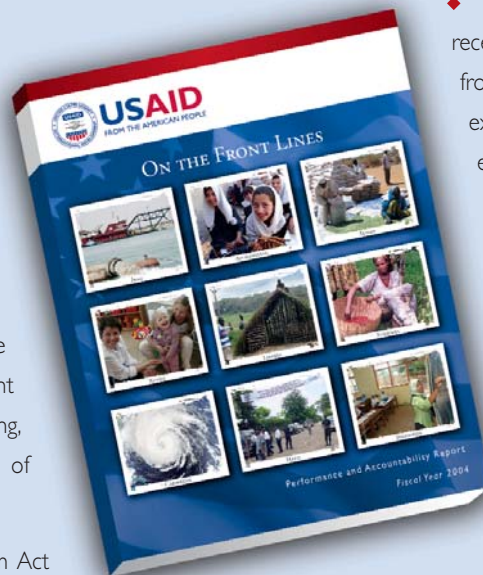
PURPOSE OF REPORT

The U.S. Agency for International Development's (USAID) Performance and Accountability Report (PAR) for fiscal year (FY) 2004 provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Agency relative to its mission and stewardship of the resources entrusted to it. This PAR satisfies the reporting requirements of the following legislation:

- ◆ Inspector General (IG) Act of 1978 (Amended) – requires information on management actions in response to IG audits.
- ◆ Federal Managers' Financial Integrity Act of 1982 – (FMFIA) requires a report on the status of management controls and the most serious problems.
- ◆ Chief Financial Officers (CFO) Act of 1990 – provides for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and the Congress in the financing, management, and evaluation of federal programs.
- ◆ Government Management Reform Act of 1994 – requires agency audited financial statements.
- ◆ Government Performance and Results Act of 1993 (GPRA) – requires an annual report of performance results achieved against all agency goals established.

- ◆ Federal Financial Management Improvement Act of 1996 (FFMIA) – requires an assessment of financial systems for adherence to government-wide requirements.
- ◆ Reports Consolidation Act of 2000 – authorized federal agencies to consolidate various reports in order to provide performance, financial, and related information in a more meaningful and useful format.

FY 2004 USAID PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS



- ◆ For the second year in a row, the Agency received an unqualified (“clean”) audit opinion from our independent auditors, attesting to our exemplary stewardship of the public funds entrusted to us.
- ◆ FY 2004 is the first year in which our PAR is structured around a streamlined and cohesive set of Strategic Objectives, Strategic Goals, and Performance Goals that were established jointly between the Department of State and USAID in the Joint State-USAID Strategic Plan for FY 2004 – 2009.

- ◆ For the first time, the Agency is presenting provisional or preliminary performance results information for the fiscal reporting year just ended (FY 2004), rather than prior year results data as we have been forced to do in the past, due to the data lag associated with our Annual Report performance management system prepared by each of our operating units. This information has been collected from and vetted by our Regional, Pillar, and Functional Bureaus.

- ◆ Also for the first time, USAID will supplement the preliminary FY 2004 performance results information contained in this report with a FY 2004 USAID PAR Addendum (Addendum), which will be available in March 2005. The Addendum will contain all final, verified, and validated performance results against our Goals, Indicators, and Targets for FY 2004, and will be made available in hard-copy format and electronically. For more information on the Addendum, please contact USAID's Office of Strategic and Performance Planning at (202) 712-0285.

HOW THIS REPORT IS ORGANIZED

■ MESSAGE FROM THE ADMINISTRATOR, USAID

The Administrator's message includes an assessment of whether financial and performance data in the report is reliable and complete, and a statement of assurance as required by the FMFIA indicating whether management controls are in place and financial systems conform with government-wide standards.

■ MESSAGE FROM CHIEF FINANCIAL OFFICER (CFO)

The CFO's message describes progress and challenges pertaining to the Agency's financial and performance management, including information on the Agency's compliance controls program under FMFIA and financial management systems under the FFMA.

■ MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire report, similar to an Executive Summary included with a private company's annual report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2004; a brief analysis of financial performance; a brief description of

systems, controls, and legal compliance; and information on the Agency's progress in implementing the President's Management Agenda (PMA) and addressing the management challenges identified by the Office of Inspector General (OIG). The MD&A is supported and supplemented by detailed information contained in the Performance Section, Financial Section and Appendices.

■ PERFORMANCE SECTION

This section contains the annual program performance information required by the GPRA, and, combined with the MD&A and Appendices, includes all of the required elements of an annual program performance report as specified in the Office of Management and Budget (OMB) Circular A-11, *Preparing, Submitting and Executing the Budget*. The results are presented by Strategic Goal, with a chapter covering each of USAID's eight Strategic Goals from the Joint Department of State-USAID Strategic Plan for FY 2004 – 2009. For more information on this section, please contact USAID's Office of Strategic and Performance Planning at (202) 712-0285.

■ FINANCIAL SECTION

This section contains the Agency's financial statements and related Independent Auditor's Report; and other Agency-specific statutorily required reports pertaining to the Agency's financial management. For more information on this section, please contact the office of the Chief Financial Officer at (202) 712-1980.

■ APPENDICES

- ◆ USAID Staff Listings by Type
- ◆ GDA Secretariat Partnerships
- ◆ Data Estimation Methodology
- ◆ Glossary of Terms
- ◆ Abbreviations and Acronyms

Ten Major Achievements – Business Transformation FY 2001 – FY 2004

- 1 In FY 2003, received first ever clean audit opinion on Agency financial statements** that demonstrates transparent and accountable financial practices. In FY 2004, USAID received its second consecutive clean audit opinion on all five of its Principal Financial Statements.
- 2 Achieved over 25% improvement in employee satisfaction with administrative services** as a result of management reforms.
- 3 Launched comprehensive human capital strategy and Development Readiness Initiative** to identify and close critical skill gaps, revitalize the workforce and enhance Agency performance.
- 4 Deploying a new financial management system and new procurement software overseas** to enhance decision-making and enable fast and accountable transactions.
- 5 Allocated funds to countries with the most need and the highest commitment** through strategic budgeting. Re-allocated \$30 million to higher performing, higher need programs after an internal program performance assessment.
- 6 Saving over \$5 million in taxpayers funds** through joint licensing agreements as a result of the Joint Financial Management System collaboration with State Department.
- 7 Enhancing knowledge management systems and methods** to capture and share development expertise and new ideas.
- 8 Saved \$836,000 in taxpayer funds through on-line training**, enabling Agency employees to complete nearly 2,000 Web-based courses to enhance job performance. Trained nearly 1,000 employees on Executive and Senior Leadership to enhance career development opportunities.
- 9 Better aligning staff with foreign policy priorities** with a new overseas staffing template – 21 positions moving to Asia and Near East programs.
- 10 Streamlined and automated the Agency's recruitment process** reducing the hiring cycle from 229 days to less than 45 days from job announcement to employee selection.

Ten Major Achievements – USAID in Iraq

- 1 Prevented humanitarian emergency**
Delivered 575,000 metric tons of wheat, reforming public distribution system.
- 2 Created local and city governments**
at more than 600 communities.
- 3 Restarted schools**
Fixed 2,500 schools; textbooks to 8.7 million students, supplies to 3.3 million; trained 33,000 teachers.
- 4 Vaccinated 3 million children**
Equipping 600 primary care health clinics and rehabilitated more than 60 others.
- 5 Providing safe water**
Expanding Baghdad water purification plant and rehabilitating 27 water and sewage plants.
- 6 Re-opened deep water port**
Dredged Umm Qasr; repaired equipment. Today it handles 140,000 tons of cargo a month.
- 7 Restoring electric service**
Repaired eight major power plants with CPA, adding 2,100 megawatts by summer 2004.
- 8 Helped CPA launch new currency**
and re-establish Central Bank.
- 9 Reviving the Marshlands**
Reflooding revives ancient way of life.
- 10 Established Good Governance**
Budgeting, accounting systems add transparency, accountability to ministries.

Ten Major Achievements – Afghanistan Reborn with International Help

- 1 10 million Afghans registered to vote**
Despite the threat, most Afghans are registered to vote in the upcoming elections. More than 40% are women.
- 2 Five million children vaccinated**
Rehabilitated 72 clinics and hospitals.
- 3 School enrollment explodes**
Enrollment rises from 900,000 to 5 million, as girls attend classes for the first time in a decade.
- 4 Reconstruction accelerates**
More than \$8 billion in international aid pledged. Kabul-Kandahar road completed, linking the country's two biggest cities.
- 5 3.7 million refugees return**
After years in Pakistani and Iranian camps, 100,000 Afghan refugees return each month, the largest voluntary return in modern history.
- 6 Private construction booming**
Markets, homes, and mosques rise next to rubble from past conflict. For the first time in years, Kabul enjoys a building boom.
- 7 New Afghan currency introduced**
The new Afghani, along with economic and financial reforms, is creating confidence as businesses invest and expand.
- 8 Agriculture output nearly doubled**
In 2002, new seed varieties, fertilizer, and restored irrigation systems helped farmers raise output 80%.
- 9 Afghan National Army and National Police created**
Some 14,000 ANA troops and 25,000 police have been trained and deployed around country.
- 10 Regional militias disarming**
Thousands of fighters who fought the Soviets and the Taliban are giving up their weapons and getting training for civilian jobs.

Management's Discussion and Analysis

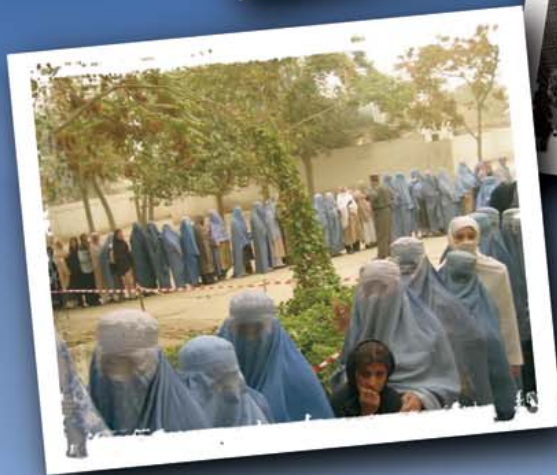


Photo above shows the women's voting line at the Kabul polling station during the historic election in Afghanistan on October 9, 2004.



MISSION AND VALUES



“AMERICANS NOW UNDERSTAND THAT SECURITY IN THEIR HOMELAND GREATLY DEPENDS ON SECURITY, FREEDOM, AND OPPORTUNITY BEYOND THE COUNTRY’S BORDERS. DEVELOPMENT IS NOW AS ESSENTIAL TO U.S. NATIONAL SECURITY AS ARE DIPLOMACY AND DEFENSE. ONLY THROUGH BUILDING GOOD POLICIES, STABLE INSTITUTIONS, AND LOCAL CAPACITY WILL DEVELOPING COUNTRIES CREATE THEIR OWN PROSPERITY AND ASSUME RESPONSIBILITY FOR THEIR OWN SECURITY.”

– Andrew S. Natsios, Administrator

The U. S. Agency for International Development (USAID) plays a vital role in promoting U.S. national security, foreign policy, and the war on terrorism by addressing one of the root causes of violence today: poverty fueled by a lack of economic opportunity. USAID is the principal U.S. agency providing foreign assistance to developing and transitional countries, where the majority of the world’s poor reside.

As stated in the President’s *National Security Strategy*, USAID’s work in development joins diplomacy and defense as one of the 3 key pieces of the nation’s foreign policy apparatus. USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and enhancing democracy in developing countries. These efforts to improve the lives of millions of people worldwide represent U.S. values and advance U.S. interests in peace and prosperity.

MISSION

CREATE A MORE SECURE, DEMOCRATIC, AND PROSPEROUS WORLD FOR THE BENEFIT OF THE AMERICAN PEOPLE AND THE INTERNATIONAL COMMUNITY.

VALUES

LOYALTY: *Commitment to the United States and the American people.*

CHARACTER: *Maintenance of high ethical standards and integrity.*

SERVICE: *Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.*

ACCOUNTABILITY: *Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.*

COMMUNITY: *Dedication to teamwork, professionalism, and the customer perspective.*

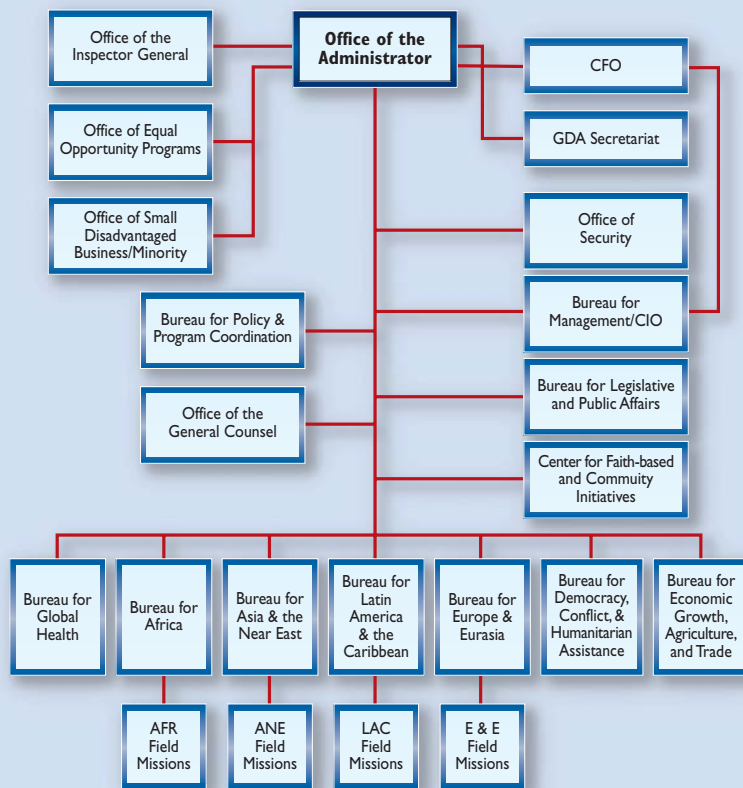
OUR ORGANIZATION

ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

At its headquarters in Washington, D.C., USAID's mission is carried out through four regional bureaus (Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia). The regional bureaus are supported by technical (or pillar) bureaus that provide expertise in democracy promotion, governance issues, humanitarian assistance, economic growth, agriculture, and health; and management bureaus which provide policy guidance, program

management, and administrative support. Another entity, the Global Development Alliance, operates across the four regional bureaus to support the development of public/private alliances. USAID also includes five offices that support the Agency's security, business, compliance, and diversity initiatives. It also maintains a Center for Faith-Based and Community Initiatives.

USAID ORGANIZATION CHART

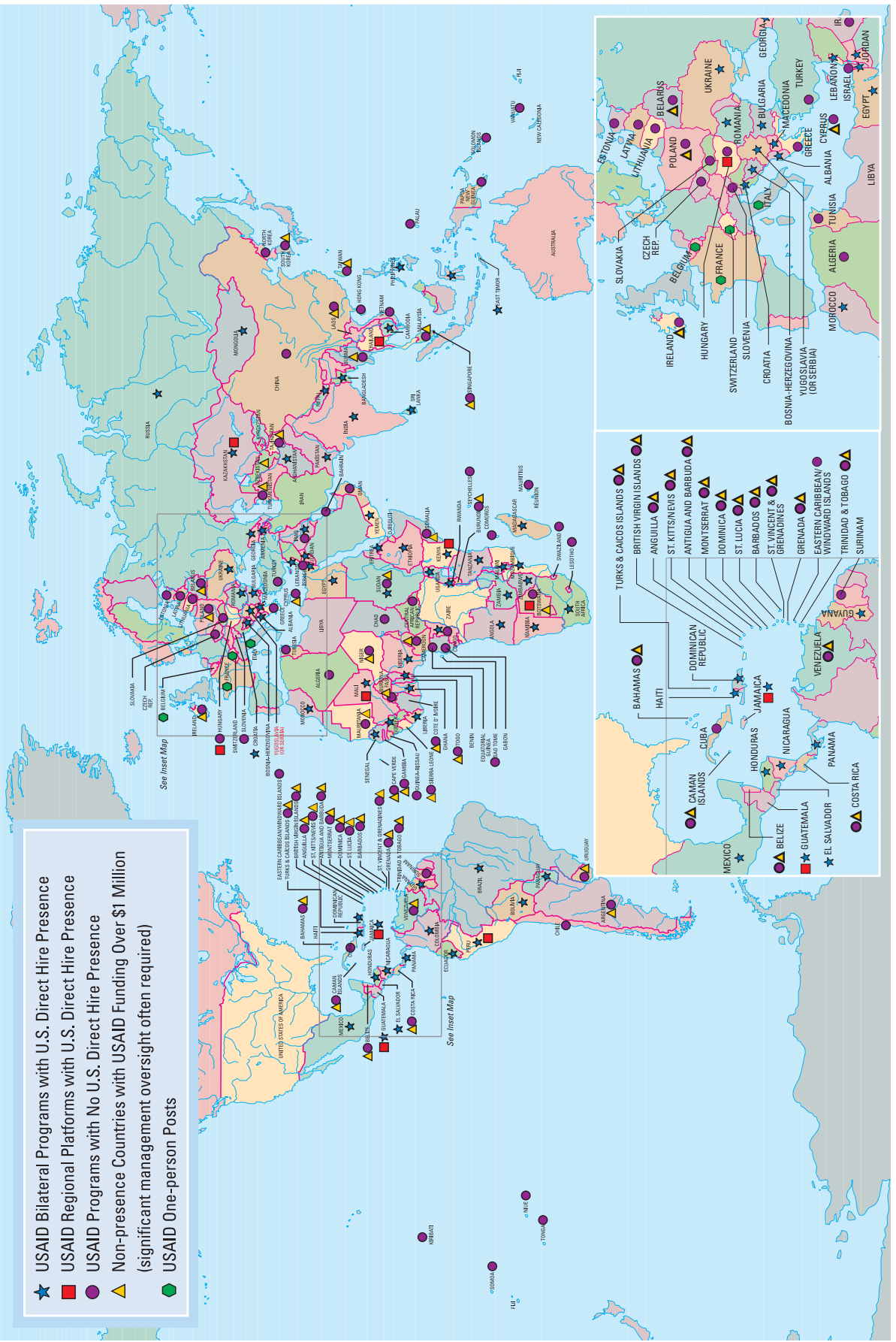


ORGANIZATIONAL STRUCTURE AT MISSIONS AND OTHER LOCATIONS

Through its four regional bureaus, USAID maintains field missions in more than 70 countries and programs in more than 150 countries. Most missions are country specific, but several are centers for regional activities. Missions range in size from large missions of up to 40 American Direct Hires, through mid-sized missions of four to seven, to small missions

of one to three. Large missions are stand-alone entities providing most services; medium missions provide core program, administrative, and technical services; and small missions mainly provide only program management services. To assist with donor coordination, USAID has representatives located in Brussels, Paris, Tokyo, Rome, and Geneva.

USAID Locations



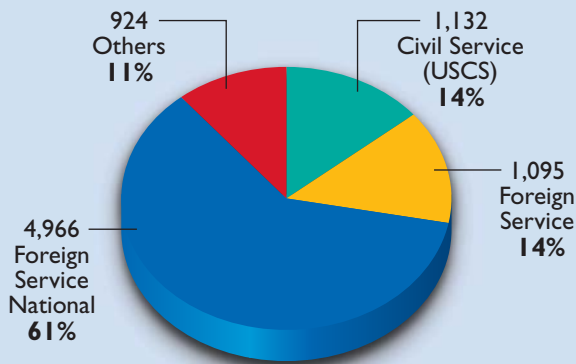
“Non-presence” is defined as a project with no USAID full-time hires in country

USAID'S PEOPLE

USAID's workforce consists of more than 8,100 employees in the Foreign Service and Civil Service, those serving as Foreign Service Nationals and those in other employee categories, including employees detailed from other

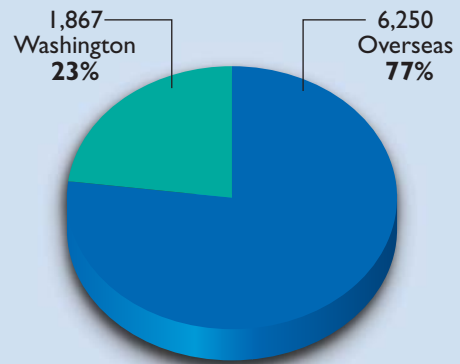
U.S. government agencies, personal service contractors, and fellows. As the table indicates, Foreign Service Nationals make up 61 percent of USAID's workforce, and 77 percent of the total workforce serving overseas.

**Workforce Composition:
Full-time Employees
as of September 30, 2004**



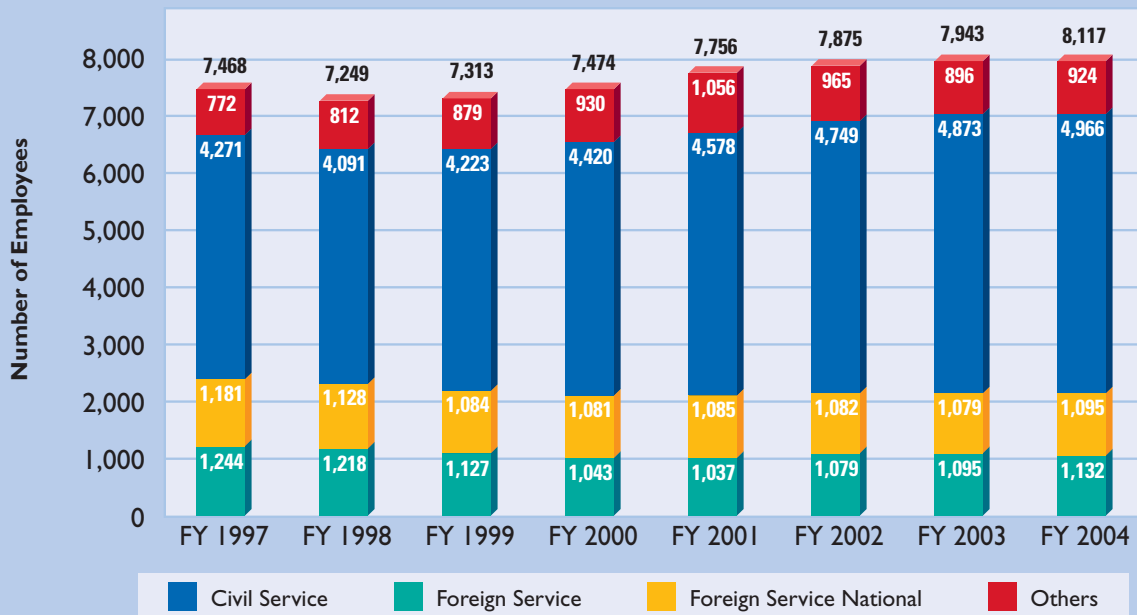
Total Full-time Employees: 8,117

**Workforce Location:
Full-time Employees
as of September 30, 2004**



Total Full-time Employees: 8,117

Summary of Full-time Permanent Employees



USAID AND DEPARTMENT OF STATE WORKING TOGETHER – EFFECTIVELY AND EFFICIENTLY



“I’M A GREAT BELIEVER IN TEAM EFFORTS. THAT’S WHY WE HAVE A STATE/USAID JOINT STRATEGIC PLAN. THAT’S WHY WE HAVE A JOINT MANAGEMENT COUNCIL. THE JOINT STRATEGIC PLAN LAYS OUT OUR FOREIGN POLICY AND DEVELOPMENT ASSISTANCE PRIORITIES IN THE COMING YEARS AND BY DOING SO IT PROMOTES AN ORGANIZATIONAL CULTURE IN BOTH AGENCIES THAT VALUES EFFECTIVENESS AND ACCOUNTABILITY.”

— Colin Powell, Secretary of State

With the issuance of the Joint State-USAID FY (fiscal year) 2004-2009 Strategic Plan and subsequent FY 2006 Joint Performance Plan, USAID and the Department of State are realizing joint objectives based on the foundation of required coordination and integration that best serves the American public. Together, USAID and the Department of State collaborate to ensure focus on both short-term diplomatic issues as well as longer-term institutional and capacity building efforts.

To achieve the shared goals and priorities, USAID and the Department are in the process of replicating the best practice models of field coordination and decision-making, and establishing a more institutionalized process and structure for all key joint policy and program issues. To accomplish this task, joint policy and management councils comprising senior USAID and Department officials have been established.

The Joint Policy Council is ensuring that development programs are fully aligned with foreign policy goals. An Executive Committee and twelve working groups, led by senior State Department and USAID officials, are addressing ways to improve coordination on key policy and program issues. The working groups cover six world regions and the

following functional areas: Democracy, Human Rights, and Justice; Economic Growth; Humanitarian Response; Social and Environmental Issues; Security and Regional Stability; and Public Diplomacy. There are also three cross-cutting issue working groups: Foreign Assistance Effectiveness, Outreach to the Muslim World, and Law Enforcement Issues.

The Joint Management Council is overseeing efforts to create more integrated structures to advance the goals of both institutions, support employees, and reduce costs. An Executive Management Committee and eight senior-level working groups are implementing joint business plans that are addressing the following issues: resource management, management services, management processes, information and communication technology, e-Government (e-Gov), facilities, security, and human capital. Examples of specific accomplishments to date include synchronizing budget and planning cycles (including information technology (IT) capital planning), providing mutual Intranet access, integrating shared administrative support services in the field, increasing coordination with the non-governmental organization (NGO) community on security training, and implementing a pilot program for cross training and assignments.

PERFORMANCE SUMMARY AND HIGHLIGHTS

“WE HAVE COMMON DUTIES: TO PROTECT OUR PEOPLES, TO CONFRONT DISEASE AND HUNGER AND POVERTY IN TROUBLED REGIONS OF THE WORLD...TO PROMOTE DEVELOPMENT AND PROGRESS...”



ACROSS THE EARTH, AMERICA IS FEEDING THE HUNGRY. MORE THAN 60 PERCENT OF INTERNATIONAL EMERGENCY FOOD AID COMES AS A GIFT OF THE PEOPLE OF THE UNITED STATES.... MILLIONS ARE FACING GREAT AFFLICTION, BUT WITH OUR HELP, THEY WILL NOT FACE IT ALONE. AMERICA HAS A SPECIAL CALLING TO COME TO THEIR AID AND WE WILL DO SO WITH THE COMPASSION AND GENEROSITY THAT HAVE ALWAYS DEFINED THE UNITED STATES.”

