

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The U.S. Agency for International Development (USAID) is the Federal agency that implements America's foreign economic and humanitarian assistance programs. USAID advances America's foreign policy goals of expanded democracy and free markets, while improving the quality of life for millions of people in the developing world. USAID spends less than one-half of 1 percent of the federal budget in programs that contribute directly to peace and prosperity, global health, and international disaster response on behalf of the American people. As described by Secretary of State Colin Powell: "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world.... Over the long-term, our foreign assistance programs are among our most powerful national security tools."

USAID's history dates from the Marshall Plan reconstruction of Europe after World War Two and the Truman Administration's Point Four Program. In 1961, President John F. Kennedy signed the Foreign Assistance Act into law and created USAID by executive order.

Since that time, USAID has been the principal U.S. agency to extend assistance to countries recovering from disaster, working to escape poverty, and engaging in democratic reforms. USAID programs in more than 100 countries promote U.S. national interests and represent American values by supporting:

- Economic growth, agriculture and trade;
- Global health; and

- Democracy, conflict prevention, and humanitarian assistance.

The Bush Administration has initiated a new strategic orientation to ensure that USAID's long-term development assistance and humanitarian and disaster relief programs better reflect U.S. interests in security and prosperity. As a result, USAID has increased its focus on the dual imperatives of globalization and the prevention of deadly conflict.

As Administrator Natsios explained before the Senate Foreign Relations Committee in April 2001, "Nearly two-thirds of the countries with USAID field missions have been ravaged by civil conflict over the past five years, in some cases destroying years of economic and political progress. I have witnessed the horror of these conflicts, the widespread starvation of civilians, terrible atrocities, the collapse of governments and national economies.... USAID will begin a deliberate effort to focus its limited program funds on conflict prevention and resolution, in conjunction with already existing efforts at the State and Defense Departments."

USAID reorganized its structure and programs in FY 2001 to achieve this new orientation. The USAID Administrator, Andrew Natsios, led an Agency-wide process to:

- Reorient, simplify and interface USAID programs into four "pillars" supporting achievement of the Agency's strategic objectives;
- Introduce the Global Development Alliance as USAID's new business model;

"USAID and our partners in the NGO community and in the U.N. agencies are, in fact, the world's and the American people's combat battalion fighting the four horsemen of the Apocalypse: epidemics, famines, tyranny and . . . terrorism."

Administrator Andrew Natsios at USAID's 40th Anniversary

- Adjust the Agency's budget priorities to increase funding for agriculture, HIV/AIDS, basic education, and conflict prevention and resolution; and
- Direct senior management attention at headquarters and in the field to the sweeping overhaul of USAID management and operating systems.

MANAGEMENT DISCUSSION AND ANALYSIS

ORGANIZATION OF USAID

USAID is headed by an Administrator and Deputy Administrator, who are appointed by the President and confirmed by the U.S. Senate. USAID is headquartered in Washington, D.C. and maintains field offices in most of the countries where it has programs. USAID works in close partnership with private voluntary organizations, indigenous organizations, universities, American businesses, international agencies, other governments, and other U.S. Government agencies. USAID has working relationships with more than 3,500 American companies and more than 300 U.S.-based private voluntary organizations.

In Washington, USAID's major organization units are called "bureaus." An Assistant Administrator who is appointed by the President and confirmed by the U.S. Senate heads each bureau.

The **four geographic bureaus**, which are responsible for the overall activities in the countries where the Agency has programs, are:

- Africa (AFR)
- Asia and the Near East (ANE)
- Latin America and the Caribbean (LAC)
- Europe and Eurasia (E&E)

USAID has two kinds of functional bureaus: the new "pillar" bureaus that support Agency programs (such as health) across geographic regions; and three functional bureaus that provide Agency-wide management, policy, and legislative support.

As part of Administrator Natsios' first year reforms, USAID consolidated development and relief activities into three new pillar bureaus to reflect program priorities. In the reorganization process, USAID eliminated two bureaus: the Bureau for Humanitarian Response and the Bureau for Global Programs, Field Support and Research, whose programs were absorbed into the pillar bureaus.