– President George W. Bush

USAID finds itself at a most critical time in the history of international development and foreign assistance. September 11, 2001, served to accelerate awareness that development is an essential element of national security. Widespread and persistent world poverty, the growing menace of global terrorism and transnational crime, the integration of global communications and markets, and the surge of HIV/AIDS and other infectious diseases heighten the priority for international development. Weak and failed states, poverty, and complex emergencies now occupy center stage among the nation's foreign policy and national security issues.

With its roots in the Marshall Plan, USAID is uniquely placed on the front lines of the U.S. government's presence around the world. The programs of USAID in economic growth, democracy, agriculture, health, and education make a difference to the world's poor and to U.S. national security. USAID programs in over 150 countries, including Iraq, Afghanistan and Sudan, help bring democracy and free markets to strategic areas of the world, while simultaneously demonstrating the compassion and generosity of the American people. USAID programs present a win-win situation for the United States, providing strong examples of the use of “soft power” while assisting many nations in meeting their own development needs and priorities.

In September 2002, President Bush unveiled his National Security Strategy to address the unprecedented challenges facing the nation. It outlined the new direction in foreign policy that is required to respond effectively to what occurred the previous September. Among the tools to be engaged in the new strategy is an emphasis on “development.” This new role requires USAID to acknowledge that its mission is now broader than the traditional humanitarian and development response. The Agency is increasingly challenged to address the crisis of failed states, transnational problems, and geo-strategic issues.

In both Iraq and Afghanistan, USAID has stood on the front lines of the most important battles in the new war. The outside world has little understanding of the devastation—physical and psychological—that these societies suffered from decades of predatory and tyrannical governments and political fanaticism. USAID initiatives are helping the people of Iraq and Afghanistan reclaim their societies and together are laying the groundwork for their countries' rebirth.

The reconstruction efforts in Iraq are critical, and remain a central priority of the Agency. The achievements are significant, especially in light of the security situation and the desperate and ongoing efforts of some to disrupt the progress. USAID is committed to the President's goal of seeing democratic governments come to Afghanistan and Iraq. It is a historic commitment that is rivaled only by the Marshall Plan, to which the Agency traces its origins.



“WE’VE HAD AN INCREDIBLE INCREASE IN FOREIGN ASSISTANCE, AND THAT’S EXTREMELY IMPORTANT. WE’RE GOING TO CONTINUE TO SEE THAT DEVELOPMENT ASSISTANCE IS ONE OF OUR THREE DS: DIPLOMACY, DEVELOPMENT, AND DEFENSE

*-Condoleezza Rice
National Security Advisor*

Conflict and failed states provide opportunistic environments in which terrorists can operate. Regimes that are closed politically and economically foment a sense of hopelessness and multiply the numbers of aggrieved who become easy recruits to the terrorist cause. USAID’s mission is to shore up the democratic forces of society and to foster the economic reforms that are the most effective antidote to the terrorist threat and appeal. The President, the Department of State, and others understand that this is not going to happen overnight and that USAID’s contributions are necessary but not sufficient alone, a fact clearly pointed out in the President’s National Strategy for Combating Terrorism. The war on terror will be a

long one, as the President reminds us, and it will take both resolve and long-term commitment.

USAID’s rising profile in our foreign policy initiatives can be measured in budgetary terms. The commitment to the Agency has been substantial and growing as we administer funds from a number of Foreign Affairs accounts. In FY 2004, for example, the Agency administered nearly \$14.2 billion portfolio (including supplemental funds for Iraq), which is up from \$7.8 billion in FY 2001. The Agency is proud of this vote of confidence and anxious to make good on our daunting responsibilities.

MAJOR INITIATIVE IN IRAQ

“TODAY, AS IRAQIS JOIN THE FREE PEOPLE OF THE WORLD, WE MARK A TURNING POINT FOR THE MIDDLE EAST AND A CRUCIAL TIME FOR HUMAN LIBERTY... WHATEVER THEIR PAST VIEWS, EVERY NATION NOW HAS AN INTEREST IN A FREE, SUCCESSFUL, STABLE IRAQ.”

-President George W. Bush

March 19, 2004

USAID led a massive relief and reconstruction effort in Iraq over the last year, providing about \$2.17 billion in assistance to address infrastructure, healthcare, education, governance, the economy, and other issues throughout the country as it strives to establish order and democracy. The rebuilding effort is the largest American foreign aid program since the Marshall Plan, and the Agency has been actively collaborating with Iraq's interim government to restore crucial services and shape institutions to foster short- and long-term development.

“Our mission will be to help the sovereign government and people of Iraq take control of their own affairs and rebuild their country,” John Negroponte, U.S. Ambassador to Iraq, told USAID in a recent question and answer.

Members of a USAID disaster team were on the ground even before the fighting subsided in the spring of 2003, and the Agency has been present at the forefront of the country's reconstruction ever since, addressing the many sectors and institutions that had fallen into decline under Saddam Hussein's government. Even as an ongoing insurgency throws up obstacles to the rebuilding effort, Agency staff, contractors, NGO partners, and Iraqi nationals persevere in delivering assistance under dangerous conditions.

The substantial neglect the country suffered under Saddam Hussein requires a comprehensive program encompassing a variety of sectors, such as infrastructure, health, education, economic development, governance, human rights, humanitarian assistance and food security, telecommunications, and the environment.



As a result of these wide-ranging efforts, 14.5 million people will now have access to safe water and sanitation, and more than three million children have been vaccinated. More than 2,000 schools have been renovated, and 8.7 million textbooks have been printed and distributed. Small and large cities alike will have equitable access to electrical power; and more than 140,000 phone lines and international communication capabilities have been restored.

Over 77,000 public works jobs were created through the National Employment Program, and thousands of loans, worth between \$5,000 and \$25,000, were provided to micro-enterprises and small businesses. Work on airports, seaports, bridges, and roads are ongoing, improving the flow of goods and services, shore up security, and link the country's various regions to promote greater unity.

These are just a fraction of the numerous activities that are transforming the country.

A February 2004 poll by Oxford Research International reported that 70 percent of Iraqis said their lives were now “good,” while only 19 percent said their lives were “bad”; 71 percent also said they expect things to improve in the future. USAID will continue to partner with Iraq's interim government in order to meet that expectation for an open, effective new government.

A USAID publication highlighting emergency relief and reconstruction aid delivered to Iraq during the 12 months since the fall of Saddam Hussein can be accessed by following this link:

<http://www.usaid.gov/iraq/ayeariniraq.html> ■

MAJOR INITIATIVE IN AFGHANISTAN

As USAID Administrator Andrew Natsios said in recent testimony before Congress, “The reconstruction process in war-ravaged Afghanistan combines two bodies of theory and practice that are not usually analytically linked: international humanitarianism and the global war on terror... Humanitarianism, reconstruction projects, and counter-terrorism programs are likely to be co-joined frequently in the coming decade; the challenge is how to make the mixture effective.”

USAID's work on the frontlines has turned around a long-suffering country and helped it chart a new course toward stability and self-sufficiency.

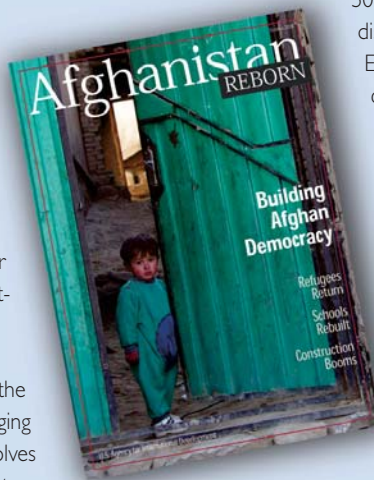
Even as the reconstruction effort provides traditional assistance in sectors such as food aid and humanitarian relief, education, and infrastructure, much of the Agency's work in the country also represents an innovative strategy linking development and security concerns. The rebuilding operation incorporates programs that simultaneously meet goals related to development, humanitarian relief, and counter-terrorism.

A major example of this interdisciplinary approach is the Kabul-to-Kandahar highway, a 300-mile road linking the country's two major cities that was reconstructed over the last fiscal year. This key passageway not only will provide better access to markets, health clinics, and schools, but also will make it more difficult for terrorists to threaten the control of the post-Taliban central government.

The Agency's work in the country on both the development and security fronts, including managing more than \$1 billion in assistance in FY 2004, involves considerable breadth and depth in nine sectors: agriculture, economy, education, governance, health, infrastructure, media, women, and the ring road connecting major cities. The multitude of programs encompasses activities as diverse as bakeries that provide bread to the urban poor; agriculture programs to improve wheat yields, constitutional and judicial commissions, rehabilitation of health clinics and hospitals, and development of an independent media.

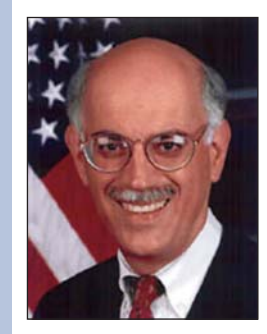
Results indicating the success of this multi-pronged approach are already forthcoming. A major humanitarian relief effort, which began even before the September 11 attacks when pre-famine indicators caught the Agency's attention, sponsored the vaccination of 4.2 million children and prevented an estimated 20,000 deaths. As part of a robust effort to restore governance and public services, 1,000 new staff people were hired to serve in the 18 ministries that have been resuscitated. Economic development and reforms in agriculture and other areas sparked 30 percent growth in the economy in 2003, and an estimated 25 percent in 2004. An effort to build 502 schools, train 50,000 teachers, and print and distribute 30 million textbooks is well underway. Each of the nation's 33 provinces has a women's center – just one part of an effort to address the specific challenges faced by Afghan women as a result of their struggle under the Taliban.

Administrator Natsios best characterized the Agency's accomplishments in Afghanistan during that same testimony before Congress when he said, “... the pace and balance of the current reconstruction effort has successfully moved us to a point in the rebuilding of Afghanistan that many would not dared dream of just two years ago.”



A new USAID publication highlights progress in the rebuilding of Afghanistan since the fall of the Taliban in 2001, which can be accessed by following this link: http://www.usaid.gov/locations/asia_near_east/afghanistan/afghanistanreborn.html ■

“USAID IS REORIENTING ITS APPROACH TO MORE TRADITIONAL DEVELOPING COUNTRY PROGRAMS. WE ARE COMMITTED TO SUPPORTING TRANSFORMATIONAL DEVELOPMENT, WHICH NOT ONLY RAISES LIVING STANDARDS AND REDUCES POVERTY, BUT ALSO AIMS TO TRANSFORM COUNTRIES THROUGH FAR-REACHING, FUNDAMENTAL CHANGES IN INSTITUTIONAL CAPACITY, HUMAN CAPACITY, AND ECONOMIC STRUCTURE. THE PRIMARY DETERMINANT OF PROGRESS IN TRANSFORMATIONAL DEVELOPMENT IS POLITICAL WILL BY A COUNTRY'S LEADERSHIP, DEMONSTRATED BY RULING JUSTLY, PROMOTING ECONOMIC FREEDOM, AND MAKING SOUND INVESTMENTS IN PEOPLE. IF COMMITMENT DOES NOT EXIST IN A COUNTRY, USAID WILL REDIRECT ITS RESOURCES TO HELP CREATE A MORE CONDUCTIVE ENVIRONMENT FOR REFORM, OR MOVE ITS TRANSFORMATIONAL DEVELOPMENT RESOURCES TO WHERE THERE IS SUCH COMMITMENT.”



– Administrator Andrew S. Natsios

U.S. FOREIGN AID: MEETING THE CHALLENGES OF THE 21ST CENTURY

The new international challenges that now face the United States have prompted the most thorough reassessment of the country's development mission since the end of the Second World War. As part of this reassessment, USAID has embraced five core operational goals in addition to the Joint State-Aid Strategic Goals discussed in this report.

- ◆ Supporting transformational development
- ◆ Strengthening fragile states and reconstructing failed states
- ◆ Supporting U.S. geo-strategic interests
- ◆ Addressing transnational problems
- ◆ Providing humanitarian relief in crisis countries

Each of these goals is vitally relevant to combating terrorism and strengthening American security at home and abroad.

SUPPORTING TRANSFORMATIONAL DEVELOPMENT. In the developing world, USAID supports far-reaching, fundamental changes in institutions of governance; human services, such as health and education; and economic growth. Through this assistance, capacity is built for a country to sustain its own progress. While these efforts have long been justified in terms of U.S. generosity, they are now appreciated as investments in a stable, secure, and interdependent world.

STRENGTHENING FAILED AND FRAGILE STATES. The President's National Security Strategy wisely recognizes the growing global risks of failing states: "The events of September 11, 2001 taught

us that weak states...can pose as great a danger to our national interests as strong states... poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders." The failure of states such as the Democratic Republic of Congo, Afghanistan, Lebanon, Bosnia, Somalia, and Liberia had repercussions far beyond their own regions. USAID is dealing with the consequences today. There is, perhaps, no more urgent matter, no more difficult and intractable set of problems facing USAID's portfolio than that of fragile states.

SUPPORTING U.S. GEO-STRATEGIC INTERESTS. Aid is a potent leveraging instrument for keeping countries allied with U.S. policy, while they win their own battles against terrorism. The tasks today are broader and more demanding than just winning the allegiance of key leaders. For example, while it is vital that the U.S. government helps keep Pakistan allied with the United States in the war on terrorism, the United States must also help Pakistanis move toward a more stable, prosperous, and democratic society. USAID's support for reform of Pakistan's educational system and political institutions is critical.

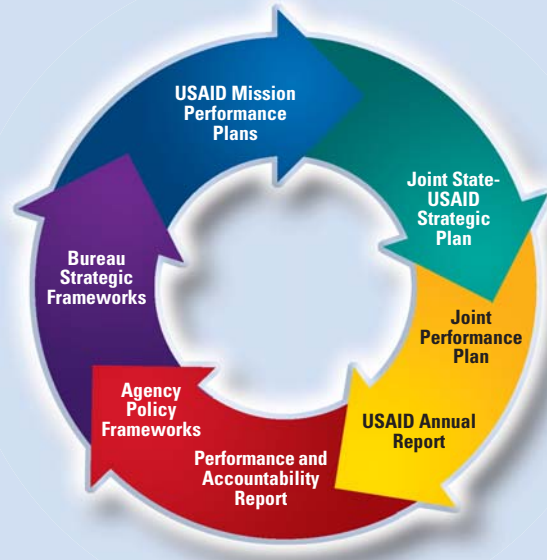
ADDRESSING TRANSNATIONAL PROBLEMS. Global and transnational issues are those where progress depends on collective effort and cooperation among countries. Examples include HIV/AIDS and other infectious diseases; international trade agreements; and criminal activities, such as trafficking in persons and narcotics. USAID will continue to play a leading role on these issues, assisting countries to address these problems that could otherwise bring danger and instability.

PROVIDING HUMANITARIAN RELIEF. The United States has always been a leader in humanitarian aid and disaster relief. It is the largest contributor of food aid that has fed the hungry and combated famine around the world. This is a moral imperative that has not changed. As an Agency, however, USAID must do a better job of combining such assistance with longer-term development goals. USAID is also making sure that the recipients are aware of help and U.S. generosity. This is particularly important in areas of the world subjected to anti-Americanism and terrorist propaganda.

**PERFORMANCE MANAGEMENT –
A LEADERSHIP PRIORITY**

USAID uses strategic management processes to ensure that its program planning, management, and reporting capabilities:

- ◆ effectively support U.S. foreign policy
- ◆ are able to respond quickly to today's rapidly evolving global environment
- ◆ achieve and report on desired results.



USAID and the State Department issued an historic Joint State-USAID Strategic Plan for FY 2004-2009. This Joint State-USAID Strategic Plan utilizes a strategic goal framework that captures and articulates the agencies' highest priority goals and objectives focusing on policy, program, and management direction. Complementing the Joint Plan's framework, USAID is developing an Agency Policy Framework directed at "operationalizing" the Joint State-USAID Strategic Plan and the many policy and strategic directives guiding Agency program operations. USAID's performance management planning processes are driven by senior leadership direction and coordination as described below:

USAID PERFORMANCE MANAGEMENT PLANNING PROCESS	
The Planning Process	USAID
Step #1 Agency Plans	Using the planning and performance information contained in the Bureau Program and Budget Submission (BPBS), together with other related information available at the national and international levels, USAID and the Department of State develop a coordinated Joint Performance Budget (Plan). This budget focuses on the highest priority issues facing both agencies, and is consistent with the Joint State-USAID Strategic Plan.
Step #2 Bureau Plans	After the Annual Report process is completed, each of USAID's regional and functional bureaus prepares a Bureau Program and Budget Submission (BPBS) laying out goals, targets, and resource requirements for the coming year. The BPBS documents are forwarded upward for review by Agency Assistant Administrators.
Step #3 Mission Plans	Each of USAID's missions prepares a Strategic Plan identifying key objectives, performance targets, and resource requirements. Every year an Annual Report recaps the progress made by the missions and outlines resource requirements for the year ahead. Information from the Annual Report feeds into an overall Mission Performance Plan (MPP), which takes into account both USAID and Department of State activities. These plans are forwarded upward for review by USAID bureaus, including the Bureau for Policy and Program Coordination. The final performance results and validation/verification information contained in the Annual Report will be the basis for final performance reporting the PAR addendum, scheduled for publication in March of each calendar year.

The Agency strategic planning document can be found online at the following link:

- ◆ FY 2004-2009 State/USAID Strategic Plan: <http://www.state.gov/m/rm/rls/dosstrat/2004/>
- ◆ The Agency's Annual Performance Plan (APP) for FY 2004 was withdrawn, since it was rendered obsolete by the Joint State-USAID Strategic Plan, and is therefore not available electronically. However, reader's wishing to obtain the most recent performance planning information will be able to obtain it electronically in the FY 2006 Joint Performance Plan, which is scheduled for submission to Congress with the President's Budget on February 7, 2005. The electronic link to the final FY 2006 JPP will be published in the March 2005 PAR Addendum.

MAJOR INITIATIVE IN SUDAN

Even before the crisis in the Darfur region of Sudan exploded in recent months, USAID had a long-standing history of providing assistance in the country. The Agency's work on the frontlines of this tragic civil conflict and humanitarian catastrophe stretches back over two decades, and USAID workers are bringing that experience and expertise to bear as they provide assistance in response to the latest developments.

The Sudanese people have long suffered under armed conflict, famine, and disease, much of it resulting from the long civil war. Since war began in 1983, more than two million people have died, more than 600,000 have taken refuge in neighboring countries, and roughly four million people have been internally displaced, creating the largest internally displaced person (IDP) population in the world.

About 1.45 million people have become internally displaced as a result of the recent spate of violence and accompanying food shortage, and there are 200,000 Sudanese refugees in Eastern Chad. About 2.2 million people in Darfur and Eastern Chad have been affected by the conflict in some manner.

At the end of FY 2004, USAID provided about \$210.8 million in humanitarian assistance to Darfur and Eastern Chad.



In addition to providing immediate humanitarian assistance, the United States is working to achieve a durable peace in the country.

USAID's program helps prepare the Sudanese people for a transition from conflict to peace, and operates in four key sectors: governance, basic education, health, and economic recovery. Many of the efforts also focus on infrastructure development, as transportation difficulties and poor roads are a major obstacle for the Sudanese people and aid workers alike, making it difficult to access some communities and populations.

To further foster these long-term development aims, all of the country's activities focus on capacity development.

The Agency will continue to work on these two fronts, organizing humanitarian assistance and encouraging a lasting peace and rebuilding effort. Already, its long-time presence and flow of assistance in the country has sparked new optimism for peace and relief.

Additional detail on the Darfur Humanitarian Emergency can be found by following this link: http://www.usaid.gov/locations/sub-saharan_africa/sudan/darfur.html ■

MAJOR INITIATIVE IN HAITI

The people of Haiti faced two types of upheaval over the past year, and many saw everything from their government to their homes to their livelihoods collapse. For the poorest country in the Western Hemisphere, with 75 percent of the population living on one dollar a day or less, it was a heavy burden. During both a political crisis and natural disasters, USAID was on the ground and responding quickly, providing humanitarian, political, and economic assistance that demonstrated the Agency's flexibility and diverse capacities.



The government led by Jean Bertrand Aristide fell in February, leaving a vacuum that was quickly filled by an interim government charged with restoring basic services, and regaining control of territory outside the capital of Port-au-Prince. Over the course of the past fiscal year, the Agency provided (but not fully dispersed) about \$130 million in assistance for political and social reconstruction under the interim government to address the disarray left behind by the Aristide government. The funds support employment generation; institutional support for the interim government; expansion of health, humanitarian, and educational services; and strengthening democratic institutions. In particular, USAID has improved the production and distribution of electricity. Under the President's Emergency Plan for AIDS Relief, Haiti also received \$20.3 million in 2004, which will be used to support a comprehensive

treatment, prevention, and care program. Haiti has the second-largest number of HIV-positive persons in the Western Hemisphere, estimated at about 210,000.

The country also faced several natural disasters, beginning with severe flooding that devastated entire communities, causing the loss of many lives, and displacing tens of thousands of people. Then tropical storm Jeanne claimed more than 3,000 lives, and set off a humanitarian crisis affecting 300,000 people. The string of natural disasters put an even greater strain on the country's already fragile situation. U.S.

Ambassador James Foley issued a disaster declaration, and USAID quickly mobilized to provide a grant to CARE to distribute hygiene kits, cooking sets, blankets, water containers, and other relief supplies. The Agency also promptly dispatched a team from the Office of Foreign Disaster Assistance (OFDA) to help coordinate American relief efforts. USAID provided more than \$7.5 million for humanitarian response activities to be implemented by various contracting partners to help rebuild homes and roads and provide irrigation equipment and water and sanitation systems.

The Agency's broad programming capabilities ensure that countries like Haiti will receive appropriate help no matter what type of challenge, or how many, they confront. ■

CONFRONTING THE INTERNATIONAL HIV/AIDS PANDEMIC

The President's FY 2005 budget requests \$2.8 billion for fighting AIDS globally, which is the largest single-year request for AIDS spending ever. In his 2003 State of the Union Address, President Bush announced the Emergency Plan for AIDS Relief, a five-year, \$15 billion initiative to turn the tide in the global effort to combat the HIV/AIDS pandemic. The HIV/AIDS pandemic has killed at least 20 million of the more than 60 million people it has infected thus far,

leaving 14 million orphans worldwide. Today, on the continent of Africa, nearly 30 million people are living with HIV/AIDS – including three million children under the age of 15. The President's Emergency Plan for AIDS Relief (PEPFAR) is helping some of the most affected countries in Africa, the Caribbean, and Asia to extend and save lives affected by HIV/AIDS. The initiative will be used to provide antiretroviral drugs for two million HIV-infected people; prevent seven million new infections, care for 10 million individuals and orphans infected and affected by the disease, and build the health system capacity in Africa, the Caribbean, and Asia.

The President's Emergency Plan for AIDS Relief (PEPFAR)

- ◆ **The First Year:** The Emergency Plan expects to have over 200,000 people on treatment by the end of the program's first year, and support care for over 1.1 million people infected with or affected by HIV/AIDS.



President Bush discusses his plan for global HIV/AIDS assistance, known as PEPFAR which means President's Emergency Plan for AIDS Relief.

- ◆ **Funding for People Most in Need:** On February 23, 2004, the first \$350 million in funding for the focus countries of the Emergency Plan was made available and began reaching people in need only two weeks later. The second distribution of funding, \$500 million, will continue to build on prevention, treatment, and care efforts. In total, the Emergency Plan is spending \$2.4 billion on global AIDS in FY2004

- ◆ **Prevention:** The Emergency Plan, from the very beginning, has recognized that to implement an effective prevention strategy, the approach must be based on what works in each place, with the individuals and groups being targeted.
- ◆ **Care:** The Emergency Plan is making a tremendous investment in training and infrastructure in order to care for 10 million people infected or affected by HIV/AIDS, including orphans and vulnerable children. Improving capacity is also essential for all efforts to be sustainable for the long term. To cite just one example, the U.S. has quickly trained 14,700 health workers and built capacity at over 900 different health care sites.
- ◆ **Treatment:** To achieve the goal for treatment, the Emergency Plan seeks to keep HIV-positive people alive by providing anti-retroviral drugs – not just any drugs, but safe and effective drugs. These drugs may include brand name products, generics, or copies of brand name products. ■

HOW WE MANAGE AND MEASURE PERFORMANCE

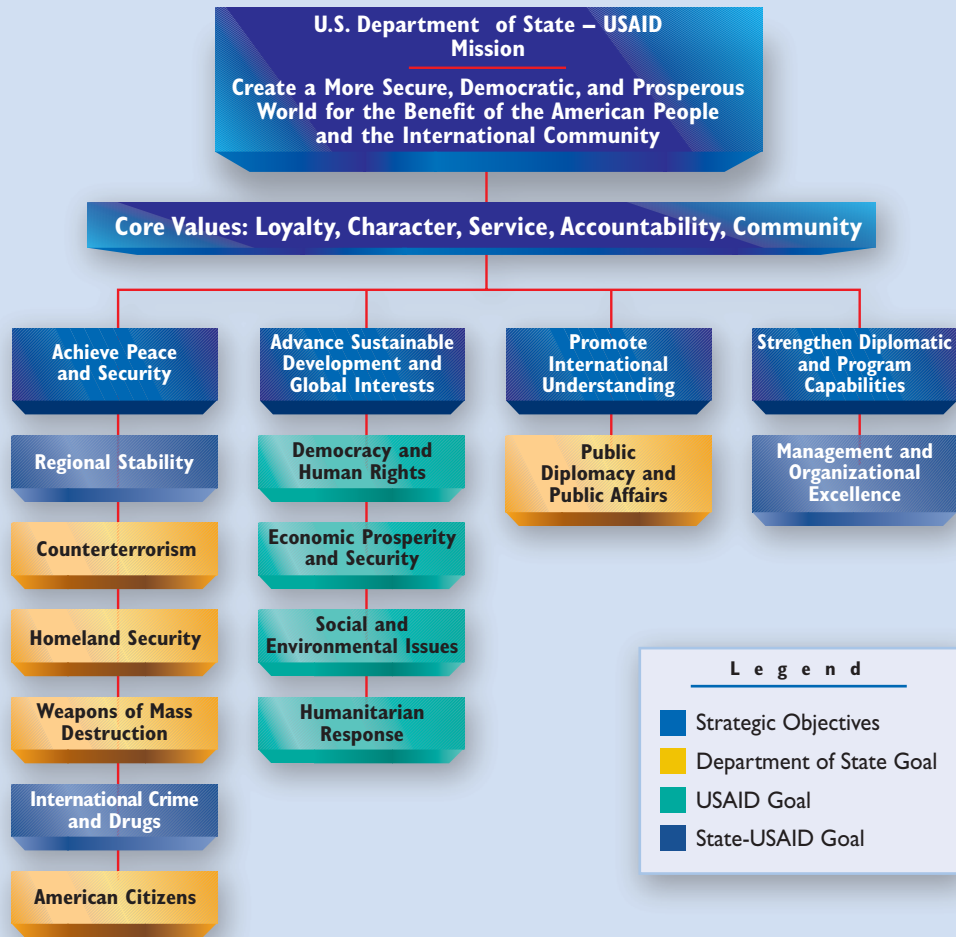
OUR CURRENT SYSTEM AND OUR PLANS FOR THE FUTURE

USAID must set targets and measure results at various levels including Agency, bureau, and country/mission, and in varying country contexts ranging from failed states to those that are near graduation. The Joint State-USAID Strategic Plan presents the overarching construct for managing and measuring all Agency performance. However, the foundation and critical input for any USAID performance system is the country mission and operating level, and the Agency has not always been totally successful in realistically setting targets and then gathering operating level results in a form compatible with Agency reporting needs.