The **three new pillar bureaus**, which support the delivery of technical services in the field and promote leading edge research on new approaches and technologies, are:

- Global Health (GH)
- Economic Growth, Agriculture and Trade (EGAT)
- Democracy, Conflict, and Humanitarian Assistance (DCHA)

Two other entities also resulted from the reform and reorganization process: the Global Development Alliance Secretariat and the Conflict Prevention Task Force. These are temporary structures. These units will assist in implementing USAID's new business model of strategic alliances and the Agency's heightened focus on conflict prevention throughout Agency programs.

The other **functional bureaus** at USAID headquarters, which serve all bureaus and country programs, are:

- Management (M)
- Legislative and Public Affairs (LPA)
- Policy and Program Coordination (PPC)

USAID also has several independent offices that carry out discrete functions. Headed by Directors who are appointed by the USAID Administrator, these five offices are:

- Office of the Executive Secretariat (ES)
- Office of Equal Opportunity Programs (EOP)
- Office of the General Counsel (GC)
- Office of Small and Disadvantaged Business Utilization (OSDBU)
- Office of Security (SEC)

The Office of the Inspector General (OIG) reviews the integrity of Agency operations through audits, appraisals, investigations, and inspections.

Finally, in Washington, two legislatively mandated positions also provide support to the Administrator. These are the Chief Financial Officer, responsible for ensuring that management of the Agency's finances conforms to federal standards, and the Chief Information Officer, responsible for ensuring that the Agency's information management and technology conform to federal standards.

USAID programs overseas are grouped into various types of country organizations:

- Countries where USAID maintains a mission or other presence, and provides an interfaced package of sustainable development assistance.
- Countries where USAID's presence

MANAGEMENT DISCUSSION AND ANALYSIS

is limited, but where aid to non-governmental sectors is necessary to facilitate the emergence of a civic society, help alleviate repression, meet basic humanitarian needs, enhance food security, or influence a problem with regional or global implications.

- Countries that have recently experienced a national crisis, a significant political transition, or a natural disaster and/or where timely assistance is needed to reinforce institutions and national order.
- Multi-country missions that administer USAID programs and services to several countries, or that provide regional services to other overseas organizations.
- Various international development organizations and bilateral donors that represent U.S. and USAID interests in development assistance matters. These offices may be only partially staffed by USAID personnel and may be headed by employees of other U.S. Government agencies.
- Field offices of the Inspector General (such as Regional Inspector General for Audit offices and Investigative Field Offices) that carry out comprehensive programs of audits and investigations.

PERFORMANCE MONITORING IN USAID

USAID uses a variety of tools to track performance. These tools have grown out of the need to address foreign policy priorities, Agency goals, country-level conditions, and Congressional and Administration interests. In the past year, these monitoring tools have given managers an increasingly comprehensive view of Agency performance. And to increase the rigor of Agency performance monitoring, USAID trained over 1,000 staff and partners in performance management and USAID programming policies, including results reporting, over the past year.

Operating unit assessments. USAID operating unit objectives, targets, and indicators highlight the specific goals the Agency seeks in country, regional, or global settings. Operating units and their partners set these indicators and targets with guidance and technical support from Washington, where they are reviewed and approved. Operating units report annually on program performance relative to the agreed-upon targets. These annual reports help form the basis on which operating units request resources and inform USAID's overall resource request and allocation process.