To correct this, USAID is in the midst of introducing a set of far-reaching strategic management reforms intended 1) to more closely link foreign aid programs with the goals and objectives of the Joint State-USAID Strategic Plan, 2) to improve the effectiveness of the assistance that USAID manages, 3) to be more precise and realistic in establishing foreign aid rationale and expected outcomes in particular situations, and overall 4) to improve the measurement and reporting of results at all organizational levels. The reforms:

- ◆ Introduce two new planning instruments: First, an Agency Policy Framework which will aggregate the major policies and strategies affecting Agency operations, including the Joint State-USAID Plan, the five core Operational Goals, and the host of targeted sector and issues-driven guidance. Second, Bureau Strategic Frameworks which, building on the Agency Policy Framework, will establish bureau program priorities, and major objectives and targets for the bureau and the countries with these bureaus. Both levels will provide an improved and transparent structure for planning and reporting on performance at the country mission, bureau, and the Agency levels.
- ◆ Further, the reforms will tackle the perennial problem of gathering performance information at the operating level, aggregating it, and reporting for the Agency. This has been particularly challenging given the reality of a very diverse program mix in countries of widely varying need, capability, commitment, and foreign policy priority. In FY 2005, USAID will develop (40) standard Agency Program Components with common indicators that will link its field programs directly to Agency performance goals and objectives in the Joint State-USAID Strategic Plan. The components represent virtually everything USAID does, from Increased Agricultural Productivity to Reducing the Impact of HIV/AIDS to Addressing Conflict Transitional Issues. These components can be visualized as a “bridge” between mission, or operating level performance, and Agency performance.

JOINT STATE - USAID STRATEGIC PLAN FRAMEWORK



As a result of the Joint State-Aid Strategic Plan, USAID now focuses its work around eight strategic goals that capture the breadth of its bureau, mission, and specific responsibilities. The adoption of these new Strategic Goals has helped to streamline the Agency's reporting structure and is being integrated into strategic management reforms discussed previously. The eight strategic goals are centered on three core Strategic Objectives from the Joint State-USAID Strategic Plan:

- ◆ Achieve Peace and Security
- ◆ Advance Sustainable Development and Global Interests
- ◆ Strengthen Diplomatic and Program Capabilities

STRATEGIC PLANNING FRAMEWORK

USAID CHANGED ITS STRATEGIC GOALS IN FY 2004

2000 Strategic Plan

1. Broad-based Economic Growth and Agricultural Development Encouraged
2. Human Capacity Built Through Education and Training
3. Global Environment Protected
4. World Population Stabilized and Human Health Protected
5. Democracy and Good Governance Strengthened
6. Lives Saved, Suffering Associated with Natural or Man-made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished
7. Management Goal – USAID's Development Goals Achieved in the Most Efficient and Effective Manner

**FY 2004-2009 Joint USAID/
State Department Strategic Plan**

1. Regional Stability
2. Counterterrorism
3. International Crime and Drugs
4. Democracy and Human Rights
5. Economic Prosperity and Security
6. Social and Environmental Issues
7. Humanitarian Response
8. Management and Organizational Excellence

AGENCY STRATEGIC OBJECTIVES AND STRATEGIC GOALS

STRATEGIC OBJECTIVE #1 - Achieve Peace and Security -	
Strategic Goal Title	Strategic Goal Description
Regional Stability	Avert and resolve local and regional conflicts to preserve peace and minimize harm to the national interests of the United States.
Counterterrorism	Prevent attacks against the United States, its allies, and its friends, and strengthen alliances and international arrangements to defeat global terrorism.
International Crime and Drugs	Minimize the impact of international crime and illegal drugs on the United States and its citizens.
STRATEGIC OBJECTIVE #2 - Advance Sustainable Development and Global Interests -	
Strategic Goal Title	Strategic Goal Description
Democracy and Human Rights	Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious freedom.
Economic Prosperity and Security	Strengthen world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation.
Social and Environmental Issues	Improve health, education, environment, and other conditions for the global population.
Humanitarian Response	Minimize the human costs of displacement, conflicts, and natural disasters.
STRATEGIC OBJECTIVE #3 - Strengthen Diplomatic and Program Capabilities -	
Strategic Goal Title	Strategic Goal Description
Management and Organizational Excellence	Ensure a high quality workforce supported by modern and secure infrastructure and operational capabilities.

HOW WE ASSESS PERFORMANCE

Six-Tiered Methodology

The Agency is committed to utilizing the funds it receives from taxpayers through Congress to produce successful results. To assess performance, the Agency currently employs a performance management methodology depicted in the pyramid at right. Each of the six components of the pyramid is defined below.



STRATEGIC OBJECTIVES	High level, broad categories of action through which the Agency will achieve its strategies and performance goals.
STRATEGIC GOALS	The Agency's long-term goals as detailed in the Joint State-USAID Strategic Plan.
PERFORMANCE GOALS	The desired outcomes the Agency is planning to achieve in order to attain its strategic goals. The Agency has 16 performance goals.
PROGRAM GOALS	Specific functional and/or policy areas, including programs as defined by the OMB Program PART, to which the Agency devotes significant attention.
PERFORMANCE INDICATORS	Values or characteristics that the Agency utilizes to measure progress achieved towards stated annual performance goals. The indicators are drawn from bureau and mission performance plans.
PERFORMANCE TARGETS	Expressions of desired performance levels or specific desired results targeted for a given fiscal year. Achievement of targets defines success. Where possible, targets are expressed in quantifiable terms.

STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals that USAID reports against

Of the four strategic objectives and 12 strategic goals contained in the Joint State-USAID Strategic Plan, USAID reports against the following three strategic objectives and eight strategic goals. USAID does not have programs in the remaining four strategic goal areas, or does not have meaningful indicators or targets which require reporting of performance results in the PAR (for example in the area of Public Affairs).

STRATEGIC OBJECTIVE #1: ACHIEVE PEACE AND SECURITY

Strategic Goals to Meet this Objective:

- SG #1 Regional Stability
- SG #2 Counterterrorism
- SG #3 International Crime and Drugs

STRATEGIC OBJECTIVE #2: ADVANCE SUSTAINABLE DEVELOPMENT AND GLOBAL INTERESTS

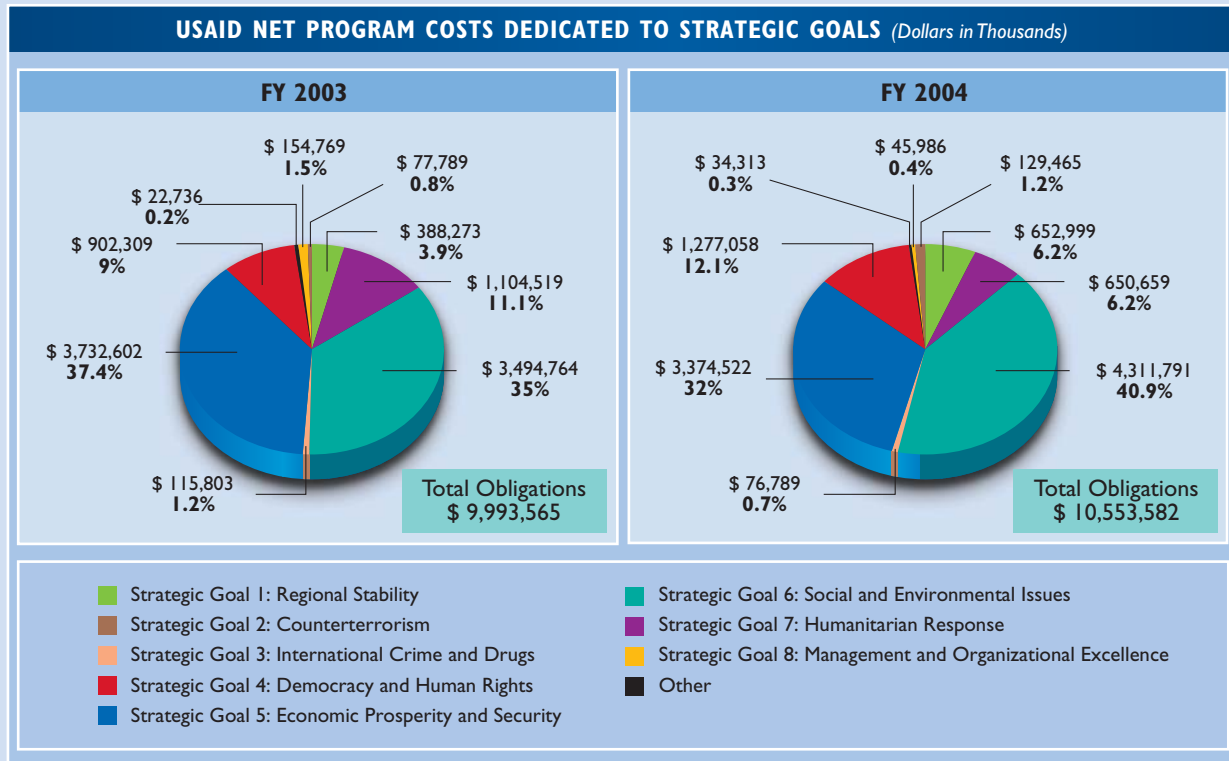
Strategic Goals to Meet this Objective:

- SG #4 Democracy and Human Rights
- SG #5 Economic Prosperity and Security
- SG #6 Social and Environmental Issues
- SG #7 Humanitarian Response

STRATEGIC OBJECTIVE #3: STRENGTHEN DIPLOMATIC AND PROGRAM CAPABILITIES

Strategic Goal to Meet this Objective:

- SG #8 Management and Organizational Excellence



Please refer to the individual strategic Goal chapters in the performance results section for a breakdown on net program cost for each performance goal.

FY 2004 PERFORMANCE REPORTING IMPROVEMENTS

SIX AREAS OF IMPROVEMENT

The FY 2004 Performance and Accountability Report (PAR) incorporates six major improvements that enhance the Report's usefulness for the Agency's leadership as well as for external stakeholders.

1) RESULTS PRESENTED IN CONCISE STRATEGIC GOAL CHAPTERS: The Agency provides a robust analysis of its FY 2004 performance within strategic goal chapters, each of which include seven sub-sections, as described below and further discussed in the performance section:

Sub-Section	Purpose
Public Benefit	A concise narrative describing how pursuit of the goal benefits the United States and the world.
Selected Performance Trends	Graphs that show key performance trends specific to each goal.
Performance Summary	A graphic summary of results achieved for a goal showing both this year's and prior year results.
Resources Invested	A summary of resources (dollars and people) devoted to pursuit of the goal for both the current reporting period (FY 2004) and the previous reporting period (FY 2003). The results chart and resource investment chart are shown on a single page so as to provide the reader with a concise snapshot of performance and resources as related to a given strategic goal.
Illustrative Example	An example of a key FY 2004 achievement that is typical of the Agency's work in support of the goal.
Performance Results	Results history/trend, together with the current rating and a short impact statement pertaining to each of the FY 2003 and FY 2004 results achieved.
Program Evaluations and PART Reviews	Summaries of evaluations and reviews conducted on the programs critical to activities related to a given strategic goal.

2) PERFORMANCE GOALS: The Agency seeks to achieve outcomes described by performance and strategic goals. Work or activities which contribute to these goals are grouped within specific, coherent functional and/or policy areas or processes termed Performance Goals. Performance Goals provide greater clarity and better linkage in terms of how specific performance indicators and performance targets relate to given policies or functions.

3) IMPROVED PERFORMANCE INDICATORS AND TARGETS: During FY 2004, the Agency continued to evaluate and improve its performance indicators and targets. Over time, the Agency has and will continue to replace weak indicators and targets with ones that measure more accurately progress on issues, provide a better measurement of success, and focus on where resources are spent. In many cases, targets and

indicators have been modified or clarified, but more work needs to be done in this area. In future years, the Agency will be able to present more of its performance results in quantifiable terms using outcome-oriented indicators.

4) REDESIGNED PERFORMANCE RESULTS SECTION: USAID's "Most Important Goals and Results" information is included in the Management Discussion and Analysis section, and complete performance information for USAID's performance goals, indicators, and targets is included in the Strategic Goal chapters in the Performance Section.

5) ASSESSMENTS OF PROGRAM PERFORMANCE: In any given fiscal year, outside organizations perform in-depth assessments of the Agency's programs. These assessments benefit the Agency because they provide managers with an objective

assessment of performance and specific recommendations for improvement. Moreover, these data will help the Agency determine whether program managers have incorporated the recommendations for improvement into their strategies for achieving performance targets. In turn, this increases program manager accountability for attaining desired performance levels.

This report contains links to these assessments at the end of each Strategic Goal chapter in the Performance Results section.

6) USE OF THE NEW JOINT STRATEGIC PLANNING FRAMEWORK AND GOAL STRUCTURE: The new framework, a product of many months of high-level collaboration between the State Department and the Agency, represents a more coherent, concise, and logical reflection of how the Department and USAID organize their work towards given results/outcomes. The Agency's performance reporting platform for FY 2004 and onwards, as reflected in the report, uses the new planning framework and goal structure. FY 2003 targets developed within the previous framework have been reorganized to conform to the new framework. As required, this report addresses all FY 2004 targets.

FUTURE PERFORMANCE REPORTING IMPROVEMENTS

Due to the nature of USAID's traditional performance reporting process, our Annual Report (AR) database, it is extremely difficult for the Agency to meet the November 15th accelerated reporting deadline for the PAR with final, validated

performance results. Our worldwide operations are conducted in conjunction with many types of organizations (i.e., Private Voluntary Organizations (PVOs), Non-Governmental Organizations (NGOs), and many private donor organizations), through a wide variety of business or contractual agreements (i.e., grants, cooperative agreements, contracts, etc.), making it extremely difficult to establish one reporting deadline for the entire Agency that would support the data needs of the PAR on such an accelerated schedule. In fact, many of these organizations report on a calendar year (versus fiscal year) basis, and are challenged to meet the AR reporting deadline each year, which doesn't occur until mid-to-late December, considerably later than the due date for the PAR.

Accordingly, as of the FY 2004 PAR reporting cycle, the Agency will be reporting final, validated performance results from the prior fiscal year (in this case, for FY 2003), and will include as much provisional or preliminary performance results information as is available in time for production of the PAR by November 15th. All such provisional or preliminary performance results are clearly marked to indicate that the data is preliminary. The Agency will then publish, in electronic and paper versions, the *FY 2004 USAID PAR Addendum* in March 2005, which will include final, validated performance results for all indicators and targets, the data validation methods used to verify the performance results, and statistical information which can be used to assess our overall performance for the year. *The FY 2004 PAR Addendum* will be available on our website, which is accessible to all members of the public, and all stakeholders with an interest in USAID operations.

PERFORMANCE RATING METHODOLOGY

Performance Rating	Below Target	On Target	Exceeds Target
Criteria	Parameters		
Target Status	Missed FY 2004 target by a significant margin	Met FY 2004 target	Significantly exceeded FY 2004 target
Budget Status	Spent significantly over budget	Spent on budget	Spent significantly under budget
Timeliness	Missed most critical deadlines	Met all critical deadlines	Met most critical deadlines early
Impact on Future Operations	Significantly impairs program's ability to achieve future years' performance targets, requiring major downward revisions to future targets	No change in program's ability to achieve future years' performance targets	Significantly improves program's ability to achieve future years' performance targets, requiring major upward increases to future targets

OUR PERFORMANCE RATING SYSTEM

To assess performance results against established targets, the Agency applies a results rating methodology, which has been applied consistently to USAID's results for FY 2003 and FY 2004. Program managers use this methodology to assign one of three performance ratings for a given result. Based on a combination of the established parameters shown in the table on previous page, managers assign a performance rating that reflects the extent to which a given target was achieved.

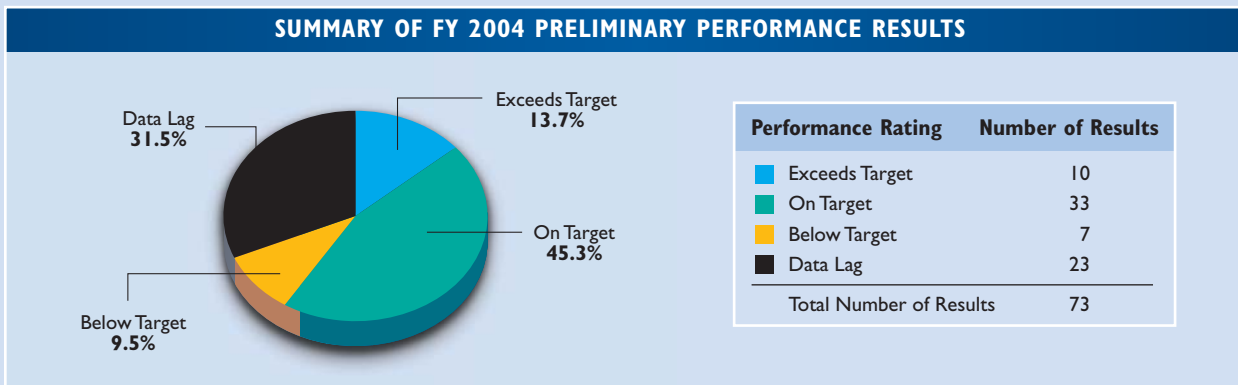
This methodology represents an important step toward using a standard tool to evaluate the Agency's work. However, to correctly interpret the numerical analysis of the report, it is important to note the following:

- ◆ **DATA LAGS:** The Agency could not report on a large percentage of its FY 2004 performance results by the November 15th PAR deadline. In the majority of cases this was due to lagging, calendar year-based data, collected

through USAID's Annual Report database process (which is not available until after mid-December each calendar year), and is therefore reported as a "Data Lag." In cases where data estimation techniques could be applied to certain Indicators and Targets, those performance results are included, but are identified as "Provisional or Preliminary." *The Agency plans to publish an Addendum to the FY 2004 PAR, in March 2005, which will provide final, validated performance results information that will be generated on the basis of the Annual Report database, the Agency's traditional data collection and analysis tool that generates performance data in the December timeframe each year.* Each Strategic Goal chapter in the Performance Results section includes a table that identifies the number of Preliminary Results and data lags associated with that particular Strategic Goal.

SUMMARY OF FY 2004 PRELIMINARY PERFORMANCE RESULTS

SUMMARY OF ALL RESULTS



MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

During FY 2004, USAID responded on numerous levels to the many challenges the nations of the world are facing, consistent with the Agency's mission and strategic objectives. Highlights of the most important results and continuing challenges are shown below, arrayed by USAID's eight Strategic Goals:

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	Challenges
<p>Working in close cooperation with the Iraq interim government to improve the lives of Iraqis, USAID is devoting substantial resources throughout the country to restore critical infrastructure, support the delivery of healthcare and education services, expand economic opportunities, and improve governance. The USAID activity in support of the Iraqi people has been massive. Below is a short summary of the kinds of help provided:</p> <ul style="list-style-type: none"> ◆ Restored electricity generation capacity, by October 6, 2003, to surpass the pre-war daily levels of 4,400 megawatts. ◆ Implemented water and sanitation projects worth \$183 million that will benefit 14.5 million people. ◆ Vaccinated over 3 million children through monthly national immunization days. ◆ Equipped 600 facilities in seven target governorates to provide essential primary healthcare services. ◆ Renovated 2,356 schools nationwide and provided the necessary furnishings, books, and educational supplies to assure that the school year resumed as scheduled on October 3, 2004, despite the disruptions of the war. ◆ Implemented 17 high-priority activities to reform Iraq's currency, state-owned enterprises, small businesses, banking system, taxation system, budgeting, and utility administration. ◆ Facilitated the Central Bank program to introduce a new Iraqi currency. 4.62 trillion new Iraqi dinars were placed in circulation (worth approximately \$3.2 billion). ◆ Created more than 77,000 public works jobs through the National Employment Program. ◆ Established a total of 678 representative councils at every level (governorate, district, sub-district, municipality, and neighborhood), allowing more than 19 million people to engage in local policy discourse and be represented in decision processes. ◆ Iraq: The Local Governance Program awarded 148 grants to local government agencies totaling \$11.5 million to restore basic services and has established the Iraqi Women in Local Governance Group in response to the challenge of women's gross under-representation in political processes across Iraq. 	<ul style="list-style-type: none"> ◆ Strengthening the management skills and capacity of local administrations, local interim representative bodies, and civic institutions to improve the delivery of essential municipal services, such as water, health, public sanitation, and economic development in Iraq. ◆ Factionalism, ongoing violence, and lingering pockets of terrorism continue to threaten the viability and stability of Afghanistan's central government and make it difficult to cement democratic institutions. ◆ In many countries where USAID works, violence and instability continue to hamper USAID's efforts to catalyze democratic transformations and remove sources of conflict.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	Challenges
<ul style="list-style-type: none"> ◆ After a violence-free Constitutional Loya Jira, Afghanistan adopted a constitution that effectively incorporated both Islamic traditions and democratic principles. Subsequent voter registration for the country's recent historic election was very successful, with over 10 million voters registered, approximately 40 percent of whom were women. ◆ On both sides of the Kenya/Somali border, pastoral groups have always resorted to violence to resolve water disputes, one of the root causes of conflict in this volatile region. During the past three years, USAID has funded a pact to work with the Wajir South Development Association (WASDA) to reduce conflict by improving water sources and establishing peace committees that monitor the level of tension in communities and harmonize the needs of neighborhoods. As a result, communities in the region are experiencing peace for the first time, food security has improved, and small businesses are flourishing. ◆ Through targeted efforts to encourage economic development in conflict-affected areas of the Philippines, USAID is helping foster reintegration of more than 21,000 former Moro National Liberation Front combatants into the peaceful economy. USAID's efforts to reintegrate the former combatants have been so successful that they are serving as a model for U.S. relations with Islamic communities worldwide. 	
COUNTERTERRORISM	
Results	Challenges
<ul style="list-style-type: none"> ◆ In Afghanistan, seven judicial facilities were built or rehabilitated (estimate) and 443 judicial experts were trained (estimate) in order to strengthen the legal system as a counterterrorism measure. 	<ul style="list-style-type: none"> ◆ The two goals of countering terrorism and expanding Muslim outreach to support moderates create a real dilemma for the U.S. government. Security requirements restrict exchanges and limit the NGOs with whom USAID can work, in effect limiting the Agency's outreach. Survey data show that negative views of the U.S. pervasive throughout the Muslim world are due to U.S. policies as well as perceived maltreatment of Muslims in the U.S. ◆ The ability of USAID and USAID front-line staff to effectively develop, oversee, and monitor projects is severely hampered by the security situation in the crisis areas where the Agency operates. ◆ Regional pockets continue to harbor terrorists and radicals who pose a significant risk to those countries, as well as to the United States.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

INTERNATIONAL CRIME AND DRUGS

Results	Challenges
<ul style="list-style-type: none"> ◆ USAID is working with the governments of Bolivia, Colombia, and Peru to eradicate coca and opium poppy by providing licit income alternatives and strengthening communities. ◆ With the efforts of USAID and the government of Bolivia over the last 10 years, the area committed to coca has dropped by over 85 percent, from about 35,000 hectares to 4,500 hectares, and the area committed to legal crops has expanded to more than 135,000 hectares. USAID programs have introduced new crops and agricultural research, stronger market linkages and producer groups, a vast network of all-weather cobblestone farm-to-market roads, electrification, investment promotion, and environmental mitigation. ◆ A U.S. government interagency action plan is in place to provide Afghanistan's farmers with alternative on- and off-farm sources of livelihood to push back poppy production and develop an economy that can participate fully in the global marketplace. 	<ul style="list-style-type: none"> ◆ Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of state presence in some areas has allowed illegal narcotics production and armed terrorist organization to continue to flourish. ◆ Drug related spillover criminal activity brings threats of violence and instability to communities along Ecuador's northern border with Colombia. ◆ Afghanistan is the source of three-quarters of the world's opium. Persistent poverty, high opium prices, and loans from traffickers were all reasons for high opium production in 2004. Farmers are aware of the government ban on opium production, but the short-term benefits of the activity outweigh the potential risks from law enforcement measures.

DEMOCRACY AND HUMAN RIGHTS

Results	Challenges
<ul style="list-style-type: none"> ◆ There was continued progress in Eastern Europe and Eurasia in building democratic institutions, movement towards political integration with Europe in a number of countries, especially Croatia and Bulgaria, and the ability to repeatedly hold elections that are at, or near, European Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) standards. Past efforts in assistance for election administration and oversight are bearing fruit. ◆ In Latin America, USAID provided technical assistance in Paraguay to help local governments become more responsive, transparent, and accountable, and supported civil society in providing control and oversight of the public sector. In El Salvador, USAID programs have assisted in increasing access to justice in El Salvador by establishing centers that provide free legal advice and mediation services to 4,252 mostly rural people who have limited access to the formal justice system. The Public Defender's Office has decided to replicate and finance this successful initiative on a national scale over the next three years. ◆ In Africa, assistance to Sudan paid for governance programs that resulted in more financially viable grassroots organizations, more capable civilian administrations, more participatory political and constitutional development processes, and greater access to quality, independent broadcast and print media in all major southern Sudan languages. In Uganda, USAID work with Parliament has been the basis for firmer separation of powers. A core parliamentary group now has the skills to engage on policy issues, refine draft laws originating in the executive branch, and to initiate bills within the Chamber. ◆ USAID provided extensive technical assistance in support of Indonesia's national and local elections. This included election support programs, media development, civil society strengthening, political party development, and a program to support moderate Muslim groups. Free and fair elections were held in September for a new president, house and senate members, and provincial leaders. 	<ul style="list-style-type: none"> ◆ Eastern European countries need continued assistance to make their democratic institutions more stable, robust, and mature in preparation for broader political and economic integration with Europe. In both Europe and Eurasia continued efforts are needed to promote a culture of democratic values, while working against ethnic and religious extremism, separatism, and intolerance. ◆ Since the fall of Paraguay's dictatorship 14 years ago, challenges to the country's democracy include several coup attempts, the assassination of a vice president, and the resignation of a president. In El Salvador, the declining share of national income for the poor undercuts the significant progress the country has made over the past decade and poses a serious threat to an emerging democracy. ◆ In Sudan, intermittent conflict and related human rights abuses (especially in the western Sudan region of Darfur) and deep ethnic and religious rifts will make reconciliation and a transition to peace difficult. Uganda's progress toward a vigorous and representative multi-party democracy requires permitting political parties to operate freely and constructively, as well as building institutions and systems which can check and correct abuse of authority and corruption.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

ECONOMIC PROSPERITY AND SECURITY

Results	Challenges
<ul style="list-style-type: none"> ◆ At least 50,000 Iraqis per month are finding work – whether temporary or permanent – through USAID-supported programs. ◆ Most recent data indicate that USAID invested over \$183 million in programs supporting micro-enterprises worldwide. These programs supported microfinance programs serving more than seven million borrowers and providing almost \$4 billion in loans. USAID programming also supported savings services to 34 million people whose savings totaled \$4.5 billion. The Agency achieved these results through supporting 568 institutions worldwide. ◆ The U.S.–Central America Free Trade Agreement (CAFTA) was signed in May 2004. USAID participated in the trade capacity building working group during the negotiations, and now co-chairs the post-negotiations CAFTA Trade Capacity Building Committee. USAID was instrumental in technical assistance and public outreach activities in Central America and the Dominican Republic that resulted in the successful completion of the negotiations and enhanced civil society participation in the process. The efforts of USAID effectively linked aid and trade and laid a foundation which facilitated trade capacity building assistance, helping the countries to maximize the benefits of CAFTA once ratified and effective. About 22,000 people received trade capacity building training under the CAFTA Initiative in policy areas like competition, intellectual property, corruption, and barriers to investment. Such training strengthens their capacity to be strong trading partners. ◆ 41,000 vulnerable small farm families benefited from investments under the Initiative to End Hunger in Africa. This greatly reduces hunger and poverty, enabling families and their communities to improve their standard of living. 	<ul style="list-style-type: none"> ◆ Some 52 percent of Iraqis are still unemployed, and many of those with jobs are underemployed, working part-time or for small income. This is a particularly alarming figure, given that some 70 percent of the Iraqi population is under 25 – a large labor pool with need for economic opportunity. ◆ In the ratification of CAFTA, USAID must continue to assist each country and help governments to implement CAFTA requirements such as health and food safety standards, customs, and intellectual property rights. Help countries maximize the benefits of CAFTA, especially by broadening the participation of the rural-based poor and increasing the competitiveness of the small business and agricultural sectors. ◆ High unemployment rates, a ballooning youth population, and graduates without employable skills contribute to growing dissatisfaction and potential instability in many countries. ◆ The shifting of food markets from “markets with public faces” of the parastatal 1960s and 1970s, to “faceless markets” of the liberalized 1980s and 1990s, to “markets with private sector faces” of today have forced producers to develop complex relationships with the private sector or face exclusion from the markets.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES

Results	Challenges
<ul style="list-style-type: none"> ◆ USAID has made many significant contributions to the fight against HIV/AIDS. Sixteen countries in Eastern Europe and Eurasia, for example, have received awards totaling more than \$564 million from the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which dramatically increased the resources available to fight those three diseases in the region. USAID assistance was critical to grant application success for many of those countries. Also, as a result of USAID support, the governments of Guatemala, Nicaragua, Honduras, El Salvador, Nicaragua, and Panama have enacted legislation protecting the rights of people living with AIDS. All of the Central American governments have committed to expanding access to full antiretroviral therapy. ◆ In FY 2004 USAID committed just over \$80 million for malaria programs—a nearly four-fold increase since 1998 when USAID's Infectious Disease Initiative was launched. These new and expanded resources have allowed for a significant scaling up of malaria activities from five countries to 20 now targeting national level impact and leading to increased coverage with interventions, better policies, and visibly stronger programs. ◆ In countries such as Benin, Nepal, the Democratic Republic of Congo, Nicaragua, and 23 others, USAID is providing Vitamin A supplementation to promote better nutrition. Vitamin A deficiency can lead to nutritional blindness among children and adults, and death. Of those 27 countries where USAID promotes and provides Vitamin A, 15 now have greater than 50 percent coverage with nutritional supplementation, and the Agency knows that under five mortality decreases by up to 30 percent in these regions with Vitamin A supplementation. That means literally millions of children across the world are surviving due to USAID intervention to provide Vitamin A. ◆ In 2004, USAID/Global Health (GH) worked with partners to expand simple approaches to providing safe water to the millions of households lacking secure water supplies. The "Safe Water System," developed with the Centers for Disease Control (CDC), provides household water disinfection with diluted bottled chlorine solution coupled with safe water storage and hygiene education. This system is now operating at national scale in Madagascar and Zambia and at sub-national scale in Afghanistan and India. USAID also worked with Procter & Gamble and other partners on a product which purifies even lower quality water by removing suspended sediment as well as a disinfecting with chlorine. In 2004, USAID and partners launched this approach on a fully commercial basis in Pakistan, and are also applying it through NGOs in Haiti and in emergency/refugee settings in Ethiopia. In addition, three million people have improved access to safe water with the construction of 497 wells since the start of the Water for the Poor Initiative. 	<ul style="list-style-type: none"> ◆ The adult HIV/AIDS prevalence rate in the Caribbean is surpassed only by Sub-Saharan Africa. Social patterns of early sexual initiation and multiple partners increase the risk. In Asia and the Near East, eight million people are HIV positive, and each year hundreds of thousands die from HIV/AIDS-related illnesses. This could increase exponentially if the epidemic is allowed to spread from high-risk groups to the general population in countries like India, China, Indonesia, and Thailand. ◆ Recent detailed analyses of demographic and health survey data indicate that in some countries the use of Oral Rehydration Therapy (ORT)—developed by USAID and considered one of the oldest and most basic child survival interventions—may be starting to decline. This may be the result of countries having integrated diarrheal disease control programs into larger, less focused, and underfunded health systems in poor countries. In response, USAID is working with the World Health Organization (WHO), United Nations Children's Fund (UNICEF), and other partners to revitalize ORT, using the new improved formulation of oral rehydration solution and newly available zinc treatment as entry points. ◆ Spurred by growing global demand for timber and paper, illegal and destructive logging remains one of the key threats to the world's oldest forests in Bolivia. Only 17 million hectares, or 0.5 percent of all forests, are under ecologically-sound management as certified by independent international certification bodies. Land degradation also is a serious impediment to maintaining the quantity and quality of water. With 60 percent of the world's population depending upon only one-third of the world's land area, Asia will need to confront and reverse the land degradation trends to meet the needs of its population. ◆ Rural and poor populations, often the majority in many countries in Latin America and the Caribbean, face many obstacles to quality education. Language barriers, long distances to schools, and poorly trained teachers contribute to very high dropout rates. In some countries, fewer than 60 percent of the children who start school reach the fifth grade. Access to education, low enrollment, and high illiteracy are continuing concerns for the Asia and Near East region. Over half the world's illiterate population lives in this region, and 69 percent of the world's illiterate females. Enrollment for girls is a large problem.

Continued

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES (continued)

Results	Challenges
<ul style="list-style-type: none"> ◆ USAID is making strides to improve the environment around the world. In Bolivia, USAID built partnerships among local communities, the forest industry, and the public sector to improve the management of valuable tropical forests. With 7.5 million hectares of commercial forests under approved management plans in 2003 and nearly 1.2 million hectares certified as well-managed and another 1 million-plus hectares awaiting certification, Bolivia has the largest area of certified natural forest management in the tropics. In Iraq, the Marshlands Restoration Program is restoring the marshland ecosystem through improved management and strategic re-flooding resulting in health and economic benefits to the Marsh Arabs. Missions are also working to stop illegal logging by improving ownership and management of over two million hectares of forest lands in Asia and the Near East. USAID Missions in the Philippines, Indonesia, Afghanistan, and Bangladesh have also embarked on new programs to rehabilitate degraded lands. ◆ In education, USAID's Centers for Excellence in Teacher Training have trained nearly 7,000 teachers in techniques for teaching reading, and trained teachers to produce educational materials. The Regional Education and Employment Alliance has been created to give children a higher quality basic education that leads to livelihood skills and employment. Current priority countries include Egypt, India, Indonesia, Morocco, Pakistan, and the Philippines. In Afghanistan, USAID distributed 15 million textbooks and 30,000 teachers' kits, and in India, USAID is renovating more than 5,000 schools in two states, reaching over one million students. 	

HUMANITARIAN RESPONSE

Results	Challenges
<ul style="list-style-type: none"> ◆ In response to the crisis in Darfur, Sudan, and Eastern Chad, the USAID Office of Foreign Disaster Assistance (OFDA) has deployed a Disaster Assistance Response Team and has worked tirelessly to help suffering populations. USAID assistance to Darfur and Eastern Chad in FY 2004 exceeded \$71 million, and included efforts to provide water and sanitation, shelter, nutrition, agricultural inputs, and other important support. ◆ The Office of Food for Peace (FFP) provided over 325,000 metric tons of Title II resources, valued at approximately \$215 million, to Zimbabwe, Zambia, and Malawi. Through the World Food Program (WFP) and the Consortium for Southern Africa Food Security Emergency (C-SAFE), a consortium of NGOs operating in the region, FFP helped sustain a population of more than 12 million people, preventing the development of a major humanitarian crisis in the region. The Agency also continues to provide critical humanitarian assistance to the people of Ethiopia, as the confluence of periodic drought, rapid population growth, and stagnating agricultural productivity has led to a cyclical pattern of food insecurity. In the country's latest food crisis, approximately 13.2 million Ethiopians—20 percent of the population—needed emergency food assistance. This response required over one million metric tons of commodities, valued at \$450 million, in order to avert widespread famine conditions and population movements. 	<ul style="list-style-type: none"> ◆ Food is often identified as the most immediate and critical need of people living with HIV/AIDS and households affected by HIV/AIDS in the countries where food aid programs are implemented. In addition, households affected by HIV/AIDS are more vulnerable to food insecurity. Clearly, interventions focusing on food insecurity and nutritional status should take into account the impact of HIV/AIDS, and HIV/AIDS strategies and interventions should consider the nutrition and food security problems facing individuals infected by HIV and communities and families affected by HIV/AIDS. Food aid resources, however, have not increased in response to this heightened awareness. Although the attempt is made to seize opportunities to link HIV/AIDS and food-assisted programs, it is clear that current food aid levels may preclude any increases in resources provided in support of HIV/AIDS programming objectives.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
MANAGEMENT AND ORGANIZATION EXCELLENCE	
Results	Challenges
<ul style="list-style-type: none"> ◆ Five USAID overseas Missions – Egypt, Ghana, Peru, Columbia, and Nigeria – went live with Phoenix, the new financial management system, in FY 2004. Phoenix, unlike the current overseas Mission Accounting and Control System (MACS) it replaces, is compliant with federal regulations and when fully implemented will be the central component of the Agency's global business platform. ◆ In FY 2004, the U.S. Office of Personnel Management (OPM) approved the Agency's appraisal plans and award programs to ensure that performance appraisals link, differentiate, and provide consequences for Senior Executive Service (SES), Senior Foreign Service (SFS), and Managers. ◆ The Development Readiness Initiative (DRI), modeled after the Department of State's successful Diplomatic Readiness Initiative, was launched by Administrator Natsios in FY 2004. The DRI is the most aggressive recruitment effort to rebuild and revitalize the Agency's workforce in more than a decade. This initiative, the cornerstone of the Agency's succession planning efforts, provides surge capacity to respond quickly to emerging program priorities. The Agency hired approximately 50 new employees with mission critical skills through the DRI in FY 2004. ◆ The Agency developed a formal strategic budgeting model to help decide how to allocate resources to bilateral country programs. The Agency first applied this model to the formulation of its FY 2004 budget request, which resulted in reallocation of some funds from lower performing to higher performing programs. The model was expanded during the formulation of the FY 2005 budget to categorize countries based on Millennium Challenge Account (MCA) criteria of commitment to economic freedom, governing justly, and investing in people. ◆ To shape the development policy debate, the Bureau of Policy & Program coordination (PPC) worked closely with technical experts in the bureaus and missions and with interagency partners to analyze policy and strategy issues, develop and disseminate USAID core policies and strategies, and develop outreach materials that convey USAID analysis and policy to target audiences within and outside the Agency. During 2004 USAID finalized and disseminated a major discussion paper: "U.S. Foreign Aid – Meeting the Challenges of the Twenty-first Century," as well as other analytical papers focused on growth and on governance in Muslim societies. USAID also completed strategies for agriculture, fragile states (pending), education (pending) and anti-corruption (pending), as well as policy papers on assistance to internally displaced persons and on conflict (pending). 	<ul style="list-style-type: none"> ◆ In FY 2005, USAID must be able to ensure to OMB that performance appraisal plans link, differentiate, and provide consequences for 60 employees. ◆ Resources must continue to be provided for the DRI. The DRI plan initiated in FY 2004 calls for the Agency to hire a total of 250 additional employees over the next three years, thereby increasing the direct hire workforce from about 2,000 in FY 2004 to 2,250 by FY 2006 (assuming full funding). These new employees are being recruited through several hiring mechanisms. Entry-level Foreign Service Officers are being recruited and trained through the International Development Intern (IDI) program. The Agency is reinstating a Contract Specialist Intern Program (CSIP) and expanding the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions.

PRELIMINARY PERFORMANCE RESULTS FOR FISCAL YEAR 2004

The following chart provides preliminary USAID performance results for FY 2004, arrayed by Strategic and Performance Goal from the Joint State-USAID Strategic Plan. These results are preliminary because at this stage they were collected from USAID's operating bureaus and field missions prior to completion of the standard Annual Report data collection and validation process. In the traditional USAID data collection/validation process for performance results, which is contained in the Agency's Annual Report database, annual performance results are typically not available until the mid to late-December timeframe. This makes it necessary to estimate performance results data, which is an accepted practice when reporting data to OMB in the PAR. The estimated data must be verifiable, complete, reliable, comparable, and consistent, and the methodology used to estimate the data must be well-documented. Acceptable methods for data estimation include 1) expert opinion, 2) historical trends, 3) extrapolation, and 4) sampling and statistics. The preliminary performance results specified below are the result of an analysis of historical trends and expert opinion based on many years of experience monitoring the results of the particular indicator and target in question. For more information on acceptable USAID data estimation methods, please refer to Appendix C at the end of this report.

PRELIMINARY PERFORMANCE RESULTS FOR FISCAL YEAR 2004		
Performance Goal	FY 2004 Target	Target Rating
STRATEGIC GOAL 2 - COUNTERTERRORISM		
Diminished Political and Economic Conditions that Permit Terrorism to Flourish	Pave 400 kilometers of the Afghanistan Road, Kabul-Kandahar-Herat	On target
STRATEGIC GOAL 3 - INTERNATIONAL CRIME AND DRUGS		
International trafficking in drugs, persons, and other illicit goods disrupted and criminal operations dismantled	5,500,000 persons reached by public awareness and education campaigns about the risks of trafficking in persons	On target
	400 survivors of trafficking in persons that received services with USAID assistance	On target
STRATEGIC GOAL 5 - ECONOMIC PROSPERITY AND SECURITY		
Institutions, laws, and policies foster private sector growth, macroeconomic stability, and poverty reduction	1,062,860 loans to historically disadvantaged groups	On target
	\$353,400,000 value of loans to historically disadvantaged groups	On target
	\$161,979,374 in increased exports of USAID-assisted firms	On target
Enhanced Food Security and Agricultural Development	9,000 agricultural technologies adopted through USAID programs	On target
STRATEGIC GOAL 6 - SOCIAL AND ENVIRONMENTAL ISSUES		
Improved Global Health, including Child, Maternal, and Reproductive Health, and the Reduction of Abortion and Disease, especially HIV/ AIDS, Malaria, and Tuberculosis	87.6% DPT coverage rate	On target
	79.6% Vitamin A coverage rate	On target
	80.2% TB treatment success rate	On target
	977,310,931 condoms sold	On target
	734,291 orphans and other vulnerable children receiving care/support services through programs assisted by USAID	On target
Partnerships, Initiatives, and Implemented International Treaties that Protect the Environment and Promote Efficient Energy Use and Resource Management	4,900,000 people with increased access to modern energy services	On target
	27,000,000 hectares under approved management for biodiversity conservation	On target
	220,000,000 hectares under sustainable forest management	On target

MAJOR PRESIDENTIAL INITIATIVES

In addition to the preliminary FY 2004 performance results included on the previous page, the Agency can report positive performance results for the Agency Presidential Initiatives.

Key results as reported under the USAID-managed Online Presidential Initiatives Network (OPIN) which provides a "one-stop shopping center" for information and progress reports include the following:

The Clean Energy Initiative:

450 health care facilities located in remote and underserved areas of Peru received funding for solar-powered communication and medical equipment. One jungle district, Napo, is ranked as the best health facility for vaccination coverage of children. 100% are vaccinated against diphtheria, tetanus and whooping cough, and 81% against measles, mumps and rubella.

Trade for African Development:

Through benefit analysis, inter-country diplomacy and coordination and private sector outreach, in November 2003, the Southern Africa Trade Hub facilitated the Trans Kalahari Corridor Memorandum of Understanding among the countries of Botswana, Namibia and South Africa. It is estimated that using this more direct route from South Africa to Walvis Bay, Namibia, will save approximately \$1.6 million dollars each year in transportation costs and shorten by 10 days exports to the U.S. As a result, business and trade sectors in South Africa, particularly the garment industry, can more rapidly expand trade opportunities with the U.S. provided by the African Growth and Opportunity Act.

Centers for Excellence in Teaching:

In partnership with Scholastic Books, New York, the world's largest publisher and distributor of children's books, reading libraries are provided to every classroom in the Caribbean participating in the Centers for Excellence in Teacher Training (CETT) Initiative. Online distance education training is being used in Bolivia to improve classroom reading skills. Group work with CETT trainers is also used to enhance teaching skills.

Initiative to End Hunger in Africa

Interventions in the Niger Upper Valley Zone have contributed to a near doubling in the production of onions, green beans, and sesame over the past four years. Increased sales of treadle pumps to smallholder farmers factor into the increase. USAID support also helped to establish 220 smallholder farming plots benefiting approximately 9,000 producers of whom 82% are women. EnterpriseWorks Worldwide, a non-profit organization and initiative partner, is working to expand the use of efficient wood-burning stoves. So far, the sale of 73,500 stoves has saved 24,000 hectares of forest and reduced CO2 emissions.

Central American Free Trade Agreement Initiative

The USAID Regional Quality Coffee Program facilitated the export of nearly 1,200 tons of quality coffee, which commanded premium market prices. More than 40% of the coffee was purchased from third party-certified – environmentally, socially and economically responsible – producers. Nearly 48,000 micro, small and medium-sized farming enterprises received technical training to make their products more competitive in local, regional and global markets. Of this group, small-sized farmers were able to compete internationally and diversify production when assistance included improved production technologies, market linkages and access to financing.

Faith-Based and Community Initiatives

USAID's Office of Foreign Disaster Assistance (OFDA) approved a proposal to purchase six tractors and farming implements to support a mechanized farming project in the Nuba Mountains of Sudan. Unable to produce enough crops on individual plots to ensure food security, tribal elders asked Samaritan's Purse, a nondenominational evangelical Christian organization, to help create a large community farm. 70 families prepared 140 arable acres out of scrub brush and rocks. Continued project support is converting old farming practices using hand tools in an inhospitable environment to mechanized methods that produce surplus grain for the local market. ■

LAST MILE INITIATIVE

The Last Mile Initiative, a global program to expand the access of the rural poor to communications, was launched by Administrator Natsios. This initiative will spur increases in productivity and transform the development prospects of farmers, small businesses, and other organizations in rural areas presently underserved by the world's major voice and data telecommunications networks.

Last Mile Initiative keys to success are innovative technology solutions that extend connectivity from the edge of existing networks to the underserved, innovative business models that make the extensions of connectivity profitable, and the development of innovative content and applications for users to turn their connectivity to strong advantage

KEY ELEMENTS OF LAST MILE INITIATIVE COUNTRY PROGRAMS

While there are no ironclad requirements governing particular Last Mile Initiative country programs, and while the Agency encourages USAID missions to develop programs that suit local conditions, the Agency does anticipate that most program will incorporate the following key elements:

- ◆ Innovative deployments of low-cost technologies
- ◆ Strong integration with existing USAID mission programs
- ◆ Host-government support for related and necessary policy and regulatory reform
- ◆ Strategy for assuring appropriate innovation
- ◆ Participation by U.S. technology vendors, though not necessarily to the exclusion of other (particularly local) vendors
- ◆ Clear strategy for bringing initial Last Mile Initiative pilot activities to a national scale.

LAST MILE INITIATIVE TARGETS

The target for the first year of the Last Mile Initiative was to have at least one country program operational in each of the four USAID regions. This target has been exceeded. Regional Bureau IT Coordinators nominated country programs and then, with staff of the



IT Team in EGAT, reviewed concept papers. Selections were made, and FY 2004 funds were transferred from Washington to the field. Programs are now well underway in six USAID countries: Peru, Guatemala, Macedonia, Sri Lanka, Ethiopia, and Nigeria. Within three years, the target is for Last Mile Initiative programs to be operating in up to 20 countries.

LAST MILE INITIATIVE BUDGET

A budget of \$3 million has been obligated in the first year of the Last Mile Initiative to supplement funds already at work in field programs. A budget of \$10 million is planned over two to three years. Working with industry leaders and experts from research institutes and universities, proposals for the second year of the Last Mile Initiative are now being prepared. Current information is published at <http://www.usaid.gov> Keyword: Last Mile Initiative. ■

FUTURE DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS AND TRENDS

Today, USAID is witnessing the most significant shift in awareness and understanding of international development that's been seen since the end of World War II. The demise of the Soviet Union, the integration of global communications and markets; the growing menace of global terrorism, weapons of mass destruction and transnational crime; the surge of HIV/AIDS and other infectious diseases—all these are hallmarks of an altered 21st century landscape for development. Failed states and complex emergencies now occupy center stage among the nation's foreign policy and national security officials. Americans now understand that security in their homeland greatly depends on security, freedom, and opportunity beyond the country's borders. USAID's development mission is now as essential to U.S. national security as are diplomacy and defense.

To prepare the Agency for these new challenges and opportunities, USAID is addressing them head on:

Technical Leadership

USAID is revitalizing its cutting-edge technical leadership and reforming critical business operations.

Operational Integration

The Agency has integrated its emergency, transition, and food operations into a single capacity to respond to failing states, complex crises, and post-conflict reconstruction, and augmented it with a new conflict mitigation and management focus.

Alignment of Foreign Assistance and Foreign Policy Objectives

USAID is carefully aligning its foreign assistance and foreign policy objectives and resources with the U.S. Department of State to assure maximum impact of foreign aid targeted on the right objectives.

The Evolving Role of Foreign Assistance

Thus, U.S. foreign assistance now must be understood as addressing five core operational goals:

- ◆ Promoting transformational development
- ◆ Strengthening fragile states
- ◆ Providing humanitarian relief
- ◆ Supporting U.S. geostrategic interests
- ◆ Addressing transnational problems

External factors that will challenge USAID's ability to achieve its desired outcomes include:

Global/Transnational Issues and Other Special Foreign Policy Concerns:

primarily HIV/AIDS but also other infectious diseases, climate change, narcotics, and other issues that need to be addressed in various countries. These concerns affect to varying degrees development prospects and progress in fragile states. However, they are typically addressed as self-standing concerns that call for their own distinct strategic approaches and guiding principles.

Humanitarian Response: relief from both manmade and natural disasters. Humanitarian aid has been required at different times for relatively stable countries in Central America, Africa, and Asia; and also more typically for weak or failing states. Apart from disasters, there is also ongoing humanitarian aid in countries, such as India and Bangladesh, which are stable and making progress. Again, these humanitarian concerns are arguably separate and distinct from the challenges of development and fragile states.

Specific Strategic Foreign Policy Priorities Pertaining to

Countries (e.g., key partners in the war on terrorism, Middle East Peace, and the Stability Pact) that call for funding such as Economic Support Funds (ESF)—formerly known, quite aptly, as Security Supporting Assistance. These priorities are not necessarily separate and distinct concerns. Instead, for some of these countries the two core concerns—development progress (e.g., Egypt, Jordan, Pakistan, Indonesia, Philippines, Costa Rica) and strengthening fragile states (in Iraq, Afghanistan, Haiti, Kosovo) have been especially important from a foreign policy standpoint. In others (Israel, Turkey) neither development nor fragility are central programmatic concerns.

Global Development Alliance

Private resources play a large and increasing role in addressing many of the challenges discussed above. USAID will continue to emphasize the Global Development Alliance (GDA) as a vehicle for leveraging private resources through partnerships. The GDA and other alliance-building mechanisms can also help foster a more vibrant and effective civil society as a force for public sector accountability and responsiveness. See page 49 for a concise overview of the GDA.