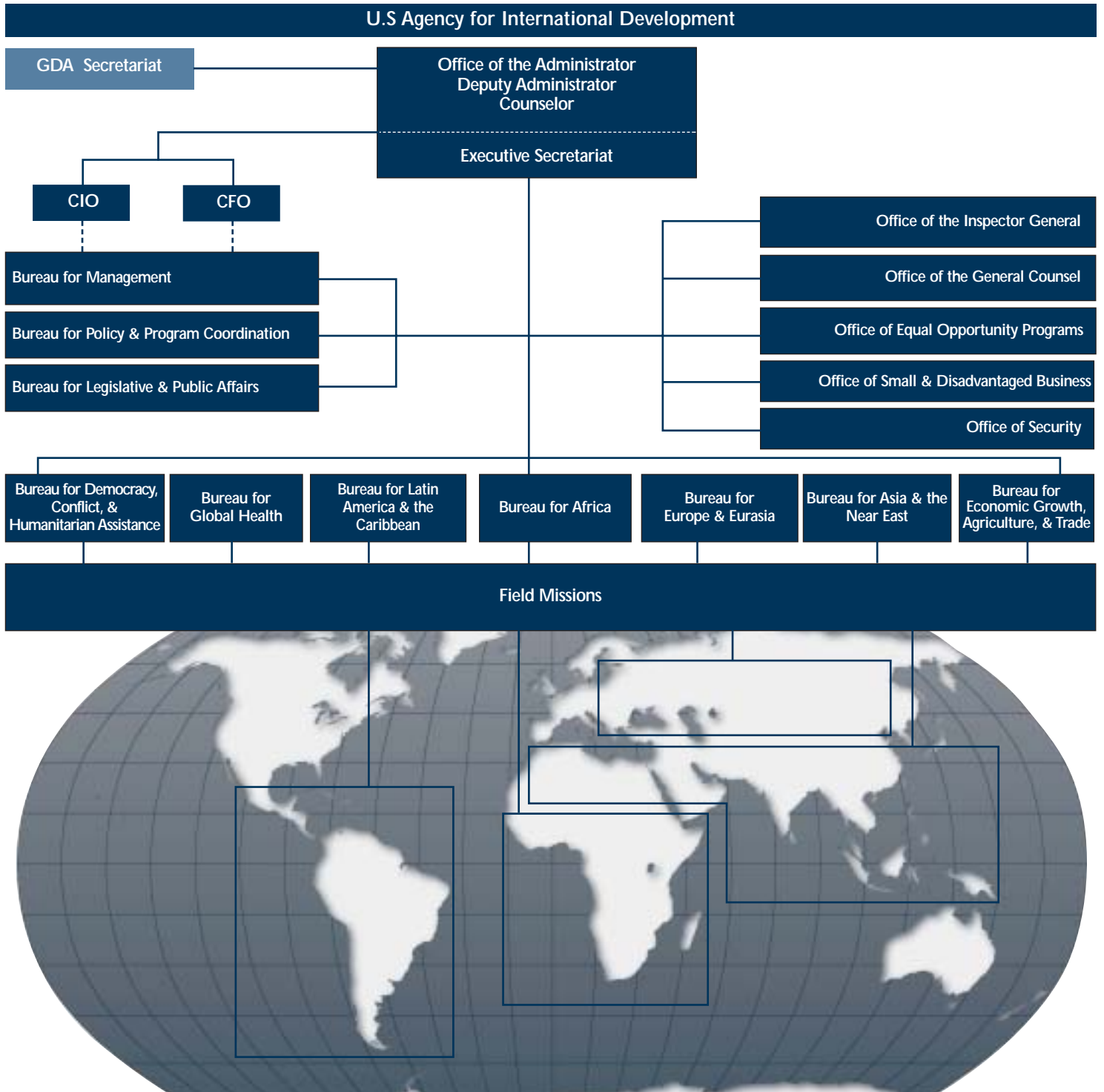
Strategic objective assessments were conducted before submission of annual reports by USAID operating units. PPC received the performance reporting documents for this report between

January and September 2001. PPC did not receive assessments of annual performance for all operating unit objectives.

Goal area reviews. Each year, USAID conducts an in-depth review of global, regional, and country trends data by goal area. On the basis of these trends, the content and emphasis of the Agency's regional and global program portfolios are evaluated, followed by an assessment of the need for changes in USAID's strategy to achieve long-range goals.

Evaluations. The Agency's evaluation system has three tiers: 1) central evaluations conducted by PPC; 2) operating-unit evaluations (both impact and operational analysis); and 3) goal-area technical analyses. Central evaluations shed light on the relationships between USAID's interventions and the development goals that the U.S. Government and the broader donor community have agreed upon. They capture Agency experience and lessons learned to inform the strategic planning and program design processes. Operating-unit evaluations capture project-level progress as well as performance issues and operational problems. A central research and reference service maintains these evaluations and makes them available to the Agency and its partners. This service facilitates the application of accumulated experience to future programs. Goal-area technical analyses are conducted on specialized topics and are principally used to validate or modify program strategies.

MANAGEMENT DISCUSSION AND ANALYSIS



Shaded area indicates temporary structure.

MANAGEMENT DISCUSSION AND ANALYSIS

Table 1-1 USAID Pillars, Goals, and Strategic Objectives

Three Program Pillars	FY 2001 Agency Goals and Strategic Objectives
<p>Economic Growth, Agriculture and Trade</p>	<ul style="list-style-type: none"> • Broad-based economic growth and agricultural development encouraged <ul style="list-style-type: none"> • Critical private markets expanded and strengthened • More rapid and enhanced agricultural development and food security encouraged • Access to economic opportunity for the rural and urban poor expanded and made more equitable • Human capacity built through education and training <ul style="list-style-type: none"> • Access to quality basic education for underserved populations, especially for girls and women, expanded • The contribution of host-country institutions of higher education to sustainable development increased • The world's environment protected for long-term sustainability <ul style="list-style-type: none"> • Threat of global climate change reduced • Biological diversity conserved • Sustainable urbanization, including pollution management, promoted • Use of environmentally sound energy increased • Sustainable management of natural resources increased
<p>Global Health</p>	<ul style="list-style-type: none"> • World population stabilized and human health protected <ul style="list-style-type: none"> • Unintended and mistimed pregnancies reduced • Infant and child health and nutrition improved and infant and child mortality reduced • Deaths and adverse health outcomes to women as a result of childbirth reduced • HIV transmissions and impact of HIV/AIDS pandemic in developing countries reduced • The threat of infectious diseases of major public health importance reduced
<p>Democracy, Conflict & Humanitarian Assistance</p>	<ul style="list-style-type: none"> • Democracy and good governance strengthened <ul style="list-style-type: none"> • Rule of law and respect for human rights of women, as well as men, strengthened • Credible and competitive political processes encouraged • Development of politically active civil society promoted • More transparent and accountable government institutions encouraged • Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established <ul style="list-style-type: none"> • Urgent needs in times of crisis met • Personal security and basic institutions to meet critical needs and protect basic human rights re-established
<p>Management</p>	<ul style="list-style-type: none"> • USAID's development goals achieved in the most efficient and effective manner <ul style="list-style-type: none"> • Accurate program performance and financial information reflected in Agency decisions • USAID staff skills, Agency goals, core values, and organizational structures better aligned to achieve results efficiently • Agency goals and objectives served by well-planned and –managed acquisition and assistance • Agency goals and objectives supported by better information management and technology

MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS OF PROGRAMS AND RESULTS

Overview

During FY 2001, the Agency pursued its mission through the achievement of six strategic goals and one management goal. These goals are articulated in USAID's 1997 Strategic Plan and revised 2000 Strategic Plan. Although the latter serves as the Agency's development framework, the new Agency leadership initiated programmatic and organizational changes in this framework in FY 2001. Accordingly, this Management Discussion and Analysis (MD&A) represents results achieved against each of the Agency's six strategic goals under the new Agency-wide pillar orientation, and the USAID management goal.

Across USAID, operating unit portfolios vary. Based on operating unit strategic plans that reflect different country contexts and development needs, as well as U.S. foreign policy priorities and Congressional directives, USAID operating units pursue different results. However, each of these must be aligned with Agency goals and strategic objectives and must be reported within that framework. The program results reported below capture performance as of September 30, 2000 and are based on self-assessments of performance by missions and other operating units. With the exception of operating expense funds, the results were generally accomplished

using prior year funds. Funds are generally made available to operating units in the third and fourth quarters of the fiscal year. Therefore, it is essentially impossible to allocate the funding for a specific fiscal year to specific Agency accomplishments.

The three USAID pillars and Agency management goal, and the corresponding FY 2001 Agency goals and strategic objectives on which performance is being reported in this Report, are presented in Table 1-1.