Financial Implications

USAID's costs of doing business are funded through a separate account, Operating Expenses (OE). Because OE is set at a fixed level that does not vary with the total program the Agency manages, the Agency faces the risk that large-scale program growth will swamp its ability to provide quality administration of its program portfolio. Over the first half of this decade, program levels rose by as much as 90 percent from the FY 2000 base, while total growth in the OE account was only 23 percent.

USAID is addressing this challenge by establishing a marginal administrative cost rate for program surges. The marginal cost of managing additional program dollars is about seven percent. The Agency has successfully negotiated with the Millennium Challenge Corporation (MCC) and the State Department to provide administrative funding at this rate for select programs that USAID will manage.

International challenges present unexpected exigencies that require increased flexibility to meet changing priorities. Flexibility could be enhanced by continuously identifying excess and unneeded funds; maintaining a comprehensive, Agency-wide database, including improved linkages between budget and financial databases; obtaining authorization to preprogram recoveries irrespective of previous earmarks; better management of future funding expectations; updating budget projections throughout the budget formulation process; and withholding a percentage of new obligating authority (NOA) annually in a contingency fund.

Data Reliability, Completeness, and Validity

Performance measurement is dependent on the availability and integrity of useful data that will indicate the reliability, completeness, and validity of performance. Because all data are imperfect in some fashion, pursuing "perfect" data may consume public resources without creating appreciable value. For this reason, there must be an approach that provides sufficient accuracy and timeliness, but at a reasonable cost. This section of the PAR provides information on how USAID uses performance data, assesses limitations of the data, and plans to improve USAID's data verification and validation reporting processes.

To ensure that a level of data quality is being maintained, our operating units are requested to ensure that the data reported met the OMB standards for data reliability that is presented in OMB Circular A-11, Section 231.7. The OMB standard is as follows:

Performance data are acceptably reliable when there is neither a refusal nor a marked reluctance by agency managers or government decisionmakers to use the data in carrying out their responsibilities. Performance data need not be perfect to be reliable, and the cost and effort to secure the best performance data possible can exceed the value of any data so obtained.

Verification and validation of the Agency's performance results are accomplished by periodic reviews, certifications, and audits, including Data Quality Assessments (DQAs) of operating unit (OU) performance, and annual certification of OU Strategic Objectives and their relationship to the Agency's Strategic Goals. Because of the size and diversity of the Agency's portfolio, validation and verification is supported by extensive automated systems, external expert analysis, and management reviews.

Data Limitations: Timeliness is the most significant limitation for USAID performance measurement data. Most USAID performance data is not collected on a fiscal year basis, due to the nature of the organizations that carry out the bulk of our work; external and third party data is also, sometimes, the best data sources we have. The data that is collected through our Annual Report system requires several months of post-collection processing, making final results unavailable for this report. **Data reliability and data validation statements will be included with each Indicator/Target set in the Performance Results section of the FY 2004 PAR Addendum, which will be available in March 2005.**

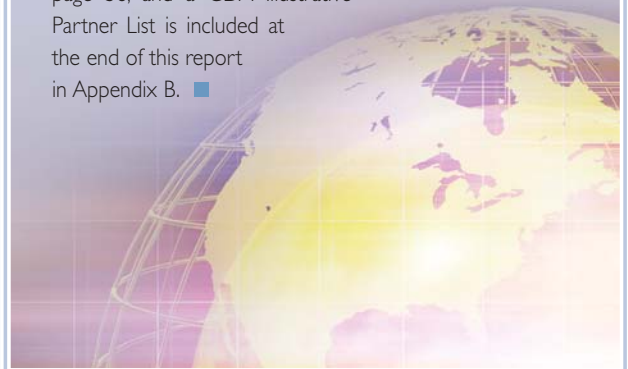
GLOBAL DEVELOPMENT ALLIANCE

Overview

Private resources play a large and increasing role in addressing many of the challenges discussed above. USAID will continue to emphasize the Global Development Alliance (GDA) as a vehicle for leveraging private resources through partnerships. The GDA and other alliance-building mechanisms can also help foster a more vibrant and effective civil society as a force for public sector accountability and responsiveness.

Since its inception, USAID has worked with the private sector and other partners to carry out development and relief programs. But today more than ever before, the reality of private resource flows from the United States to developing countries dictates a changed approach. In the 1970s, 70 percent of resource flows from the United States to developing countries consisted of Official Development Assistance. Thirty years later, 80 percent of the total resource flows come from U.S. corporations, foundations, private giving, and personal remittances, among other sources, while Official Development Assistance accounts for only approximately 14 percent.

Secretary of State Powell launched the GDA Initiative in May 2001 to engage new stakeholders and harness the power of public/private alliances to address challenges in the developing world. While USAID has long engaged in successful partnerships, GDA represents a more strategic approach to alliance building in order to bring significant new resources, ideas, technologies, and partners together to address development problems wherever USAID works. The GDA model is particularly tailored to allow the Agency to expand joint efforts with nontraditional partners. Significant GDA achievements in FY 2003 and 2004 are highlighted on page 56, and a GDA Illustrative Partner List is included at the end of this report in Appendix B. ■



ILLUSTRATIVE EXAMPLES OF SIGNIFICANT ACHIEVEMENTS

STRATEGIC GOAL #1: REGIONAL STABILITY

USAID was instrumental in the organization and success of the International Reconstruction Conference on Liberia and in attracting vital political and financial support (\$500 million pledged) from key regional and international institutions during the initial critical phases of the transitional period, thereby preventing a backslide into continued conflict. USAID/Liberia's extensive reintegration and peace building programs promote community-based economic revitalization and reconciliation and have set the standard for other donors, demonstrating the U.S. commitment to stability in the region.

After fifteen years of war, political and financial pledges of support at the USAID-supported International Reconstruction Conference is providing Liberians with hope to build a future of regional stability.



STRATEGIC GOAL #2: COUNTERTERRORISM



USAID works in 75 percent of the frontline countries identified as vulnerable to exploitation by terrorist organizations. USAID's education programs provide an alternative to radical Islamic madrassas; the Agency's skills training and economic enterprise programs offer opportunities and alternatives to radical clerics' recruitment. USAID's financial reform programs help combat money laundering and are helping reduce the flow of funds to terrorist groups. USAID democracy and governance programs help build transparency in government that can deny terrorist sanctuary and safe haven. These USAID efforts – ongoing for years – now have a very specific focus in U.S. national security.

USAID-funded education programs, such as the formal education process exemplified in this photo, provide a positive alternative to the radical teachings of the Islamic madrassas.

STRATEGIC GOAL #3: INTERNATIONAL CRIME AND DRUGS

In the late 1980's and early 1990's, the Chapare region of Bolivia was home to about 35,000 hectares of coca, and legal crops covered an equal number of hectares. With the efforts of USAID and the government of Bolivia over the last 10 years, the area committed to coca has dropped by over 85 percent, to 4,500 hectares, and the area committed to legal crops has expanded to more than 135,000 hectares. USAID programs have introduced new crops and agricultural research, stronger market linkages and producer groups, a vast network of all-weather cobblestone farm-to-market roads, electrification, investment promotion, and environmental mitigation. This support for market-led and private sector-driven agricultural growth has increased trade in Bolivian crops. The wholesale value of all legal farm production rose 33 percent between 2000 and 2003 to approximately \$37 million, and the value of private sector investment in the Chapare (excluding petroleum and lumber) rose 163 percent between 1999 and 2003 to \$68.5 million.

USAID's income diversification program has been able to transform the lives of the Bolivian rural poor in the high mountain valleys by raising farmers' incomes significantly.

**STRATEGIC GOAL #4: DEMOCRACY AND HUMAN RIGHTS**

Funded through the Africa Bureau's Anti-Corruption Initiative, a sub-grant to the Timber Producers Association of Zambia (TPAZ) exposed the corrupt inner workings of the timber industry and illicit dealings by commercial saw millers. To expose corrupt government officials, TPAZ officials, with cameramen from the national television station, led the Deputy Environment Minister on a surprise raid of an illegal lumberyard. This was captured in dramatic news footage, and broadcast nationally, showing the Minister in conflict with the manager of the plant, who refused to reveal



the source of the company's timber. The manager, a foreigner, was fined and deported. The episode revealed the extent of corruption in the timber industry, resulting in the government's temporarily banning the issuance of lumber licenses in order to realign procedures to curb corruption.

USAID's Anti-Corruption Initiative is helping Zambia expose illicit dealings in the timber industry, thus increasing private sector competitiveness in agriculture and natural resources.

STRATEGIC GOAL #5: ECONOMIC PROSPERITY AND SECURITY

The three regional “Hubs for Global Competitiveness” created in West (Accra), Southern (Gaborone) and East (Nairobi) Africa through the Presidential Trade for African Development and Enterprise (TRADE) Initiative have undertaken a variety of training and technical assistance activities to support African countries’ efforts to reap the benefits of the Africa Growth and Opportunities Act (AGOA). The southern Africa Hub, for example, has provided training in support of the U.S.-Southern Africa Customs Union Free Trade Arrangement negotiations with workshops on trade in services, rules of origin, environmental trade issues, and tariff policy. Largely as a result of AGOA, U.S. total trade with sub-Saharan Africa rose 37 percent in the first half of 2004 over the same period a year earlier and AGOA imports during the same period increased by 75 percent to \$11.6 billion.

The African Growth and Opportunity Act (AGOA) offers tangible incentives for African countries to continue their efforts to open their economies and build free markets.



STRATEGIC GOAL #6: SOCIAL AND ENVIRONMENTAL ISSUES

USAID has continued to help several countries in Eastern Europe and the former Soviet Union to reform their health systems, a long-term and crucial process that will turn systems based on an inefficient and ineffective Soviet model into modern, sustainable, and effective systems based on primary health care. Significant achievements were made toward this effort in FY 2004. USAID/Armenia implemented a physician open enrollment scheme in two of Armenia’s largest cities, whereby 147,996 patients (52 percent of the catchment’s population) can now choose their primary care physician rather than being assigned one. Health care providers in the program will be remunerated according to the number of enrollees and quality of services. The Ministry of Health is considering countrywide implementation in 2005-2006. In Kyrgyzstan, a single-payer health financing system was rolled out to two more provinces, meaning that six of the country’s eight provinces, plus the capital, are now covered by a reliable, realistic health care funding mechanism. In Kazakhstan, the Ministry of Health approved the first ever set of evidence-based clinical practice guidelines for outpatient care, a major shift from the former practice of following non-evidence based government edicts.



USAID helps countries like Armenia reform its health sector to ensure continued protection for socially vulnerable groups.

STRATEGIC GOAL #7: HUMANITARIAN RESPONSE

The United States continues its leadership in emergency feeding programs worldwide. Darfur, Sudan, was the greatest challenge for USAID's Food for Peace office (FFP) in FY 2004. Working through Agency private voluntary organizations (PVO) and UN World Food Program partners, U.S. food valued at over \$113 million (representing over half of total food given for Darfur) is making its way to more than 1.5 million conflict-affected Sudanese in Darfur, and another 200,000 who fled to camps in neighboring Chad. As a result of early and substantial U.S. action, famine in Darfur has been averted.

In FY 2004, USAID's Food for Peace office addressed the needs of 1.5 million Sudanese for food security in Darfur.

**STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE**

Strategic Budgeting Model: The Agency developed a formal strategic budgeting model to help decide how to allocate resources to bilateral country programs. The model is based on the following criteria: development need, country commitment, foreign policy importance, and program performance. The Agency first applied this model to the formulation of its FY 2004 budget request, which resulted in reallocation of some funds from lower performing to higher performing programs. The model was expanded during the formulation of the FY 2005 budget to categorize countries based on Millennium Challenge Account (MCA) criteria of commitment to economic freedom, governing justly, and investing in people. The countries were divided into four categories: Top Performers (based on MCA criteria), Good Performers (including near misses and other high performers who do not meet the per capita income threshold for MCA consideration), Fragile or Failing States, and Other Foreign Policy Priority Countries (those which are rated low on country commitment, as measured by MCA criteria, but which are important for U.S. foreign policy reasons). This more sophisticated model was used to inform the budget allocations to USAID country programs across the four categories. The Agency has several appropriation accounts that finance country programs around the world.



The development of the Agency's formal strategic budgeting model significantly enhances the efficiency and effectiveness of bilateral resource allocations.

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STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE *Continued***Phoenix Accounting System Overseas**

Deployment: On September 21, 2004, Administrator Natsios thanked the Phoenix pilot missions – Colombia, Egypt, Ghana, Peru, Nigeria – for their successful implementation of Phoenix and announced that all missions should get ready for worldwide deployment. He stated that Phoenix "is not just a CFO (Chief Financial Officer) project, not just an M (Management Bureau) project. Every officer in every mission must understand Phoenix or we will not successfully implement it." The Agency plans to fully replace the Mission Accounting and Control System (MACS) worldwide by April 2006.



Phoenix becomes operational in Peru.

USAID is coordinating the implementation of Phoenix overseas with the State Department through a project referred to as the Joint Financial Management System (JFMS). This project began in 2002 when it was recognized that State and USAID were independently implementing the same financial software package, and they could achieve savings by working together to implement a common platform to serve both agencies. Deployment of Phoenix overseas will extend the headquarters core accounting system to USAID's worldwide missions and, when fully implemented, will be the central component of the Agency's global business platform. The overseas deployment of a web-based, financial management system will provide an affordable and standardized Agency-wide system for budget execution, accounting, and financial management.

Procurement System Improvement Project (PSIP): The Agency launched the implementation phase of PSIP. The goal of PSIP is to replace the current acquisition and assistance system with a Web-based system that will be integrated with USAID's financial accounting system. This undertaking brings to USAID a single, Agency-wide application to handle acquisition, assistance, and financial accounting needs. There will be many benefits, including the elimination of redundant data entry. It will also bring electronic processing capability for the first time to field missions. In addition, PSIP will provide for integrated procurement and financial systems which will facilitate budgeting, planning, procurement, and performance management. A new procurement system will be deployed to overseas missions in coordination with the Phoenix rollout and the overall Joint State-USAID Strategic Plan for FY 2004 – 2009.

Capital Planning and Investment Control (CPIC) Process Implementation: USAID established new CPIC procedures that are streamlined and compliant with federal regulations. The new procedures were designed to implement investment practices required by the Clinger-Cohen Act of 1996. This legislation requires that major IT investments be supported by comprehensive business cases, evaluation and control mechanisms, and be approved by a high level executive body representing Agency-wide business interests. The Business Transformation Executive

Continued on next page

Committee (BTEC) serves as the CPIC authority for USAID. To ensure that approved projects are meeting the objectives described in business cases, quarterly progress reports are required.

Increased Human Resources (HR) Capacity to Support USAID's Mission: Based on comments from the Administrator's annual Employee Survey, the Agency is developing a strategy to improve personnel services and streamline HR processes. To enhance services, an automated recruitment tool, was introduced to accelerate processing of HR transactions. It reduces the amount of time required to fill vacancies, streamlines the job application process, and provides timely information to applicants. As a result, the internal recruitment cycle has been reduced from 229 days to less than 45 days from job announcement to employee selection in conformance with OPM standards. An internal study revealed that AVUE has saved the Agency the equivalent of seven full-time positions due to the streamlining of processes. AVUE features enable filling out and submitting applications online, notifying applicants of the status of their application by e-mail, and automating the rating and ranking process. These increased efficiencies enable the Agency's HR professionals to devote more time to serving as consultants to their customers.

Joint State Department/USAID Collaboration: USAID and the Department of State formed a Joint Management Council to oversee and implement collaborative management activities to which the agencies had committed in the Joint State-USAID Strategic Plan for FY 2004-2009. The Council established eight working groups to collaborate on joint activities in the following areas:

- ◆ Resource Management
- ◆ Management Processes and Systems
- ◆ Management Services and Planning
- ◆ Information and Communications Technology
- ◆ E-Government
- ◆ Facilities
- ◆ Security
- ◆ Human Capital

As a result, USAID and the Department of State achieved the following in FY2004:

- ◆ Implemented shared services pilots at four overseas posts to improve administrative services and eliminate wasteful and/or unnecessary duplication.
- ◆ Developed a pilot exchange program of domestic and foreign assignment opportunities for mid-level Foreign Service Officers from both the Department of State and USAID in order to increase understanding in the two agencies of each other's role in the foreign affairs process and help fill respective program needs with trained officers; aligned both State Department and USAID budget and planning cycles to ensure policy and program decisions are made with full input from both State and USAID.
- ◆ Established direct connections between the Department of State's and USAID's intranets, making both networks available to domestic and overseas staff from each agency.

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GDA - A PRINCIPAL BUSINESS MODEL FOR THE AGENCY

As introduced on page 49, in FY 2004, USAID operating units worldwide continued to mainstream public-private alliance building as a principal business model for the Agency. In the course of this mainstreaming process, USAID achieved impressive results in new or strengthened alliances with businesses, trade groups, foundations, universities, multilateral donors, faith-based organizations, indigenous groups, immigrant communities, and government agencies. The resources united were as diverse as the alliances themselves, including technology and intellectual property rights, market creation, policy influence, in-country networks, and expertise in development programs that ranged from international trade to biodiversity protection.

Final FY 2003 Results

For a public-private alliance to be reported under the GDA Initiative, USAID resources must be matched by at least one-to-one by all other partner resources combined, excluding other federal resources. Partner resources can include contributions of cash, in-kind, intellectual property, and HR. In FY 2002-2003, a USAID investment of \$500 million across 200 alliances leveraged over \$2.2 billion in partner resources (Figure 1, will be updated to reflect final FY 2004 figures in the FY 2004 USAID PAR Addendum, due for publication in March 2005).

Through public-private alliances, USAID leverages resources and development impact in every technical sector in which USAID works. Alliances in the health sector enjoy both the highest aggregate funding and leverage – a USAID investment of \$260 million for 34 health alliances leveraged over \$1.0 billion in total partner funding, a ratio of over 3.84:1, partner contribution to USAID resources. This is largely reflective of multilateral and foundation donors investing in global health initiatives such as the Global Alliance for Vaccines and Immunization (GAVI) and Global Alliance for Improved Nutrition (GAIN).

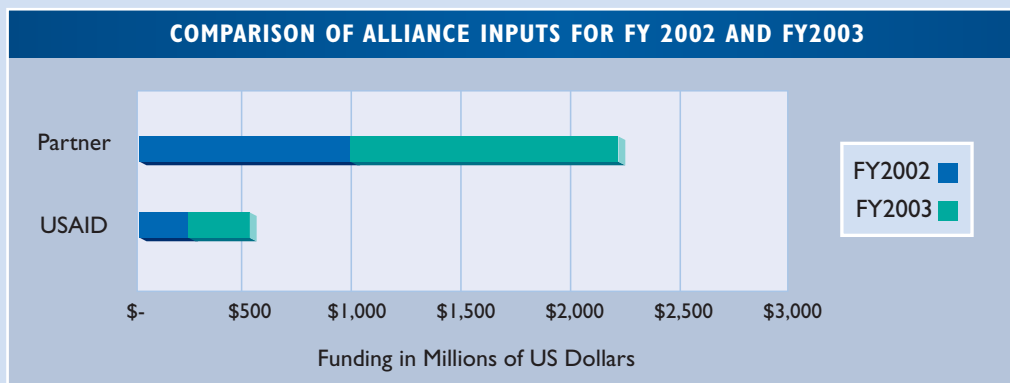


Figure 1

Continued on next page

SUMMARY AND RAMIFICATIONS OF FY 2003 RESULTS RATED " BELOW TARGET "

In FY 2003, USAID achieved six out of seven of its Strategic Goals for that year. The only Strategic Goal it did not achieve was in Counterterrorism. Of the six Strategic Goals that were achieved, five did contain operating units that did not meet some of their operating unit objectives, but overall Strategic Goal performance was assessed as meeting intended objectives. To determine whether a Strategic Goal was achieved overall, the Agency uses a methodology that assesses the overall proportion of targets met and exceeded to targets that were not met. The following text describes specific objectives that were assessed as "Below Target," as well as an assessment of these failures in the context of overall Strategic Goal achievement.

Strategic Goal 1

REGIONAL STABILITY

Two operating units – Panama and Afghanistan – failed to achieve targets in their regional stability objectives. In Panama the failure to jointly develop and approve proposals by local governments and community-based organizations is responsible for the failure to meet the objective. In Afghanistan, USAID missed the amount of total revenue that would be collected through tax and customs. The corrective action taken differs according to the specific circumstances in each country and can be found at <http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv>. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these two operating units to meet their country specific targets did not, however, impede the Agency from achieving its regional stability goal.

Strategic Goal 2

COUNTERTERRORISM

Only one operating unit – the Philippines – failed to achieve its targets for its objective to strengthen peace in Mindanao. In particular, it missed the number of community construction projects started by 67 percent. The failure to meet the target stems from the insurgency in the region and corrective measures are being taken to better identify communities where these projects can take place. As there are only two countries currently implementing programs linked to this strategic goal, the failure of the Philippines to meet its objective has caused the Agency to fail to meet its objectives in this Strategic Goal area.

Strategic Goal 4

DEMOCRACY AND HUMAN RIGHTS

Nine operating units – Columbia, Ghana, Madagascar, Mozambique, Namibia, Nicaragua, the Regional Center for Southern Africa, Serbia, and Tajikistan – failed to achieve targets in their democracy objectives. In all cases, these failures are attributable to the challenge of establishing and working with democratic governments in developing countries. The corrective action taken differs according to the specific circumstances in each country and can be found at: <http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv>. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these nine operating units to meet their country specific targets did not, however, impede the Agency from achieving its Democracy and Human Rights goal.

*Strategic Goal 5***ECONOMIC PROSPERITY AND SECURITY**

Nine operating units – Liberia, West African Regional Program, Uzbekistan, Philippines, Sri Lanka, Macedonia, Turkmenistan, Georgia, and Indonesia – failed to achieve targets in their economic growth objectives. In all cases, these failures are attributable to the challenge of expanding economic opportunities in developing countries. Circumstances ranged from very poor crop production in Liberia to greatly under estimating the number of new members in credit unions in Uzbekistan. The corrective action taken differs according to the specific circumstances in each country and can be found at <http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv>. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these nine operating units to meet their country specific targets, did not, however, impede the Agency from achieving its Economic Prosperity and Security goal.

*Strategic Goal 6***SOCIAL AND ENVIRONMENTAL ISSUES**

15 operating units – West Bank/Gaza, Jamaica, Mali, Brazil, Afghanistan, Russia, Guyana, Liberia, Democratic Republic of Congo, Bureau for Global Health, Dominican Republic, Natural Resource Management Office, Guatemala, the Regional Center for Southern Africa, and the Philippines – failed to achieve targets in their social and environmental objectives. This Strategic Goal contains the greatest diversity of sectors – including health, education and environment – and thus is hardest to summarize. In West Bank/Gaza, keeping USAID trainees in the country and working in their specialties proved to be the challenge that prevented the operating unit from

reaching its objective. In the Dominican Republic, creating health service providers for the poor that can increasingly sustain themselves financially proved illusive. In all cases, these failures are attributable to the challenge of expanding social services in developing countries. The corrective action taken differs according to the specific circumstances in each country and can be found at <http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv>. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these 15 operating units to meet their country specific targets, did not, however, impede the Agency from achieving its Social and Environmental Issues goal.

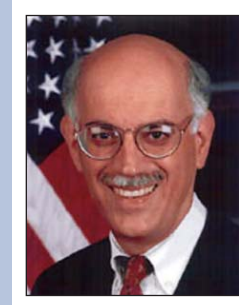
*Strategic Goal 7***HUMANITARIAN RESPONSE**

Four operating units – Sri Lanka, Bosnia and Herzegovina, Kosovo, and El Salvador – failed to achieve targets in their humanitarian response objectives. In all cases, these failures are attributable to the challenges of working in man-made and natural disaster situations. Circumstances ranged from under achieving the annual number of direct beneficiaries of improved services and economic opportunities in Kosovo, to reconstructing only 32 percent of planned community infrastructure projects in El Salvador. The corrective action taken differs according to the specific circumstances in each country and can be found at <http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv>. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these four operating units to meet their country specific targets did not, however, impede the Agency from achieving its humanitarian response goal.

BUSINESS TRANSFORMATION AT USAID

“THE MOST FUNDAMENTAL CHANGES IN NATIONAL SECURITY POLICY SINCE THE BEGINNING OF THE COLD WAR ARE OCCURRING. AND PRESIDENT BUSH HAS BEEN EMPHATIC THAT DEVELOPMENT WILL PLAY A CENTRAL ROLE. THIS IS, THEN, A TURNING POINT FOR USAID AS IT IS FOR THE COUNTRY AS A WHOLE. TO REMAIN EFFECTIVE, THE AGENCY MUST ENHANCE ITS BUSINESS SYSTEMS AND PROCESSES. I HAVE MADE MANAGEMENT REFORM ONE OF MY HIGHEST PRIORITIES SO THAT THIS AGENCY CAN MEET THE CHALLENGES OF THE NEW ERA.”

– Administrator Andrew S. Natsios



USAID'S BUSINESS TRANSFORMATION

During FY 2004, USAID made substantial progress in meeting the goals of its business transformation – a multi-year, multi-step plan to reform the Agency's management systems and improve organizational performance. The plan has been designed to address the President's Management Agenda (PMA), the Administrator's Management Reform Principles, and the Management and Organizational Excellence strategic and performance goals of the Joint State-USAID Strategic Plan.

The Agency's Business Transformation Executive Committee (BTEC) meets monthly to review progress, set priorities, and make decisions regarding the initiatives associated with the major components of USAID's business transformation plan. The BTEC, composed of senior career executives across the Agency, is based on the recognized “best practice” that successful, large-scale transformation requires active collaboration, shared ownership, and accountability across an organization's entire top leadership team.

USAID's Business Transformation Plan is an integrated and coordinated plan with mutually reinforcing performance goals organized around four focus areas that describe how USAID is applying the Agency's most important assets—its people, ideas, technology, and results—to improve the Agency's results in development and humanitarian initiatives around the world. The plan, which directly supports the goals of the PMA, is composed of the following four components: Strategic Management of Human Capital, Business Systems Modernization, Knowledge for Development, and Strategic Budgeting. The following is a summary of each initiative's challenge, goal, FY 2004 achievements, and next steps.