Program Performance Summary

The staff and management of USAID are proud of the Agency's strong performance on behalf of the American people. As illustrated in Table 1-2 and

"[USAID is] more than an element of American foreign policy. You bring hope to people. You bring the American value system to the darkest corners of the world."

Secretary of State Colin Powell at USAID's 40th Anniversary

Table 1-2 Performance Assessment Summary*

Goals	Assessment	Number			Percent		
		FY 1999	FY 2000	FY 2001	FY 1999	FY 2000	FY 2001
Economic growth and agricultural development	Exceeded	13	15	15	16	17	15
	Met	63	68	78	79	77	80
	Not Met	4	5	5	5	6	5
Education	Exceeded	7	7	7	33	26	25
	Met	14	20	21	67	74	75
	Not Met	0	0	0	0	0	0
Environment	Exceeded	12	12	12	27	23	20
	Met	30	38	45	68	72	77
	Not Met	2	3	2	5	5	3
Population, health, and nutrition	Exceeded	16	17	18	26	25	24
	Met	44	50	54	72	72	73
	Not Met	1	2	2	2	3	3
Democracy and governance	Exceeded	11	13	15	15	16	16
	Met	51	54	61	69	66	68
	Not Met	12	15	15	16	18	16
Humanitarian assistance	Exceeded	2	3	3	13	16	15
	Met	13	16	16	87	84	80
	Not Met	0	0	1	0	0	5
Total	Exceeded	61	67	70	21	20	19
	Met	215	246	276	73	73	75
	Not Met	19	25	24	6	7	6

*USAID reporting cycle on a one-year lag.

MANAGEMENT DISCUSSION AND ANALYSIS

in the goal descriptions, the Agency continues to meet its summary program targets. The overall rate is high and results remain consistent over time. USAID's average rate of strategic objectives not meeting expectations is in the 6/7% range, while the exceeded rate is in the 18/21% range.

With regard to specific goals, in education and humanitarian assistance, all USAID operating units met or exceeded targets. Even in USAID's democracy goal where one expects a high risk, the rate of achievement is reasonable.

In those cases where individual operating units failed to meet program expectations, the explanation and corrective actions are local and do not require management adjustments at a central level. Illustrative examples of strategic objectives assessed as not meeting expectations are provided below and provide explanations of why performance targets were not met.

Performance by Goal Area Within the New Pillars

The Global Development Alliance

Public-private alliances, as articulated by USAID's new Global Development Alliance, represent an important business model for USAID, and are applicable to many of the Agency's programs. USAID proposes to serve as a catalyst to mobilize the ideas, efforts, and resources of the public sector, corporate America, the higher education and NGO communities, and other partners in support of shared objectives. GDA builds on many successful alliances around the world, and seeks to take the best of those

experiences and significantly expand this approach to meeting development objectives. Under the GDA and related efforts, USAID will collaboratively create alliances that bring new partners, innovations, and leveraged resources to development challenges.

The Global Development Alliance recognizes significant changes in the assistance environment around the world. It builds on decades of experience working effectively with partners both public and private to take assistance to the next level of shared responsibility and magnified results.

- GDA brings new partners—a mix of NGOs, PVOs, cooperatives, foundations, corporations, higher education institutions and even individuals—to the development challenge, and engages current partners in new ways.
- It entails significant resource leveraging—partners are to bring at least as many resources to the table as those provided by USAID—including funds, in-kind contributions, and intellectual property.
- GDA uses collaborative objective setting as a catalyst to mobilize ideas and resources of many actors in support of shared objectives. Development problems and solutions are jointly defined.

GDA seeks to improve the quality and extent of partnerships, leverage private financing of development assistance, and enhance policy reform through advocacy. GDA responds to a growing international view that public

"The Global Development Alliance will allow us to begin a new era of cooperation, not where we give grants to foundations or universities, but where we use our resources together in the developing world to get projects accomplished at a much grander scale than we've been able to do with only our own resources."

*Administrator Andrew Natsios
at USAID's 40th Anniversary*

commitment and resources alone are necessary but not sufficient to meet development needs and opportunities.

While the GDA is new, it builds upon years of experience. USAID is already engaged in many successful alliances around the world, such as the Global Alliance for Vaccines and Immunization (GAVI). What is new is that USAID will pursue a systematic approach to alliances on a much larger scale and will institutionalize these alliances as a central business model across Agency operations.

MANAGEMENT DISCUSSION AND ANALYSIS

USAID's Three Program Pillars

1. The Economic Growth, Agriculture and Trade Pillar (EGAT)

The global economy has changed remarkably in the past two decades. With the end of the Cold War, a truly global marketplace for goods, services, technology, and ideas has materialized, and the World Trade Organization (WTO) has begun to establish fair and open markets as a common economic goal requiring international oversight. It is critical to both the U.S. economy and global stability, that developing and transition countries find a way to participate in this process and that the benefits of globalization are broadly shared. Yet, more than 1.2 billion people live on less than a dollar a day; more than 800 million people continue to go to bed hungry; and more than 113 million children are not in school.

USAID assistance provided under the Economic Growth, Agriculture and Trade pillar will focus on creating economies that are viable over the long term. To accomplish this, USAID will pursue the mutually reinforcing goals of promoting economic growth to reduce poverty and increased agricultural production to reduce hunger. The interrelationship and interdependence of economic growth, environmental sustainability, and the development of a country's human capital are highlighted within this pillar as illustrated in Table 1-1. Job creation will be an essential element of this pillar, especially through the promotion of microenterprises and agro-enterprises.

While human capacity development, particularly basic education, and the

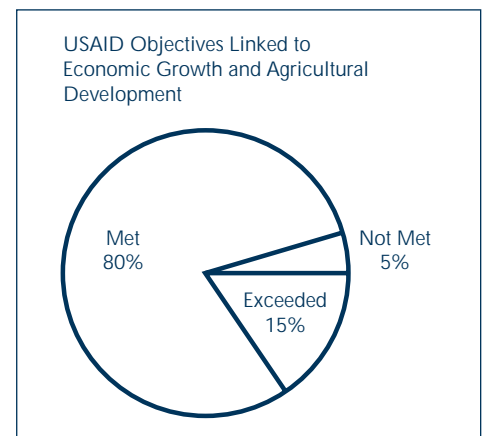
environment have an impact on all three pillars, they are included with economic growth. This recognizes their essential link to economic development. Issues of environmental sustainability will continue to play a central role in the execution of USAID programs.

Special emphasis will be directed at integrating growth, agriculture, and environmental objectives in a manner such that market forces play an increasingly important role in the Agency's strategic approach and in determining a program's long-term viability. Throughout these sectors and activities, the Agency will take advantage of new information technologies to accelerate advances. Funded activities will assist: the productive sectors, especially agriculture; the environment and energy sectors; human capacity development (including basic education); micro-enterprises; and improvement of the business, trade, and investment climate.

FY 2001 Strategic Goal: Broad-based economic growth and agricultural development encouraged

In FY 2001, USAID's efforts in economic growth and agricultural development reflected the Agency commitment to broad-based sustainable economic growth, took into account world trends, addressed the needs of the hungry and poor, and advanced the interests of the United States in promoting global prosperity and stability. In addition, economic growth Strategic Objectives took into account longstanding Congressional earmarks and directives. USAID activities supported three priority areas:

- Promoting open and competitive economies;
- Developing science and technology to improve productivity, natural resource management, markets, and human nutrition; and
- Expanding access to economic opportunities for the poor.



Nearly 70 percent of USAID-assisted countries were growing at positive rates in the second half of the 1990's, compared to 45 percent in the early part of the decade. Economic freedom improved in over two-thirds of USAID assisted countries. Overall, 95 percent of assessed Strategic Objectives for encouraging economic growth and agricultural development met or exceeded performance expectations.

Illustrative Operating Unit Assessment of Performance

Reduced Poverty in Uganda

Uganda is a poor, least-developed, landlocked country with no special advantages, such as oil or valuable minerals. Relatively good policies and efforts at institutional strengthening

MANAGEMENT DISCUSSION AND ANALYSIS

since the mid-1980's have enabled Uganda to overcome a legacy of crisis, conflict, and state failure and to achieve rapid growth and poverty reduction. Under **SO 617-001, Increased rural household income**, USAID has focused on commercial production of non-traditional agricultural exports and food crops, financial services, business development, and an enabling environment for free enterprise growth.