ADMINISTRATOR NATSIOS' MANAGEMENT REFORM PRINCIPLES

1. Simplify and standardize business systems and processes to reduce cost, simplify use, and enable the Agency to respond with speed and agility to change program needs.
2. Establish a customer service culture making the Agency's own business systems as cost effective and user friendly as possible.
3. Increase efficiency by reducing overhead expenses so that costs of doing business are transparent, aggressively managed, and compare favorably with peer organizations.
4. Promote partner inclusiveness in all business relationships to better meet the needs of internal and external customers and to ensure that small businesses are well-represented.
5. Increase transparency in program and business decision-making, assuring that decisions are fast, results-driven, and clearly understandable to large and small partners.
6. Ensure accountability and compliance with the letter and spirit of all applicable laws and regulations to achieve a clean audit opinion, deter legal disputes and acquire a sterling reputation for sound management
7. Deliver programs smarter, faster, better, and cheaper, continuously improving USAID's performance as a global “thought leader” and as the world's most effective delivery organization of economic and humanitarian assistance

PEOPLE: STRATEGIC MANAGEMENT OF HUMAN CAPITAL

During the decade of the 1990's the Agency suffered dramatic downsizing, insufficient funds, staff reduction, little to no hiring, and elimination of most training. This led to serious workforce and competency gaps, and the Agency is undertaking specific actions to address these challenges. The objective of the Agency's human capital reforms is to get the right people in the right place, doing the right work at the right time (with the right knowledge, skills, and experience) to pursue U.S. national interests abroad.

FY 2004 Achievements

- ◆ The BTEC approved a five-year USAID Human Capital Strategic Plan 2004-2008 to address the Agency's most critical workforce and competency gaps. To rebuild the Agency's human capital to meet global development, conflict, and humanitarian challenges, the plan's strategic objectives are a high performing workforce achieved, staff strategically aligned with Agency priorities, a more flexible workforce established, a diverse workforce created, and increased HR capacity to support USAID's mission.
- ◆ Initiated preliminary activities to conduct the first comprehensive workforce analysis in the Agency's history. This analysis will help to determine staffing levels needed to meet program demands, identify gaps in skills and staffing levels, and create a plan to close the gaps. As a result of this work, USAID plans to implement a permanent workforce analysis and planning system during the second quarter of FY 2005.
- ◆ An Overseas Staffing Template was developed for allocating overseas staff that is integrated with the Agency's strategic planning and budgeting process. Applying this template, Agency management is repositioning the overseas Foreign Service workforce—700 full-time staff—to address critical staffing gaps in the Asia and Near East region.
- ◆ The Agency completed the first year of the Development Readiness Initiative (DRI) which is actively recruiting staff through several hiring mechanisms. Foreign Service

career programs include the International Development Intern (IDI) program and the New Employee Professional (NEP) program. The Agency reinstated the Contract Specialist Intern Program (CSIP) and expanded the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions respectively.

- ◆ Eighty-five candidates were selected for five-year appointments through non-career, limited-term appointments in the first year of a congressionally authorized program that allows the Agency to convert 250 personal services contractors through the end of FY 2006. This new authority will help fill the overseas positions that typically remain unfilled at the end of each Foreign Service assignment cycle due to a lack of qualified staff. The new authority will also assist in providing a surge capacity to respond to global emergencies and new strategic priorities.
- ◆ Leadership and procurement training has been enhanced: nearly 300 employees received executive and senior leadership training, nearly 200 employees received supervisory training, and over 500 employees received cognizant technical officer (CTO) certification training. Employees have completed nearly 1000 courses online through the Agency's "e-Learning Institute." Accounting, marketing, management, communications, and other subjects are taught through text presentations, simulations, and chat rooms. The self-paced, self-taught courses are a cost-efficient alternative to instructor-led courses and resulted in approximately more than \$200,000 in cost savings for USAID in FY 2004. These savings will continue to grow rapidly as more advanced level Agency courses require distance-learning courses as prerequisites, and as more and more employees learn to access this relatively new training medium.

During FY 2004, the Agency conducted an extensive review of key processes of the USAID business models. Based on the Business Model Review Group key findings that resulted from extensive interviews and surveys, the Administrator approved the following recommendations that are currently being implemented:

- ◆ Restructure the Agency's strategic planning processes to

be more responsive to U.S. foreign policy, externally driven directives and initiatives, Agency and Regional strategic priorities, etc.

- ◆ Develop and implement training to improve the competencies of Agency personnel to better implement USAID programs in a dynamic and changing environment.
- ◆ Establish a system that coordinates overseas Mission program management reviews to routinely evaluate program management and Mission operations.
- ◆ Expand use of Regional Platforms to reduce U.S. "footprint" overseas and better respond with agility and flexibility.
- ◆ Reform and refocus the International Cooperative Administrative Support Services (ICASS) system and seek local outsourcing opportunities for Mission administrative and management services, outside of ICASS.

Next Steps

USAID is participating in the cross-agency OPM HR Line of Business initiative. The goal of this initiative is to consolidate solutions that will enable the federal government to standardize HR business functions and processes as well as the IT systems that support them. This will enable a shift in emphasis within agencies from administrative processing to customer service and strategic planning.

TECHNOLOGY: BUSINESS SYSTEMS MODERNIZATION

The BTEC developed a Business Systems Modernization (BSM) plan to establish a worldwide business platform capable of supporting higher levels of performance. The goal of the BSM initiative is to enhance the delivery of Agency services and programs through Internet-enabled, globally deployed systems and standardized processes and practices. USAID has made significant progress in modernizing its business systems by implementing a new core accounting system, Phoenix, in Washington, DC; initiating the deployment of Phoenix in the overseas missions; planning for a new procurement system; working with the State Department on the Joint Financial

Management System (JFMS) project; and planning for a new State-USAID Joint Acquisition and Assistance Management System (JAAMS).

FY 2004 Achievements:

- ◆ The new Phoenix financial management system was successfully deployed at five overseas missions: Egypt, Ghana, Peru, Colombia, and Nigeria.
- ◆ A Program Management Office (PMO) was established to provide project and portfolio management support to the Agency's major IT capital investments, including those comprising the BSM initiative. The PMO will implement centralized and structured coordination of the major BSM initiatives, oversee and monitor project performance, and measure project results. A key responsibility of the PMO is to assure that the Agency, in partnership with State, develops an Enterprise Architecture (EA) that informs the rational investment of IT resources in support of the Agency business goals.
- ◆ USAID continued its active participation in nine e-Government initiatives. The following seven initiatives are in development: e-Travel, Central Contractor Registry, e-Clearance, e-Training, Grants.gov, e-Records Management, and Integrated Acquisition Environment (IAE). IAE is designed to ensure that federal agencies follow the same procurement processes and buy from the same suppliers. USAID also participates in the completed e-Recruitment and e-Payroll initiatives.
- ◆ USAID successfully completed its first Enterprise Architecture (EA) segment. An EA is an IT and business process modernization blueprint. The Agency's EA efforts have had a number of positive results such as identifying opportunities to strengthen the management of HIV/AIDS programs. The completed EA activities also provide the foundation for developing an executive information system (EIS) to support the President's HIV/AIDS reporting requirements. In addition, USAID and State are currently working together to consolidate both agencies' enterprise architectures, building from a base in large part established at USAID.

Next Steps

The Agency will continue to roll out Phoenix to overseas missions during FY 2005 and will complete deployment during the third quarter of 2006. Phoenix will be "hosted" by the State Department's Financial Services Center in Charleston, South Carolina, beginning in October 2005 as part of the JFMS project.

A new commercial off-the-shelf procurement system will replace the current acquisition and assistance (A&A) system. Because over 60% of USAID's budget funds are obligated through contracts and grants, the A&A process is the primary means by which USAID implements international development and humanitarian assistance programs. The new Agency procurement system will be tested in overseas mission pilot sites during FY 2005 – 2006 and deployed in coordination with Phoenix to overseas missions. Modernizing the A&A system and integrating it with Phoenix is critical to USAID's ability to reduce procurement transaction cycle time, accelerate the delivery of foreign assistance where it is needed and produce more timely and accurate business transformation.

Similar to the collaboration activities under the JFMS, USAID is coordinating the implementation of a joint procurement system with State. JAAMS will also be integrated with Phoenix and USAID's e-Grant activities. Once this integration has been successfully completed with State, the combined systems will create an integrated global business platform.

USAID is developing an Executive Information System (EIS)—an agency-wide automated reporting system that integrates program performance, budget, accounting, and procurement information. This information system facilitates data analysis and reporting to meet the needs of Congress, OMB, the Administrator, headquarters employees, and overseas mission staff. An EIS will enable managers to obtain information from Agency databases to make informed decisions and to track program performance. USAID began developing a prototype of the EIS in 2004 and expects to have the system linked to Agency information sources—including Phoenix, field support information systems, and emerging specialized systems—by 2006.

USAID will also:

- ◆ Complete a joint EA with the Department of State for institutionalization as a strategic management tool.
- ◆ Continue to integrate systems, networks, and IT infrastructure with State.
- ◆ Collaborate with the State Department on the messaging management initiative called State Messaging and Archival Retrieval Toolset (SMART), which will replace current diplomatic cable distribution systems.
- ◆ Continue participation on the cross-agency e-Gov initiatives.

IDEAS: KNOWLEDGE FOR DEVELOPMENT

The Strategic Management of Human Capital initiative under the PMA identifies implementing effective knowledge management systems as key to generating, capturing, and disseminating knowledge and information that is relevant to an organization's mission. USAID's Knowledge for Development (KfD) initiative was designed as a systematic approach to access, use to full advantage, and learn from the Agency's vast reservoir of development knowledge and experience.

FY 2004 Achievements:

- ◆ USAID has designed a multi-faceted KfD strategy that addresses the different requirements and goals of knowledge sharing for staff in the field, staff developing long-term strategies, and staff providing vital support to USAID's daily operations. This strategy—approved by the BTEC in Spring 2004—will continue through FY 2008. The KfD strategy provides the framework for implementation of knowledge management tools, techniques, and methodologies, such as communities of practice, collaborative software, expertise directories, and online repositories for lessons learned.
- ◆ A series of communities of practice pilots previously launched to support knowledge sharing throughout the Agency continued to expand in 2004. Communities of Practice are groups of professionals who come together around a topic or "domain of knowledge"—either virtually

or in person – to share ideas, insights and information, solve problems, and advise each other. A series of best practices, lessons learned, and recommendations were collected on how to use Communities of Practice to improve access to development and operational knowledge, improve mentoring, and capture real-time experience, successes, and failures.

- ◆ A comprehensive "Knowledge for Development Yellow Pages" prototype and pilot were developed that will provide Web-accessible knowledge resources across all facets of USAID's business and operations.

Next Steps

USAID will review collaboration tools for Agency-wide use. Collaboration software provides a set of Web-based functions that support the virtual meeting places where ideas, documents, and operations-related data can be shared. As USAID conducts future pilots and rolls out new tools to support the KfD efforts, the Agency will rely on employees in the field and in Washington to help with implementation. A Knowledge Coordinator will be established in each USAID overseas mission to identify and catalogue existing knowledge sharing capabilities, document knowledge sharing needs, deploy KfD solutions throughout their mission, communicate with other coordinators about best practices and knowledge sharing opportunities, and serve as liaison to regional and pillar bureaus and to USAID's KfD program.

USAID and the Department of State are coordinating to identify joint Knowledge Management initiatives to advance the goals of both the USAID KfD initiative and State's Knowledge Leadership program. A pilot project that will provide access to economic and social databases between agencies is in its early stages. It will be coupled with the trial use of an improved search engine capability for both agencies

RESULTS: STRATEGIC BUDGETING

Building on the goals of the PMA for budget and performance integration, USAID's strategic budgeting transformation initiative's goal is to improve the Agency's strategic planning and resource allocation. Growing global complexities, instability, and insecurity that arise from terrorist, transnational crime, failing states, and global diseases underscore the need to

use U.S. foreign assistance resources effectively. Three strategic planning tools inform this initiative: Strategic Budgeting Model, PART and Overseas Staffing Template.

FY 2004 Achievements:

- ◆ USAID and Department of State synchronized their budget and planning cycles to ensure consistency in the application of the Joint State-USAID Strategic Plan FY 2004-2009 that includes the performance goals that drive this initiative.
- ◆ The Agency applied a newly developed strategic budgeting model to the formulation of its FY 2004 budget request to help decide how to allocate resources to bilateral country programs. This resulted in reallocation of some funds from lower performing to higher performing programs.
- ◆ OMB rated the Agency's Operating Expense (OE) and Capital Investment Fund (CIF) accounts as "moderately effective," in a PART review conducted in FY 2004, placing management of the funds in the top one-third ranking of all federal programs evaluated using the PART.
- ◆ USAID began to reallocate its existing 700 overseas staff positions based on an Overseas Staffing Template that was developed to determine the appropriate allocation of U.S. Direct Hire (USDH) mission staff based on a variety of factors, including program size, foreign policy priorities, and MCA criteria. This was done to better align staff with Agency strategic objectives. As a result, 21 positions are being reassigned to the Asia and the Near East region.

Next Steps

A recently completed Business Model Review will help the Agency to continue to right-size and regionalize program delivery, as appropriate, and provide linkage to Strategic Budgeting efforts to improve the efficiency and effectiveness of central, regional, and bilateral program operations.

USAID's strategic budgeting initiative will continue to evolve as the Agency begins implementation of the joint strategic plan. The results of this effort will institutionalize a set of processes and tools that integrate performance information into the budget decision-making process.

THE PRESIDENT'S MANAGEMENT AGENDA





“WHAT MATTERS MOST IS PERFORMANCE AND RESULTS. IN THE LONG TERM, THERE ARE FEW ITEMS MORE URGENT THAN ENSURING THAT THE FEDERAL GOVERNMENT IS WELL RUN AND RESULTS-ORIENTED. THIS ADMINISTRATION IS DEDICATED TO ENSURING THAT THE RESOURCES ENTRUSTED TO THE FEDERAL GOVERNMENT ARE WELL MANAGED AND WISELY USED. WE OWE THAT TO THE AMERICAN PEOPLE.”

– President George W. Bush

USAID has made significant progress in its business transformation and this has been reflected in the Agency's scores on each of the five government-wide initiatives in the President's Management Agenda (PMA). Issued quarterly by the OMB, an Executive scorecard rates progress and overall status in each of the PMA initiatives using a color-coded system that is based on criteria that are used by all federal agencies. As of September 30, 2004, USAID achieved three "green" scores and two "yellow" scores for progress in achieving the OMB-developed, government-wide criteria and

remains "red" in status for three of the five initiatives. Since March 2004, the Agency has maintained "yellow" status scores for Expanded e-Government and Budget and Performance Integration. For the PMA agency-specific Faith-Based and Community Initiative, USAID received "green" for progress and "red" for status. The following is a summary of USAID's overall progress towards achieving the goals of the PMA during FY 2004. The progress and status scores below are as of September 30, 2004.

PROGRESS 	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL	STATUS 
Goal		
Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with strategic objectives.		
Progress		
<ul style="list-style-type: none"> ◆ Finalized the five-year Human Capital Strategic Plan that lays out plans to address workforce issues in the coming years. ◆ Hired 85 limited term Foreign Service officers in first year of three-year, congressionally authorized recruitment program. ◆ Implemented the first year of the three-year DRI. ◆ Conducted a study to incorporate affirmative employment goals into recruitment strategies and designed strategies to address underrepresentation. ◆ Revised Senior Foreign Service promotion precepts policy and related regulations and guidance. ◆ Completed an Agency Business Model Review (BMR) and recommended consolidating administrative functions in regional service centers to further rationalize staffing and to streamline overseas operations. ◆ Developed and implemented a Succession Planning Strategy to address critical skills gaps. ◆ Completed and implemented the human capital accountability system; completed and analyzed the baseline data for performance metrics. ◆ Began the development of a comprehensive workforce analysis and workforce planning process; collected and utilized initial mission critical workforce planning data; and began identifying and addressing gaps in mission critical occupations and competencies. 		

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PROGRESS 	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL <i>Continued</i>	STATUS 
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Upcoming Action

- ◆ Implement new Civil Service performance appraisal system and Annual Evaluation Form (AEF).
- ◆ Develop new Senior Foreign Service performance system for the 2005 rating period, in concert with the Department of State.
- ◆ Begin second year of DRI.
- ◆ Design and implement new SES performance system for the 2005 rating period.
- ◆ Complete diversity study and prepare recommendations to the Administrator.
- ◆ Conduct overseas mission management assessments per BMR.
- ◆ Complete Headquarters/Field Alignment Study.
- ◆ Complete development of workforce planning and workforce analysis process and begin implementation of strategies to eliminate mission critical skills gaps.

PROGRESS 	IMPROVED FINANCIAL PERFORMANCE	STATUS 
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Goal

- ◆ Improve accountability through audited financial statements; strengthen management controls; implement financial systems that produce timely, accurate, and useful financial information to facilitate better performance measurement and decision-making.

Progress

- ◆ Received an unqualified audit opinion on USAID's FY 2004 financial statements.
- ◆ Completed the first round of overseas deployment of the Phoenix financial management system in five missions (Ghana, Egypt, Peru, Nigeria, and Colombia).
- ◆ Completed actions needed to close three auditor material weaknesses.
- ◆ Closed the Federal Managers' Financial Integrity Act (FMFIA) material weakness on computer security.
- ◆ Implemented an electronic solution for the reconciling and payment of purchase card corporate invoices in Washington.
- ◆ Completed delivery of hardware for network coordination through the first joint State/USAID procurement.
- ◆ With State Department, developed a joint business case for a common financial systems platform.

Upcoming Action

- ◆ Continue with the worldwide rollout of the Phoenix accounting system.
- ◆ Complete the design of the functional and technical components of the integrated financial system in collaboration with State Department to establish a joint financial platform.
- ◆ Develop action plan to address any auditor material weaknesses, reportable conditions, or material non-compliances identified in FY 2004 Government Management Reform Act (GMRA) audit report.
- ◆ Establish a back-up operations facility that will provide access to the financial system for continuity of operations in an emergency.
- ◆ Implement plan to obtain electronic certifications from responsible offices that strategic objectives correspond to appropriate Agency goals.

PROGRESS 	BUDGET AND PERFORMANCE INTEGRATION	STATUS 
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Goal

Improve performance of programs and management by linking performance to budget decisions and improve performance tracking/management. The ultimate goal is to better control resources and have greater accountability of results. Eventual integration of existing segregated and burdensome paperwork requirements for measuring the government's performance and competitive practices with budget reporting.

Progress

- ◆ In March 2004, improved status score from "red" to "yellow" as a result of strategic budgeting improvements.
- ◆ Developed requirements for performance appraisal plans to link, differentiate, and provide consequences for members of the SES, Senior Foreign Service, and managers.
- ◆ Developed efficiency measures for all of the programs that underwent the PART process surpassing the "> 50% of PART'ed programs" PMA milestone by completing these efficiency measures.
- ◆ Seven agency programs (60 percent) received PART rating of "adequate" or better.
- ◆ Finalized Agency-wide common indicators for all performance goals as defined in the Joint State-USAID Strategic Plan.
- ◆ Utilized strategic budgeting model to inform and support the Bureau Program and Budget Submission process.
- ◆ Synchronized Bureau budget reviews with State, and completed a joint USAID/State Annual Planning Budget for 2006.
- ◆ Developed Joint Performance Plan with State that contains performance targets for all regional indicators identified through the PART and newly finalized agency-wide indicators.

Upcoming Action

- ◆ Develop efficiency measures for upcoming programs scheduled for PART review.
- ◆ Develop common performance indicators from previously PARTed programs in accordance with Performance Goals defined in the Joint State-USAID Strategic Plan and the Joint Performance Plan.
- ◆ Implement procedures for streamlining the Agency's strategic planning and reporting processes.

PROGRESS 	COMPETITIVE SOURCING	STATUS 
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Goal

Achieve efficient, effective competition between public/private sources; establish infrastructure to support competitions and validate savings and/or significant performance improvements.



Progress

- ◆ USAID's BTEC approved revisions to Competitive Sourcing (CS) policy that include Business Process Improvement (BPI) actions.
- ◆ Developed and implemented a revised CS communication plan that factors in BPI activities.
- ◆ Completed Business Model study of overseas staffing that included a review of outsourcing vs. direct provision of services.
- ◆ Completed actions related to the Agency's Recruitment BPI Plan including implementing improvements to the Agency's automated electronic recruitment tool AVUE. Recruitment BPI has improved recruitment processes to meet OPM 45-day hiring model.

Upcoming Action

- ◆ Revise CS strategic plan for review and endorsement by Agency's BTEC.
- ◆ Develop FY 2004 CS Accomplishments report to Congress.

PROGRESS	EXPANDED ELECTRONIC GOVERNMENT	STATUS
<p>Goal</p> <p>Expand the federal government's use of electronic technologies (such as e-Clearance, Grants.gov, and e-Regulation), so that Americans can receive high-quality government service, reduce the expense and difficulty of doing business with the government, cut government operating costs, and make government more transparent and accountable.</p>		
<p>Progress</p> <ul style="list-style-type: none"> ◆ In March 2004, improved status score from "red" to "yellow" as a result of activities to establish an Enterprise Architecture (EA). First component of the EA identified HIV/AIDS new technology and policy initiatives and provided the foundation for developing an Executive Information Systems (EIS) prototype to support reporting requirements under the President's Emergency Plan for AIDS Relief (PEPFAR). ◆ Completed implementation plan for joint EA with Department of State and completed joint EA business case. ◆ Completed select, control and evaluation process for FY 2006 business cases per Agency's Capital Planning and Investment Control (CPIC) policies. ◆ Completed certification and accreditation for major IT systems. The Office of Inspector General (OIG) verified that 100 percent of the Agency's operational IT systems are secure. <p>E-Gov Initiatives:</p> <ul style="list-style-type: none"> ◆ Completed migration plan for e-Travel. ◆ Finalized e-Gov Memorandum of Understanding (MOU) with GSA for Integrated Acquisition Environment (IAE). ◆ Completed draft Migration Plan for e-Grants with the Department of Health and Human Services (DHHS). ◆ Completed draft Migration Plan for e-Clearance in collaboration with State. ◆ Completed E-Authentication risk assessments on all systems. 		
<p>Upcoming Action</p> <ul style="list-style-type: none"> ◆ Complete joint State-USAID award of contract to manage e-Travel. ◆ Complete pilot for e-Clearance. ◆ Complete pilot for e-Grant. ◆ Develop detailed Earned Value Measurement Implementation Plan and Alternatives Analysis. ◆ Develop a joint EA repository. ◆ Produce in collaboration with State a subset of EA dealing with telecommunications and security. 		

PROGRESS 	FAITH BASED AND COMMUNITY INITIATIVE	STATUS 
<p>Goal</p> <p>Enhance opportunities for faith-based and community organizations (FBCOs) to compete for federal funding, monitor compliance with equal treatment regulations in addition to identifying barriers to the equal participation of FBCOs in agency programs, collect data on the participation of FBCOs in agency programs, and implement and evaluate demonstration programs where FBCOs participate.</p>		
<p>Progress</p> <ul style="list-style-type: none"> ◆ Coordinated outreach and technical assistance to FBCOs. ◆ Began to collect and evaluate data on the participation of FBCOs in USAID programs. ◆ Developed and expanded FBCI web page to include information about funding opportunities and technical assistance. ◆ Published a Federal Register regulation on the participation of religious organizations in USAID programs. ◆ Initiated online registration for FBCOs in order to provide outreach and technical assistance. ◆ Implemented three demonstration programs. 		
<p>Upcoming Action</p> <ul style="list-style-type: none"> ◆ Implement a comprehensive outreach and technical assistance strategy. ◆ Evaluate existing demonstration programs. ◆ Implement remaining demonstration projects. ◆ Complete FY 2004 annual report summarizing activities and barriers removed. ◆ Begin action plan to identify and remove additional barriers (if any) to FBCOs in compliance with published regulation. ◆ Implement education strategy on new regulation. 		

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS AT USAID

The results from the PART reviews conducted by the OMB are summarized below by strategic goal for USAID. Information on how USAID has addressed and implemented findings and recommendations for each of the PARTs also is provided.

TABLE 1: STATUS OF AGENCY PARTS

The tables below summarize the ratings for the Agency's seven FY 2004 - 2006 PART reviews. The Agency's goal is to have completed PARTS for 100 percent of its programs by the end of the FY 2008 cycle, and that USAID will have OMB-approved performance and efficiency measures for all PARTed programs.

FY 2004 PART PROGRAMS

STRATEGIC GOAL 4/5		DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY	
Program Name		USAID Development Assistance - Population	
Rating	◆ Calendar Year (CY) 2002: Moderately Effective		
Lead Bureau	◆ Agency for International Development - Global Health (GH)		
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The program has been highly effective in increasing contraceptive use in assisted countries. ◆ The program does not allocate resources across regions and countries in an optimal way to respond to highest need. ◆ The program should continue to provide resources at the FY 2003 level, and take steps to better align resource allocations with country needs through new performance budgeting efforts. 		
Actions Taken/Planned	◆ Strategic resource allocation model for this sector has been developed. Application of this need-based approach resulted in a \$30 million resource shift to high-need countries in 2004: based on measures of demand for family planning services, levels of fertility and mortality, and population density. The approach continues to be refined and will be applied in 2005 allocations.		
STRATEGIC GOAL 6		USAID SOCIAL AND ENVIRONMENTAL ISSUES	
Program Name		Global Climate Change (GCC)	
Rating	◆ CY 2002: Adequate		
Lead Bureau	◆ Agency for International Development - Economic Growth, Agriculture, and Trade (EGAT)		
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The program is managed well. The real issue for the program is redefining its role in foreign policy. ◆ Only one of the program's performance measures is measurable and has a cumulative target linked to an outcome. The program would benefit from improved measures. 		
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ The GCC program is in the process of developing a new strategy to update its goals. ◆ The GCC program is improving measurability by developing methodologies to measure carbon sequestration (awarded cooperative agreement 9/03 to NGO with expertise in carbon measurement). ◆ The GCC program reflects Administration's priorities by actively participating in bilateral climate change discussions with State Department, and is a member of the negotiating team in international climate change negotiations. 		