USAID/Uganda partners continued to expand their technology transfer and outreach programs, reaching 500,000 farmers in 35 districts in 2000, a 25% increase over 1999. More than 220,000 thousand farmers, 35% of them women, participated in 4,000 on-farm demonstrations promoting improved seed varieties, proper fertilizer use, integrated pest management, post-harvest technologies and market information systems. USAID/Uganda has supported over sixty new firms engaged in non-traditional agricultural exports with technical assistance.

Production of selected food crops increased dramatically as a result of USAID interventions, with edible oil production exceeding its target three-fold, cassava production reaching more than ten times the target, and beans 35% over target. Adoption of improved seeds, fertilizer, and farm management practices have reduced the cost of production for maize over the last three years from \$340 to \$140 per MT. Post-harvest losses and improper storage have been addressed for maize, beans, and oilseeds.

Non-traditional agricultural export volumes continue to expand and

international buyers now recognize Uganda as a top competitor in the supply of cut flowers and other produce. Fresh fruit and vegetable exports exceeded the target at 3,500 MT with a value of \$3.65 million, providing income to about 10,000 households. The export volume of floriculture products, mainly roses and plant cuttings, met the target at 3,017 MT. However, the export value of \$14.5 million was 20% below target due to devaluation, increased fuel costs, and border conflicts. Vanilla, which is a relatively new crop for Uganda, went from non-production to the world's third largest producer in just two years, filling a gap caused by storm damage to crops in Madagascar. The value of papain and cocoa exports dropped by nearly \$4 million, due to rebel insurgency in production areas.

USAID has provided training to over 60 (out of about 100) micro-finance institutions (MFIs), contributing to their long-term sustainability. In order to reach more people and expand financial services, twelve MFIs were targeted with additional grants supporting operating costs, equipment, and loan capital. USAID-funded programs have directly assisted over 350,000 micro-enterprises (70% women) and small businesses to become more profitable.

The number of "best practices" microenterprise finance institutions using full cost-recovery interest rates and fees, with delinquency rates below 10% and loan losses under 5% of their portfolio, reached 14, double the target. This year, MFIs saw a quantum leap in savers and borrowers (70% women) as a result of an innovative equity investment and deposit

"Without economic growth no development is ultimately sustainable.

I would like to focus more of USAID's resources on economic development to reduce poverty and on agricultural development to reduce hunger and malnutrition."

*Administrator Andrew Natsios
in his Senate Foreign Relations
Committee Confirmation Statement*

mobilization scheme with Centenary Bank. The number of new savers exceeded the target by over 60%; and the target number of borrowers was surpassed by 50%.

USAID's policy focus has helped the Government of Uganda (GOU) and private sector crystallize a strategy for prioritizing critical reforms to enhance competitiveness. Through USAID's support, over 400 leaders in the private and public sector have received specialized training on issues such as

MANAGEMENT DISCUSSION AND ANALYSIS

Uganda's interest in agricultural trade reforms, regional integration with Common Market for Eastern and Southern Africa (COMESA) and the East African Community, and the African Growth and Opportunity Act (AGOA).

Illustrative Strategic Objectives Assessed as Not Meeting Expectations

In **Turkmenistan**, USAID achievements under **SO 1.30, An improved environment for the growth of small and medium enterprises**, were severely limited by the Government of Turkmenistan's unwillingness to reform the state-controlled economy. As a result, Turkmenistan's near-term outlook did not offer prospects for building the foundation for long-term economic growth. The dwindling number of foreign investors faced increasing difficulties in most of their business operations. While there appeared to be some recognition by the national leadership that the country's financial and fiscal management (budget and debt management) needs to be improved, there was no political will among Turkmen leaders to make needed reforms. In response, USAID will redouble its efforts under the strategy's Intermediate Result, "Increased opportunity to acquire business information, knowledge, and skills," in order to train the next generation of entrepreneurs and policymakers.