STRATEGIC GOAL 7	HUMANITARIAN RESPONSE
Program Name	USAID Public Law 480 Title II Food Aid
Rating	◆ CY 2002: Adequate
Lead Bureau	◆ Agency for International Development - Democracy, Conflict, and Humanitarian Assistance (DCHA)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ Overall changes in the well being of hungry people are difficult to measure. ◆ Emergency food aid, which provides food to prevent or reduce discrete and protracted famines, has demonstrated adequate progress. ◆ The program would be more cost-effective if several congressional mandates were eliminated, such as cargo preference requirements.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Development of a Food for Peace Office of Strategic Plan provides indicators that will better measure the well being of those receiving food aid. ◆ Working closely with the Department of Transportation, U.S. Department of Agriculture (USDA), and others, USAID aggressively is pursuing ways to strike a balance in relief of cargo preferences and purchase of minimal tonnage of food aid requirements and other congressional mandates.

FY 2005 PART PROGRAMS

STRATEGIC GOAL I	REGIONAL STABILITY
Program Name	USAID Transition Initiatives
Rating	◆ CY 2003: Moderately Effective
Lead Bureau	◆ Agency for International Development - DCHA/Office of Transition Initiatives (OTI)
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The assessment found that the program is strong overall. ◆ OTI's performance measurement is strong at the individual program/country level, but there is no aggregate measurement of OTI's effectiveness across the board. ◆ USAID will closely monitor the development of OTI's short and long-term baselines, timeframes, and targets to ensure their timely completion.
Actions Taken/Planned	<ul style="list-style-type: none"> ◆ Currently working to put systems in place to aggregately measure OTI's effectiveness. ◆ Developing a system to ensure timely completion of OTI's monitoring process at the mission level.

STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	USAID Child Survival and Health – LAC Region
Rating	<ul style="list-style-type: none"> ◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effectively
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.
STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	USAID Development Assistance – LAC Region
Rating	<ul style="list-style-type: none"> ◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effective
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/ Recommendations	<ul style="list-style-type: none"> ◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.

FY 2006 PART PROGRAMS

STRATEGIC GOAL 8	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
Program Name	USAID Operating Expenses/Capital Investment Fund
Rating	◆ CY 2004: Moderately Effective
Lead Bureau	◆ Agency for International Development
Major Findings/ Recommendations	◆ Requested from OMB, but not received in time for inclusion in the FY 2004 PAR.
Actions Taken/Planned	◆ Dependent upon OMB response.

RATING SUMMARY AS OF FY 2006 CYCLE	
Rating	Distribution
Effective	0%
Moderately Effective	72%
Adequate	28%
Results Not Demonstrated	0%
Totals	100%

MANAGEMENT CHALLENGES

In pursuit of its mission, USAID faces a number of issues, known as Major Management Challenges. This section identifies those challenges and high-risk areas cited by the

Government Accountability Office (GAO) and USAID's Office of Inspector General (OIG), and the continuing efforts by USAID to address them.

FINANCIAL MANAGEMENT	
Challenge	Reporting Expenses Associated with USAID Goals
Findings	USAID's methodology for assigning strategic objective costs to goals needs improvement.
Actions Taken	<ul style="list-style-type: none"> ◆ Obtained annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals. ◆ Implemented policy requiring that all strategic objectives be assigned to an Agency goal. ◆ Developed separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.
Challenge	Estimating Accrued Expenditures
Findings	The OIG identified cases where accrual estimates were not supported or were calculated incorrectly.
Actions Taken	<ul style="list-style-type: none"> ◆ Established and implemented procedures to obtain Cognizant Technical Officer (CTO) information whenever personnel changes affect the information recorded in the Accrual Reporting System (ARS). ◆ Established and implemented procedures to evaluate the reliability of the ARS by performing quarterly reviews. ◆ Established and implemented procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the ARS by USAID's CTOs – by USAID Bureau – to assist in planning follow-up reviews of ARS information. ◆ Additional training will be provided to enhance accrual estimates and supporting documentation.
Challenge	Recognizing and Reporting Accounts Receivable
Findings	USAID has taken steps to establish policies and procedures to account for worldwide accounts receivable. However, USAID does not have an integrated financial management system that would facilitate the recognition of accounts receivable when amounts become due to USAID. Instead, USAID relies on a separate data collection tool to gather information on accounts receivable at year end to facilitate preparation of USAID's financial statements.
Actions Taken	Worldwide deployment of the financial system will eliminate this challenge. In the interim, the Agency has established policies and procedures to account for worldwide accounts receivable and will continue to rely on the separate data collection tool.
Challenge	Reconciling Financial Management Information
Findings	<p>USAID has made progress in reconciling its fund balance with the U.S. Treasury by establishing a Cash Reconciliation Working Group. This group is focusing its attention on (1) consistently performing monthly and cumulative reconciliation processes, (2) developing methods to monitor unreconciled items, and (3) developing clear instructions and procedures for processing reconciling items. In addition, USAID has developed some guidance that will help USAID accounting stations avoid certain timing differences and other conditions that produce unreconciled items. Nevertheless, USAID continues to record significant unsupported adjustments to its year-end balance with Treasury to bring this amount into agreement with the Department of Treasury's accounts.</p> <p>USAID also needs to reconcile significant differences with its federal trading partners. As of September 30, 2004, the Department of Treasury's Financial Management Service reported \$10.4 billion in unreconciled differences between amounts reported by USAID and other federal agencies.</p>
Actions Taken	USAID will continue its work to strengthen operational procedures in this area.

INFORMATION RESOURCE MANAGEMENT	
Challenge	Improving Information Resource Management Processes
Findings	The OIG and other organizations have identified organizational and management deficiencies in USAID's information resource management processes. For example, the Clinger-Cohen Act of 1996 requires 1) procedures to select, manage, and evaluate investments; and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality. Although USAID has made progress in improving the above processes, it needs to continue its efforts in this area.
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of the actions taken.
Challenge	Improving Computer Security
Findings	<p>USAID has taken significant actions to improve its computer security; however, USAID continues to have computer security weaknesses. For example, USAID did not always:</p> <ul style="list-style-type: none"> ◆ Keep logs of security violations for USAID's Acquisition and Assistance system. ◆ Limit unsuccessful log-on attempts to three. ◆ Terminate user accounts after employees left USAID. ◆ Configure systems to eliminate high-risk vulnerabilities. ◆ Use strong passwords. ◆ Implement effective controls over dial-up access to its systems. <p>Although USAID has developed an information security training program, all key information security employees have not obtained the needed training. Further, under the current organizational structure, USAID's Information Systems Security Officer does not have the authority to enforce training requirements.</p>
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of accomplishments, which allowed this weakness to be closed during FY 2004.
OTHER MANAGEMENT CHALLENGES	
Challenge	Managing for Results
Findings	<p>The Government Performance and Results Act of 1993 (GPRA), requires that agencies establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, government-wide initiatives, such as the PMA, require that agencies link their performance results to budget and human capital requirements.</p> <p>A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of and results expected from these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's PAR.</p> <p>The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made improvements, more remains to be done. For example, the OIG reported that performance information included in the FY 2003 PAR did not contain a clear picture of USAID's planned and actual program performance for that year. As a result, the statements did not adequately link costs to results for FY 2003.</p>
Actions Taken	<ul style="list-style-type: none"> ◆ USAID developed a new approach to development assistance (i.e., White Paper) that more directly links budgeting to specific operational goals. ◆ USAID conducted a Business Model Review of its strategic planning processes and drafted interim guidance for implementing recommendations to increase the efficiency of strategic management. ◆ USAID closed three FY 2003 GMRA audit recommendations related to linking the operating units' strategic objectives to Agency goals for the tracking of costs in the Statement of Net Costs. ◆ The FY 2004 PAR uses USAID's new strategic planning framework and goal structure, following the new Joint USAID/State Department Strategic Plan.

Continued on next page

OTHER MANAGEMENT CHALLENGES (continued)	
Challenge	Procurement Management
Findings	<p>USAID achieves development results largely through intermediaries—contractors or recipients of grants or cooperative agreements. Efficient and effective acquisition and assistance systems are therefore critical.</p> <p>As part of its strategic plan, the OIG has adopted a strategic objective of contributing to the improvement of USAID's processes for awarding and administering contracts, grants, and cooperative agreements. The OIG has developed multi-year strategies to promote increased efficiency and effectiveness in USAID procurement processes.</p> <p>The OIG examined whether the task-ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration (SBA). An audit concluded that USAID had excluded mission task orders from its small and disadvantaged business program.</p> <p>In another audit, the OIG reviewed how USAID missions established staffing requirements for U.S. personal services contractors (USPSC) and whether they awarded U.S. personal services contracts in accordance with selected USAID policies and procedures. This audit report, summarizing the results of audits at eight USAID missions, concluded that USAID's policies on USPSC contract extensions and renewals needed additional clarification for consistency in application at all USAID missions.</p>
Actions Taken	<p>The Office of Acquisition and Assistance has been coordinating with the General Counsel's Office and the Office of Small and Disadvantaged Businesses (OSDBU) in order to obtain guidance that will assist USAID in crafting a management decision that will adequately respond to the auditors' findings.</p> <p>USAID concurred with the recommendation from the audit of USPSC staffing issues and agreed to issue a policy directive.</p>
Challenge	Human Capital Management
Findings	<p>Management of a diverse and widespread workforce impacts the ability of USAID to carry out its mission. Accordingly, USAID has undertaken a major effort to improve and restructure its human capital management. However, more remains to be done. Most important, USAID needs to complete its comprehensive workforce analysis and workforce planning initiative, implement the resulting strategies to close or eliminate the identified mission-critical skill gaps, and make progress towards closing those gaps.</p>
Actions Taken	<p>Refer to the Business Transformation and PMA sections of this report for a discussion of the actions taken.</p>

**MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE
WITH LAWS AND REGULATIONS**

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

NUMBER OF FMFIA MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
2001	4	–	–	4
2002	4	1	–	3
2003	3	–	–	3
2004	3	1	–	2

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls and financial systems which provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the head of the Agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement.

The Administrator's qualified Statement of Assurance for FY 2004 is included in the Administrator's letter at the beginning of this report. The Agency evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2004. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved, with the exception of the material weaknesses and the material non-conformance of the financial management system noted, and forms the basis for the Administrator's Statement of Assurance.

MANAGEMENT CONTROL PROGRAM

The Management Control Review Committee (MCRC) oversees the Agency's Management Control Program. The MCRC is chaired by the Deputy Administrator, and is composed of senior-level managers, including the ten Bureau Assistant Administrators (AA), the CFO, the Chief Information Officer (CIO), General Counsel, IG (non-voting), Executive Secretariat, Procurement Executive, Independent Office Directors, and Management Bureau Office Directors. Individual annual certification statements from Mission Directors located overseas and AAs in Washington, D.C., serve as the primary basis for the Agency's certification that

management controls are adequate or that material weaknesses exist. The certification statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the OIG and the GAO conduct reviews, audits, inspections, and investigations.

To be considered a material weakness in management control systems for FMFIA purposes, a deficiency should be significant enough that it merits the attention of the next management level and meets one or more of the FMFIA material weakness criteria. The chart below describes the criteria that the Agency uses for FMFIA reviews.

FMFIA MATERIAL WEAKNESS CRITERIA

- ◆ Significantly impairs the organization's ability to achieve its objectives.
- ◆ Results in the use of resources in a way that is inconsistent with Agency mission.
- ◆ Violates statutory or regulatory requirements.
- ◆ Results in a significant lack of safeguards against waste; loss; unauthorized use; or misappropriation of funds, property, or other assets.
- ◆ Impairs the ability to obtain, maintain, report, and use reliable and timely information for decision-making.
- ◆ Permits improper ethical conduct or a conflict of interest.

STATUS OF MANAGEMENT CONTROLS

Title	Fiscal Year First Identified	Corrective Action Date
Computer Security	1997	2004
USAID's Primary Accounting System	1998	2005
Information Resources Management Processes	1997	2005

As an Agency-wide accomplishment in FY 2004, USAID managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures, and operations. As the results from overseas operating units were consolidated up to the bureau level, they did not disclose any new material weaknesses for the Agency in FY 2004.

In March 2004, the MCRC agreed to close the computer security program material weakness, based on the following:

1. The Agency completely revised its Information Systems Security Program Plan and implemented it throughout the Agency.
2. The Agency received a full Certification and Accreditation (March 31, 2003) on its General Support System (GSS), which is USAID's core network infrastructure.
3. The Agency implemented a security training program which reinforces IT security practices daily. The Security Tips of the Day program provides timely security reminders to system users each day they log in.
4. The Agency documented and completely identified its critical and sensitive systems.
5. Information Systems Security Officers have been appointed by the systems owners for each of the systems and major applications as well as for each mission subnet.
6. The Agency has established security plans for each system.
7. On a monthly basis, the Agency scans its entire network

for potential vulnerabilities and reports on the risk status.

8. The Agency has installed firewalls at all missions that are centrally controlled for added security.
9. The Agency completed the Windows 2000 rollout of servers and Washington has begun managing each mission's domain controllers. This will decrease the variability of worldwide operations and ensure better security for the network.
10. The Agency established a "locked" down standard desktop under Windows 2000, centrally refreshes security policies daily, and centrally manages changes. This allows security features for the network to be enforced globally and increases security.
11. Anti-virus update signatures are being done weekly or more often if needed as a means to keep viruses and malicious code from infecting the Agency's network.
12. The Agency deployed six devices as part of an intrusion detection system and added improved tools for correlating events.

The Information Systems Security Program will continue its proactive risk management approach to address the new and evolving computer security risks to USAID's network and systems. As a result of the corrective actions implemented by the Agency, all of the recommendations made in the 1997 audit report on computer security have been closed.

USAID continues to implement actions to correct the two remaining Integrity Act material weaknesses. Key milestones for corrective action as well as progress to date are described briefly below:

USAID's Primary Accounting System – Beginning in 1988, it has been reported that the Agency's primary accounting system does not 1) substantially comply with federal core financial systems requirements, 2) produce accurate and timely reports, and 3) contain adequate controls. These deficiencies are deemed to be material to the Agency as a whole.

In December 2000, USAID successfully implemented a new accounting system called Phoenix in USAID/Washington. Phoenix is the USAID configuration of the Momentum Financials software product from CGI American Management Systems (CGI AMS) and is the Agency's core financial management system. Unlike previous systems in Washington and the current overseas Mission Accounting and Control System (MACS), Phoenix is a Joint Financial Management Improvement Project (JFMIP)-compliant core financial system, which meets federal accounting standards.

During FY 2001 and 2002, USAID interfaced five feeder systems with Phoenix, which furnish critical information to the core financial system. The most significant interface is with the NMS Acquisition and Assistance Application (A&A), which has been operational since May 2001. Another critical interface is the MACS interface via the MACS Auxiliary Ledger in Washington. It became operational in August 2001. The Riggs Loan Servicing System (Riggs) interface, which processes and records credit program transactions, went live in November 2001. The DHHS Payment Management System (PMS) interface, which captures advances and expenditures against USAID-issued letters of credit (LOC) grants, was implemented in December 2001 and updated in July 2003. These interfaces reduce duplicative data entry, data quality problems, and data reconciliation work.

During FY 2003, as a result of the Agency global reorganization, 252,000 historical records were migrated into the new Agency organizational structure. The financial systems team deployed enhanced and new reports, including a prototype consolidated flash report that reports data at the operating unit level; a consolidated pipeline report that includes strategic objective level details Agency-wide; an Agency-wide pipeline report that allows users to download and tailor document level obligation data; the Budget Spending

Summary Report; and the Accruals Status Report. The Phoenix security team completed a Phoenix data sensitivity analysis, and later a MACS privacy impact/data sensitivity analysis to establish a baseline of key sensitive data elements and make recommendations to improve both user awareness and security controls. In June 2003, the Agency completed development of USAID's credit card functionality to allow the Agency to pay the Citibank statement at the beginning of each month, which enables USAID to take advantage of discounts and avoid late fees. In September 2003, the Agency piloted a web-enabled database that it uses to collect financial data from the missions.

On August 10, 2004, after performing the required Phoenix testing, analyses, configuration, and training, the Agency successfully implemented Phoenix at the five pilot missions in Peru, Colombia, Ghana, Nigeria, and Egypt. Ongoing activities at the five missions include on-site user support and training, refinement of reporting needs, and data migration cleanup. In addition, based on the recommendations from a joint Department of State-USAID study, the Agency purchased and received hardware and software required for upgrading the Phoenix system to the latest Momentum release, version 6.0, so that USAID and the State Department can eventually operate from a common infrastructure and version of the Momentum application. The intent is to operate the USAID and State Joint Financial Management System (JFMS) from State's Charleston, SC, facility by October 2005.

USAID and State continue to work collaboratively to achieve a common infrastructure and financial platform for the JFMS, while USAID continues on a path to deploy Phoenix worldwide and become compliant with the provisions of the Federal Financial Management Improvement Act (FFMIA) by April 2006.

Although the Agency has made substantial progress in implementing and enhancing the new accounting system, closure of this material weakness and the associated non-conformance with government-wide financial systems requirements is contingent upon further deployment of Phoenix to accounting stations overseas.

Information Resources Management (IRM) Processes

– The Clinger-Cohen Act of 1996 requires the heads of executive agencies to implement a process that maximizes the value of and assesses and manages the risks involved in IT investments. The process is to include: 1) procedures to select, manage, and evaluate investments; and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality. The key material weakness that was identified in 1997 was that the Agency's IT programs lacked sufficient safeguards against waste and mismanagement, as demonstrated by the (then) over-budget and failed rollout of new management information systems to USAID missions. Specifically, the Agency lacked: 1) a strategic-oriented IT capital investment planning, budgeting, and acquisition process; and 2) a tactical-oriented IT investment program management control capacity. Key milestones and progress in these areas are described briefly below.

The Agency implemented an effective strategically-oriented capital investment process by making the BTEC, which provides Agency-wide leadership for initiatives and investments to transform USAID business systems and organizational performance, responsible for selecting, managing, and evaluating specific IT investments. The BTEC chartered the Capital Planning and Investment Control (CPIC) Subcommittee to advise on investment selection, considering potential risk, cost, and benefit, as well as priority in relation to other USAID investments. The CPIC Subcommittee recommended policies and procedures for IT Capital Planning and Investment Control, which were approved by the BTEC and published in the Agency's Automated Directives System. The CPIC Subcommittee was operational for the FY 2005 budget formulation cycle and used the published CPIC procedures for investment selection.

The Agency implemented tactically-oriented program management and oversight practices with the formation of a Program Management Office (PMO) and the reorganization of the Management Bureau in May 2004. The PMO is responsible for monitoring the progress of IT projects and developing standards, processes, and tools for improving project management practices. PMO staff work with the functional and IT leadership team assigned to projects to provide guidance on the use of these standards, processes, and tools. The office published a risk management plan, quality control

plan, project management change control guidance, and a standard set of governance tools for project management and project status reporting. It is currently working on updating the Project Management Guidebook to address the full cycle of an IT project.

Although the Agency has made significant changes and improvements to bring IRM processes into substantial compliance with the Clinger-Cohen Act, closure of this material weakness is contingent upon the full implementation of tactically-oriented program management and oversight practices, and demonstration that these processes are effective upon completion of project implementation. This is expected to occur by the end of FY 2005.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The Federal Information Security Management Act (FISMA) provides the framework for securing the federal government's information systems. Agencies covered by FISMA are required to report annually to the OMB and Congress on the effectiveness of their information security programs. Specifically, FISMA requires agencies to have 1) periodic risk assessments; 2) information security policies, procedures, standards, and guidelines; 3) delegations of authority to the CIO to ensure compliance with policy; (4) security awareness training programs; (5) procedures for detecting, reporting, and responding to security incidents; and (6) plans to ensure continuity of operations. The FISMA also requires an annual independent evaluation of the Agency's information security program. This report is separate from the PAR. Weaknesses found under FISMA are to be identified as a significant deficiency, reportable condition, or other weakness. Only FISMA weaknesses that fall into the category of significant deficiency as reported in the FY 2004 FISMA Annual Report are reported as a material weakness under the FMFIA. Since the deficiency of IRM Processes was identified as a significant deficiency under FISMA, it continues to be reported as a material weakness under the FMFIA.

FMFIA SIGNIFICANT MANAGEMENT CONCERNS

Title	Fiscal Year First Identified
Inadequate Physical Security in USAID's Overseas Buildings & Operations	2001
Implementation & Activity Monitoring of Programs in ANE Region	2004
Lack of Effective Systems to Manage Field Support	2004

A significant management concern is the USAID term for a deficiency that is important, but does not rise to the level of a material weakness under FMFIA. This year, the USAID MCRC noted three significant management concerns, which will be monitored internally.

Inadequate physical security in USAID's overseas buildings. USAID cannot implement appropriate actions alone to comply with federal physical security standards for all employees serving overseas. Although USAID complies with the Secure Embassy Construction and Counterterrorism Act of 1999 (SECCA) and the provisions of the implementing security standards, more needs to be done to safeguard USAID employees overseas. A recent GAO report on embassy construction indicates that following the 1998 bombings of two U.S. embassies in Africa, the State Department launched a multibillion-dollar, multi-year program to build new, secure facilities on compounds at posts around the world. The SECCA of 1999 requires that U.S. agencies, including USAID, co-locate offices within the newly constructed compounds. This report discusses how State is incorporating office space for USAID into the construction of new embassy compounds and the cost and security implications of its approach. GAO has recommended that the Secretary of State: 1) achieve concurrent construction of USAID facilities to the maximum extent possible and (2) consider, in coordination with the USAID Administrator, incorporating USAID space into single office buildings in future compounds, where appropriate. GAO also suggests that if the new cost-sharing proposal is not implemented in FY2005, the Congress may wish to consider exploring other means by which to support concurrent construction. Another recent draft GAO report indicates that State has proposed a \$17.5 billion program to build secure new embassies and consulates around the world. The administration has proposed the Capital Security Cost-Sharing Program, under which all agencies with staff assigned to overseas diplomatic missions

would share in construction costs. GAO has found that the proposed cost-sharing formula (based on a headcount) could result in funds to accelerate embassy construction and encourage agency rightsizing of overseas staff levels. Under the currently proposed program, State would build 150 new embassies by 2018, or 12 years sooner than the earlier projected completion date of 2030. State would pay nearly two-thirds of the annual amount needed, and non-State agencies would pay a one-third share. At the same time, USAID believes that co-location is not always practical. If USAID is required to move onto embassy compounds without adequate resources for separate non-classified facilities, this would result in the inability to co-locate with the Agency's foreign national and contractor staffs. USAID must weigh these issues carefully and determine how to proceed.

The implementation and activity monitoring of programs in several ANE missions, most notably, Iraq, Afghanistan, Pakistan, Lebanon, Yemen, and West Bank/Gaza. Security restrictions inhibit travel to project sites and it is increasingly difficult to attract and retain highly qualified staff for missions in these countries. This restricts the missions' ability to effectively implement and monitor programs and, in some cases, inhibits the start up of new programs. The missions continually strive to make prudent management decisions through approval of travel to project sites when advisable, expanded use of contractors, and making recruitment to fill vacancies a top priority. Improved stability and security that are beyond the manageable interests of the missions are viewed as the only long-term solution available. As this occurs, missions will take advantage of the new conditions and normalize operations.

Lack of effective systems to manage field support transfers. The intent of the field support system is to provide missions easy and flexible access to a wide variety of technical services provided by centrally-managed contract and grant

agreements, in a manner that meets the changing needs, priorities, and approaches of missions' development portfolios, with minimal mission management burden. The current operating procedures and processes in place are excessively labor-intensive, and therefore it is increasingly difficult to meet missions' needs. USAID recognizes field support as a viable component of the Agency architecture and as a component of the required Agency EIS. In August 2004, the OIG issued a draft report on the audit of the field support mechanisms in the Global Health (GH) bureau, reaffirming the importance of implementation by the Agency of an improved field support system. Efforts are underway to develop both an improved field support system, which will operate with the rollout of Phoenix to missions, and a viable EIS.

MATERIAL NONCONFORMANCE OF FINANCIAL MANAGEMENT SYSTEM

As explained under the Primary Accounting System material weakness, USAID implemented a commercial-off-the-shelf (COTS) core financial system in USAID/Washington in December 2000. Despite the improvements to date, USAID is still not substantially compliant with the FFMIA of 1996. The primary remaining deficiency is that USAID's MACS, a feeder system to the core financial system, does not support a general ledger. Consequently, the core financial system is not substantially compliant with FFMIA requirements for a standard general ledger. Substantial compliance with the FFMIA is contingent upon further deployment of Phoenix overseas.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act (FFMIA) of 1996 is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles (GAAP) and standards. The FFMIA requires USAID to implement and maintain a financial management system that complies substantially with:

- ◆ Federal requirements for an integrated financial management system

- ◆ Applicable federal accounting standards
- ◆ U.S. Standard General Ledger at the transaction level.

The OIG is required to report on compliance with these requirements as part of the annual audit of USAID's financial statements. In successive audits, the OIG has determined that USAID's financial management systems do not substantially comply with FFMIA accounting and system requirements. The USAID Administrator has also reported the material nonconformance of the financial management systems.

The current target date for substantial compliance with FFMIA is the third quarter of FY 2006, which coincides with USAID's worldwide deployment of the financial management system. This date was changed in October 2004, as a result of an overall systems rollout schedule change based on auditor observations, concerns regarding the stability of the next version of the systems software, and lessons learned during the summer 2004 pilot effort. A detailed discussion of the financial systems framework, structure, and strategy is included in the Financial Section of this Report.

FINANCIAL SYSTEMS REMEDIATION PLAN

The financial systems remediation plan is a required part of USAID's financial management plans. It sets forth a strategy for modernizing USAID's financial management systems and details specific plans and targets for achieving substantial compliance with federal financial management requirements and standards.

The Agency relies extensively on OIG audit work to determine compliance with FFMIA. The results of the FY 2004 audit indicate that USAID has made substantial progress in becoming compliant and has two remaining items to address. The remaining deficiencies in the Agency's financial management systems and associated remedies are detailed on the following page.

USAID FFMI REMEDIATION PLAN FY 2005 – FY 2006				
Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets	Responsible Official	Status
<p>Deficiency: MACS is not substantially compliant with JFMIP requirements for a core financial system. The MACS Auxiliary Ledger and interface to Phoenix do not sufficiently address compliance deficiencies. MACS does not support new e-Government initiatives. The Agency's overseas operations do not have access to the Agency's integrated financial management system that is compliant with federal requirements, standards, and government-wide initiatives.</p> <p>Remedy: Implement Phoenix worldwide as the Agency's core financial system.</p>	4 th Qtr FY 2005	3 rd Qtr FY 2006	CFO	On target. Five missions are using Phoenix and the worldwide deployment schedule continues.
<p>Deficiency: The Computer Security Program material weakness, and GMRA and General Controls audit work have identified significant deficiencies in the computer security program, general controls environment, and compliance with federal requirements.</p> <p>Remedy: Complete system and general control environment risk assessments, mitigate risks, and develop disaster recovery plans for mission critical systems.</p>	1 st Qtr FY 2004	2 nd Qtr FY 2004	M/IRM Director	Closed 2 nd Qtr FY 2004
<p>Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities.</p> <p>Remedy: Fully implement cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level.</p>	4 th Qtr FY 2005	3 rd Qtr FY 2006	CFO	The cost allocation module needs to be modified to account for missions' indirect costs. This will be done as Phoenix is implemented in the field.

**GOVERNMENT MANAGEMENT REFORM ACT -
AUDITED FINANCIAL STATEMENTS**

The Government Management Reform Act (GMRA) of 1994 amended the requirements of the CFO Act of 1990 by requiring the annual preparation and audit of agency-wide financial statements from the 24 major executive departments and agencies, including USAID. The statements are audited by the USAID IG. An audit report on the principal financial statements, internal controls, and compliance with laws and regulations is prepared after the audit is completed.

USAID's FY 2004 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the second consecutive year that USAID's financial statements have achieved such an opinion. USAID also, for the second year in a row, significantly accelerated the preparation and audit of the FY 2004 financial statements and associated

reports. This indicates important progress toward the Agency's goal of providing more timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites one material weakness: USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement. A material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned

functions. USAID has continuously improved its status in this area, from seven material weaknesses in FY 2002 and three in FY 2003.

The audit report also names six reportable conditions, which are detailed in the table below. Reportable conditions are significant deficiencies, though not material, in the design or operation of internal control that could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. USAID will continue working on

these issues and is pleased that the auditors have consistently acknowledged the Agency's efforts to eliminate and reduce weaknesses. The auditors are also required to report on non-compliance with laws and regulations. The current auditor's report states that USAID's financial systems continue to be non-compliant with the FFMIA.

The following table summarizes the weaknesses cited in the FY 2004 Independent Auditor's Report, as well as planned actions to resolve the problems.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2004 (Refer to Independent Auditor's Report Section)			
Material Weakness	Planned Corrective Actions	Target Correction Date	Strategic Goal
Process for Reviewing and Reporting Quarterly Accrued Expenditures and Accounts Payable	Actions to improve will continue and additional training will be provided.	September 30, 2005	Management and Organizational Excellence
Reportable Condition	Planned Corrective Actions	Target Correction Date	Strategic Goal
Certification Process for Mapping Strategic Objectives to Performance Goals	Actions to improve will continue with a focus on consistency of annual certifications and inclusion of all relevant information in the Annual Reports Database.	September 30, 2005	Management and Organizational Excellence
Process for Reconciling Fund Balance with U.S. Treasury	Actions to improve will continue including the development and implementation of additional reconciliation guidance and procedures.	September 30, 2005	Management and Organizational Excellence
Process for Recognizing and Reporting Accounts Receivable	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence
Intragovernmental Reconciliation Process	USAID will conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with federal requirements.	September 30, 2005	Management and Organizational Excellence
Process for Analyzing and Deobligating Unliquidated Obligations	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence
System for Preparing Management's Discussion and Analysis	Actions to improve will continue.	September 30, 2005	Management and Organizational Excellence

PROGRESS MADE ON ISSUES FROM FY 2003 GMRA AUDIT:

USAID has taken extensive and aggressive actions during FY 2004 to address the weaknesses from the FY 2003 audit, as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2003		
Material Weakness	Corrective Actions	Strategic Goal
Methodology for Assigning Strategic Objectives to Goals	Refer to Management Challenges Table	Management and Organizational Excellence
Process for Reviewing Quarterly Accounts Payable and Accrued Expenses	Refer to Management Challenges Table	Management and Organizational Excellence
Process for Recognizing and Reporting Accounts Receivable	Refer to Management Challenges Table	Management and Organizational Excellence
Reportable Condition	Planned Corrective Actions	Strategic Goal
Process for Reconciling Fund Balance with U.S.Treasury	Refer to Management Challenges Table	Management and Organizational Excellence
Process for Recording and Classifying Advances to Grantees	A tracking system is in place to monitor all awards and to ensure that USAID is making every effort to meet the 10-day standard of recording the awards. The Agency has eliminated existing backlogs and established mandatory procedures for more timely receipt of documents and data entry.	Management and Organizational Excellence
Process for Analyzing and Deobligating Unliquidated Obligations	USAID issued revised and expanded policy and procedural guidance to help determine the amount of unliquidated obligations that are no longer needed. Agency staff also conducted a comprehensive review of unliquidated obligations totaling \$119 million identified in last year's audit report and made a determination regarding the deobligation of those funds.	Management and Organizational Excellence
Process for Recording Periodic Allowances to Missions	In FY 2003, USAID made cumulative allotments (\$25 million) to its missions before related allowances were recorded in the financial management system. The excess allowances occurred because USAID bureaus sent out allotments to their respective missions before recording those allotments in the financial management system. The situation was corrected immediately.	Management and Organizational Excellence
System for Preparing Management's Discussion and Analysis	USAID has taken actions to improve timeliness of results data by working with field missions and contractors to incorporate current year results for program activities in the Agency's PAR. The Agency also collected information on a substantial number of output indicators through a new web-based program and is reporting on some of these output indicators in the PAR. Also, USAID established targets for the Iraq, Afghanistan, HIV/AIDS, and GDA programs, and is continuing to collect current year data for these programs. USAID conducts training to ensure that staff is adequately versed in managing for results.	Management and Organizational Excellence

IMPROPER AND ERRONEOUS PAYMENTS

In accordance with the Improper Payments Information Act (IPIA) and guidance from OMB, USAID conducted a risk assessment of its FY 2003 outlays/payment streams as previously reported to OMB.

The risk assessment consisted of an intellectual review that identified those programs and activities that may be susceptible to significant erroneous payments with both an error rate of 2.5 percent and an error amount greater than \$10 million. The Office of Financial Management coordinated a review of each payment stream/program that included USAID/Washington and the overseas missions to ensure that all payment programs and activities worldwide were reflected. They obtained feedback from 38 overseas missions and believe this to be a true representation and risk assessment of the Agency's overall payment activity.

Although it was not required to perform a statistical analysis at this step, most payment activities and all programs over \$10 million were sampled and analyzed in order to determine if they were truly at risk. This analysis revealed that all payment activities and/or programs reviewed for FY 2003 were far below the 2.5 percent and over \$10 million OMB threshold for reporting error rates and for implementing an external recovery program.

The Office of Financial Management is committed to excellence in the ongoing establishment of a highly proactive and effective approach of reviewing all Agency payments to eliminate possible erroneous payments.

The Agency's Grant and Contract payment activities continue to be closely monitored for erroneous payments due to the high dollar value of these programs. Please see table below.

PURCHASE AND TRAVEL CARD USAGE

Purchase Cards

On average, 262 employees, or three percent, had active purchase card accounts in FY 2004. Approximately 58 purchase card accounts were canceled in FY 2004. Approximately 61 new purchase card accounts were activated.

On average, the ratio of approving officials to cardholders is 1:6. The total dollars spent in FY 2004 using purchase cards was \$9,447,737.80. USAID earned approximately \$41,409.48 in total rebates in FY 2004.

There were neither disciplinary actions taken nor cases reported to the Agency IG for fraudulent, improper, or unauthorized use of the purchase card. The purchase card dispute process between USAID and Citibank that is outlined in the Worldwide Purchase Card Manual minimizes losses from possible erroneous payments.

Travel Cards

There are 1,920 active Individual Billed Account (IBA) travel cards. The USAID policy is to issue travel cards to travelers who travel two or more times a year. There are about 68 Centrally Billed Account (CBA) travel cards used to purchase airline tickets only.

USAID spent \$18,611,283 in FY 2004 with travel cards. The rebates earned on travel cards equaled \$56,281 in FY 2004. Monthly delinquency rates for travel cards ranged from a low of one percent to a high of 19 percent for the IBA, and from zero percent to nine percent for the CBA. There were no disciplinary actions taken during FY 2004 related to the travel card.

IPIA ANALYSIS FOR GRANT/CONTRACT PROGRAMS				
Period	Audited Amount	Sustained Amount	IPIA Error Rate	Recovered %
FY 2002	\$2,000,000,000	\$4,000,000	0.200%	99.0%
FY 2003	\$1,400,000,000	\$5,400,000	0.400%	100.0%
FY 2004	\$13,000,000,000	\$7,200,000	0.055%	100.0%

FINANCIAL HIGHLIGHTS

USAID's financial statements, which appear in the Financial Section of this Report, received for the second consecutive year an unqualified audit opinion issued by the USAID Office of the Inspector General. Preparing these statements is part of the Agency's goal to improve financial management and provide accurate and reliable information useful for assessing performance and allocating resources. Agency management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

USAID prepares consolidated financial statements that include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources and a Statement of Financing. These statements summarize the financial activity and position of the agency. Highlights of the financial information presented on the principal statements are provided below.

OVERVIEW OF FINANCIAL POSITION

ASSETS. The Consolidated Balance Sheet shows the Agency had Total Assets of \$24 billion at the end of 2004. This represents a 10.1% increase over previous year's Total Assets of \$21.8 billion. This is primarily the result of increases in USAID's overall Budget Authority, which increased by over \$700 million in FY 2004.

Table 1: The Agency's assets reflected in the Consolidated Balance Sheet are summarized in the following table (dollars in thousands):

	2004	2003	2002
Fund Balance with Treasury	\$ 15,854,926	\$ 14,215,414	\$ 11,897,972
Loans Receivables, Net	6,108,252	5,696,597	5,997,453
Accounts Receivables, Net	1,100,968	1,200,387	527,485
Advances, Cash, and Other Monetary Assets	847,807	623,477	638,377
Property, Plant and Equipment, Net & Inventory	117,718	88,360	74,690
Total Assets	\$ 24,029,671	\$ 21,824,235	\$ 19,135,977

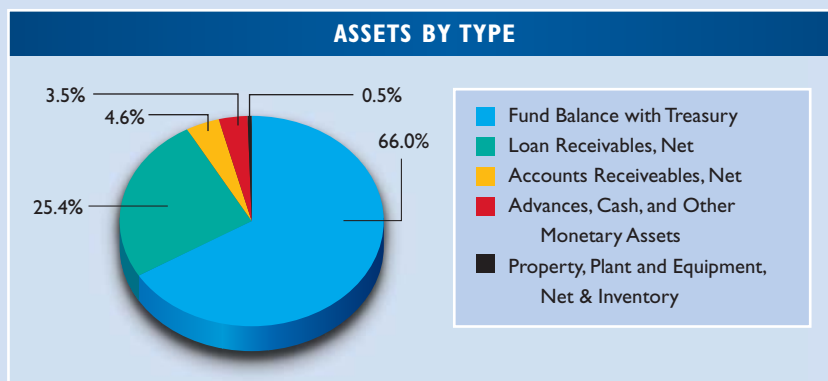
Fund Balances with Treasury and Loans Receivable, Net comprise the majority of USAID's assets. Together they account for over 90% of total assets for 2004, 2003 and 2002. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by \$1.6 billion (11.5%) and represent the largest asset dollar amount change from FY 2003.

Existing loans receivables, net of estimated allowances for loan losses, decrease over time as a result of collections. Loan receivables, Net experienced a 7.2% increase from FY 2003. The overall increase in Loans receivable balance was because the decrease to the credit balance of this year's estimated allowance for losses on loans exceeded the decrease to the debit balance of gross loans receivable attributable to loan collections.

The largest percentage change in assets line items on the Balance Sheet occurred in Advances and Prepayments with the Public, an increase of 59.9% (from \$350 million in FY 2003 to \$560 million in FY 2004). This increase is due to letter of credit draw down activities and the lag in liquidation reporting by grantees.

The pie chart below presents USAID's asset type by percentage for fiscal year 2004.

Chart 1: Percentage of Assets by Type, FY 2004



LIABILITIES. As presented on the Consolidated Balance Sheet, the Agency had almost \$10 billion in Total Liabilities at the end of 2004. This amount represents a \$642 million, or 6.9% increase in Total Liabilities from the prior year. Liabilities are summarized in the following table (*dollars in thousands*):

Table 2:

	2004	2003	2002
Debt & Due to U.S.Treasury	\$ 6,145,006	\$ 5,748,890	\$ 5,875,919
Accounts Payable	1,990,001	1,870,077	1,171,533
Loan Guaranty Liability	1,039,937	1,159,415	1,048,751
Other Liabilities	798,847	553,500	396,139
Total Liabilities	\$ 9,973,791	\$ 9,331,882	\$ 8,492,342

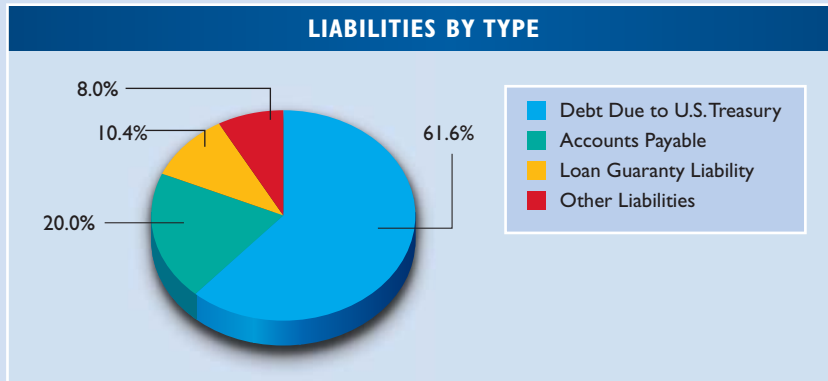
As reflected in Table 2, Credit Program Liabilities consisting mainly of Debt, amounts payable to U.S.Treasury and Loan Guaranty Liability account for most of USAID's Total Liabilities for 2004, 2003 and 2002. Debt and Due to Treasury combined represented 61.6 % of Total Liabilities for FY 2004. The Loan Guaranty Liability comprised 10.4 % of Total Liabilities for FY 2004.

Debt and Due to Treasury combined increased by 6.9%, or \$396 million, from FY 2003. Loan Guaranty Liability, which is associated with USAID's guarantees of loans made by private lending institutions, decreased by 10.3% or by \$119 million from FY 2003.

The largest percentage change in Liabilities occurred in the Other Liabilities line items. Combined Federal and non-Federal Other Liabilities increased by 44.3%, or \$245 million, from FY2003. This change is primarily a result of increases in the liability for undisbursed loans and related subsidy re-estimates.

The pie chart below presents USAID's percentage of liabilities by type for fiscal year 2004 (dollars in thousands):

Chart 2:



ENDING NET POSITION. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations. USAID's Net Position at the end of 2004 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$14 billion, a \$1.6 billion increase from the previous fiscal year. Unexpended Appropriations of \$13.4 billion or 95.3% represent funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2004.

RESULTS OF OPERATIONS

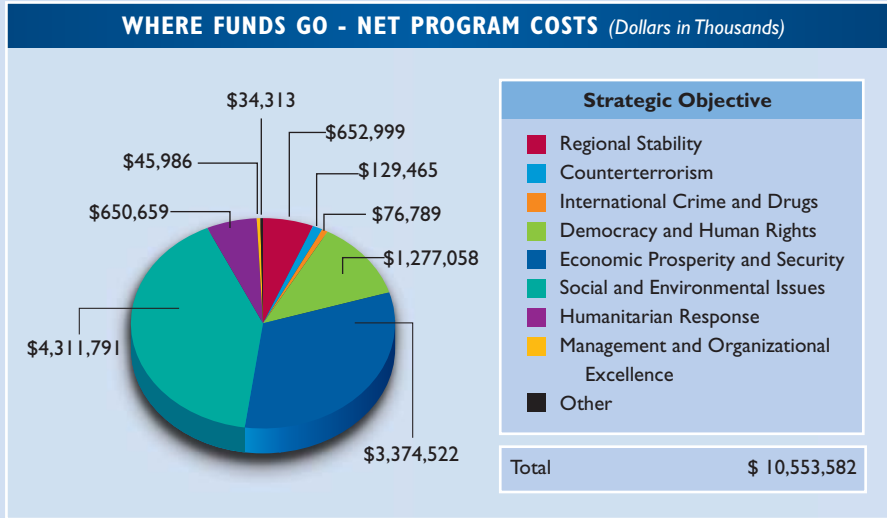
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Agency's gross and net cost for its strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. The Schedule of Net Cost categorizes costs and revenues by strategic and performance goal and responsibility segments. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Agency, the technical and geographical bureaus (e.g., Global Health or Latin America/Caribbean) are considered a responsibility segment. Information on the Bureaus can be found in Note 17.

The presentation of program results by strategic goals is based on the Agency's current joint State/USAID Strategic Plan established pursuant to the Government Performance and Results Act of 1993. In accordance with current guidance, prior year data is also presented according to the corresponding strategic goal for comparative presentation.

The Agency's total net cost of operations for 2004, after intra-agency eliminations, was \$10.6 billion. The strategic objective, Social and Environmental Issues represents the largest investment for the Agency at 40.9% of the Agency's net cost of operations. The net cost of operations for the remaining strategic objectives varies from .3% to 32%. Following is a breakout of net cost by Strategic Goal.

Chart 2: Net Program Costs by Strategic Goal, FY 2004



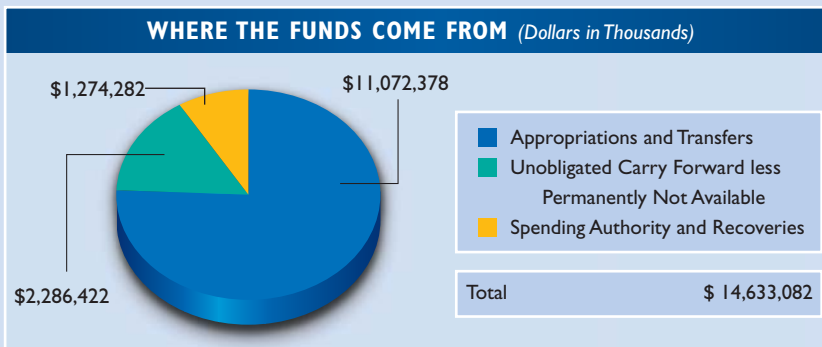
The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations increased by \$1.6 billion or 13.7% from FY 2003 to FY 2004. The growth in Unexpended Appropriations was due principally to the continued increase in budget authority received to rebuild the Agency's programs, including increased funding for Iraq Reconstruction Assistance.

Cumulative Results of Operations amount to \$660 million as of September 30, 2004, a decrease of 7.6% from the \$714 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2004, between funds available to USAID from all financing sources and the net cost of USAID.

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Agency for the year and their status at fiscal year-end. For the year, USAID had total budgetary resources of \$14.6 billion, an increase of 9.3 % from the 2003 level. Budget authority of \$11 billion, consisted of \$9.2 billion for appropriations and \$1.8 billion in net appropriation transfers. USAID incurred obligations of \$11.4 billion for the year, a 13.1% increase from the \$10.1 billion of obligations incurred during 2003.

Chart 3 below, reflects Agency budgetary resources for 2004.



The Combined Statement of Financing reconciles the resources available to the Agency to finance operations with the net costs of operating the Agency's programs. Some operating costs, such as depreciation, do not require direct financing sources.

LIMITATIONS TO THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that USAID is a component of the U.S. Government, a sovereign entity.

USAID HISTORY

On September 4, 1961, the U.S. Congress passed the Foreign Assistance Act, which reorganized the U.S. foreign assistance programs, including separating military and non-military aid. The Act mandated the creation of an agency to administer economic assistance programs, and on November 3, 1961, President John F. Kennedy established USAID.

USAID became the first U.S. foreign assistance organization whose primary emphasis was on long-range economic and social development assistance efforts. Freed from political and military functions that plagued its predecessor organizations, USAID was able to offer direct support to the developing nations of the world.

The agency unified already existing U.S. aid efforts, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace (FFP) program of the Department of Agriculture (USDA).

While some could argue that the creation of USAID simply represented a bureaucratic reshuffling, the Agency and the legislation creating it represented a recommitment to the very purposes of overseas development. USAID was established to unify assistance efforts, to provide a new focus on the needs of a changing world, and to assist other countries in maintaining their independence and become self-supporting.

USAID's Role in the Millennium Challenge Corporation

The Millennium Challenge Account (MCA), President Bush's "new compact for global development", provides additional foreign assistance funding to poor countries that rule justly,



invest in their people, and encourage economic freedom. The MCA is administered by the Millennium Challenge Corporation (MCC), an independent governmental corporation, and initial MCA funds of \$1 billion were made available in FY 2004. The USAID Administrator serves as a member of the MCC Board, which approves MCA compacts with eligible countries, and USAID has developed a strong working relationship with the MCC. USAID and MCC are working collaboratively to ensure that their respective programs are complementary.

MCA assistance is not intended to replace current USAID assistance in the 16 countries that are now eligible for MCA funds. USAID and MCC will work together to determine which USAID programs will continue and which will be phased out or incorporated into the MCA program. For example, USAID HIV/AIDS or trafficking in persons programs might continue, while other programs might be incorporated into the MCA program. These decisions will be made on a country-by-country basis to make certain that the best development approach is in place for each country.

USAID will also play an important role in preparing "threshold" countries to become eligible for MCA assistance. Threshold countries are countries that have shown a significant commitment to policy reform but were not determined to be eligible to receive MCA assistance. The MCC has asked USAID to take a lead implementation role in administering up to \$40 million in FY 2004 Threshold Program assistance. This assistance will be used to help threshold countries carry out policy reform and institutional changes in the areas where the country failed to meet the MCA eligibility criteria. Seven countries have been invited to apply for FY 2004 Threshold Program assistance, including Albania, East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda, and Yemen. ■

LITTLE KNOWN FACTS ABOUT THE U.S AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. foreign assistance programs have a long and distinguished list of accomplishments. Here are just a few examples of what the one-half of one percent of the federal budget dedicated to economic and humanitarian assistance has achieved:

- ◆ More than three million lives are saved every year through USAID immunization programs.
- ◆ Eighty thousand people and \$1 billion in U.S. and Filipino assets were saved due to early warning equipment installed by USAID that warned that the Mount Pinatubo volcano was about to erupt in 1991.
- ◆ Oral rehydration therapy (ORT), a low cost and easily administered solution developed through USAID programs in Bangladesh, is credited with saving tens of millions of lives around the globe.
- ◆ 43 of the top 50 consumer nations of U.S. agricultural products were once U.S. foreign aid recipients. Between 1990 and 1993, U.S. exports to developing and transition countries increased by \$46 billion.
- ◆ In the 28 countries with the largest USAID-sponsored family planning programs, the average number of children per family has dropped from 6.1 in the mid-1960s to 4.2 today.
- ◆ There were 58 democratic nations in 1980. By 1995, this number had jumped to 115 nations.
- ◆ USAID provided democracy and governance assistance to 36 of the 57 nations that successfully made the transition to democratic government during this period.
- ◆ Over the past decade, USAID has targeted some \$15 million in technical assistance for the energy sectors of developing countries. U.S. assistance has built a \$50 billion annual market for private power. U.S. firms are capturing the largest share of these markets, out-competing Japan and Germany.
- ◆ Life expectancy in the developing world has increased by about 33 percent, smallpox has been eradicated worldwide, and in the past 20 years, the number of the world's chronically undernourished has been reduced by 50 percent.
- ◆ The United Nations Drinking Water Supply and Sanitation Decade, in which USAID played a major role, resulted in 1.3 billion people receiving safe drinking water sources, and 750 million people receiving sanitation for the first time.
- ◆ With the help of USAID, 21,000 farm families in Honduras have been trained in improved land cultivation practices which have reduced soil erosion by 70,000 tons.
- ◆ Agricultural research sponsored by the United States sparked the "Green Revolution" in India. These breakthroughs in agricultural technology and practices resulted in the most dramatic increase in agricultural yields and production in the history of mankind, allowing nations like India and Bangladesh to become nearly food self-sufficient.
- ◆ After initial USAID start-up support for loans and operating costs, Banco Solidario (BancoSol) became the first full-fledged commercial bank in Latin America dedicated to microbusiness. BancoSol serves about 44,000 small Bolivian



Continued on next page

businesses, with loans averaging \$200 each. The bank now is a self-sustaining commercial lender that needs no further USAID assistance.

- ◆ More than 50 million couples worldwide use family planning as a direct result of USAID's population program.
- ◆ In the past 50 years, infant and child death rates in the developing world have been reduced by 50 percent, and health conditions around the world have improved more during this period than in all previous human history.
- ◆ Since 1987, USAID has initiated HIV/AIDS prevention programs in 32 countries, and is the recognized technical leader in the design and development of these programs in the developing world. Over 850,000 people have been reached with USAID HIV prevention education, and 40,000 people have been trained to support HIV/AIDS programs in their own countries.
- ◆ Early USAID action in southern Africa in 1992 prevented massive famine in the region, saving millions of lives.
- ◆ USAID-sponsored energy efficiency experts working in Almaty, Kazakhstan helped local officials put in place improved systems that drastically reduced pollution and led to more than a million barrels of fuel oil being saved in just a three-month period.
- ◆ Literacy rates are up 33 percent worldwide in the last 25 years, and primary school enrollment has tripled in that period.
- ◆ U.S. exports of food processing and packaging machinery have increased from about \$100 million in 1986, to an estimated \$680 million in 1994. This huge increase is due partly to USAID-funded projects that have increased supplies of agricultural raw materials for processing and have given potential processors the information, technical assistance, and training they needed to start or expand their businesses.
- ◆ USAID child survival programs have made a major contribution to a 10 percent reduction in infant mortality rates worldwide in just the past eight years.
- ◆ Millions of entrepreneurs around the world (many of them women) have started or improved small businesses through USAID assistance.
- ◆ Investments by the U.S. and other donors in better seeds and agricultural techniques over the past two decades have helped make it possible to feed an extra billion people in the world.