The purpose of **SO 2, Increased income of enterprises, primarily rural, with emphasis on exports**, is to support **Eritrean** enterprises, particularly through the provision of loans and related financial services to entrepreneurs. This SO did not meet

expectations over the reporting period primarily as a result of the economic effects of Eritrea's conflict with Ethiopia. The loss in agricultural production, the disruption of traditional trade patterns with Ethiopia, and the flight of foreign direct investment combined to slow Eritrea's rate of economic growth from pre-war levels.

USAID activities under this SO were severely constrained by travel restrictions due to the security situation. As a consequence, there was no progress to report. The mobilization of host country staff for required military service, the ordered departure of Americans and the absence of advisory staff delayed skills training planned for the staff of the Commercial Bank of Eritrea (CBER) and the Rural Enterprise Unit (REU). Delivery of improved technical and financial services for entrepreneurs was similarly delayed.

USAID shifted the focus of the SO in 2000 to emergency recovery as a result of the conflict and the generally depressed economy. Under a disbursement procedure established with the U.S. cooperative development organization, ACDI/VOCA, emergency loans were provided to primarily small and medium enterprises whose inventory and businesses were destroyed by the conflict in May 2000. This emergency recovery effort, funded from existing resources reprogrammed as a result of invoking the Mission's Crisis Modifier, was a well-appreciated response to the economic recovery of southern and western Eritrea.

With the signing of the peace agreement, there is reason for guarded optimism about the prospects for

recovery. For this reason, USAID did not change the SO performance indicators, believing that, with more time and additional resources, progress can be achieved.

FY 2001 Strategic Goal: Human capacity built through education and training

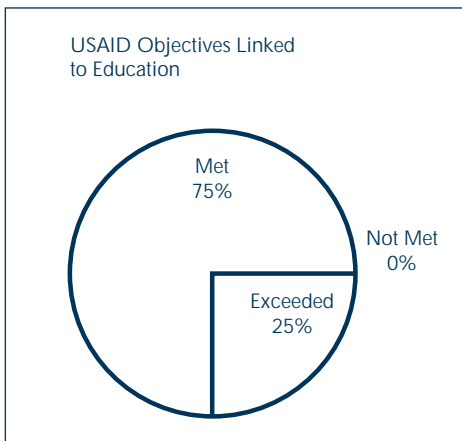
A country that achieves sustainable economic growth by expanding and improving basic education becomes a more valuable trading partner with the U.S. The same is true of a country that grows faster because its universities provide better access to new and improved technology developed abroad. Higher education helps a country contribute more to its own development.

Economic growth in developing countries demands the creation of a productive and skilled workforce. Basic education for all children is the necessary first step. The positive linkages between education and other USAID strategic goals are well established. Better, more accessible



MANAGEMENT DISCUSSION AND ANALYSIS

basic education raises agricultural output and productivity, improves environmental stewardship, encourages ethnic tolerance and respect for civil liberties, and builds democratic values and practices. In addition, there are specific benefits linked to increased school attendance among girls that lead to higher incomes, better family health, increased child survival, smaller families, and improved social status for women.



Human capacity development SOs support USAID's emphasis on Economic Growth in four priority areas:

- Improving the quality and efficiency of basic education;
- New partnerships improve the quality and relevance of higher education and workforce development;
- Expanded training for future private sector, NGO, and government leaders; and
- Spreading the information technology revolution to the developing world and those in need.

One hundred percent of assessed Strategic Objectives for education met or exceeded performance expectations.

Illustrative Operating Unit Assessments of Performance

Increased Girls' Enrollment in Guatemala

In Guatemala, poor children suffer disadvantages in basic education, in terms of initial enrollment and educational quality. These problems are especially acute for girls from rural indigenous communities. In rural areas, one of every three children does not attend school. Mayan children complete only 1.3 years of school on average, while Mayan girls complete less than a year. Six in ten children repeat first grade, one in four at least twice. Dropout and truancy are high, and only two in ten rural children complete sixth grade.

Contributing factors include very limited public funding for basic education; the limited influence of rural indigenous communities on national politics; and a tendency among poor indigenous families to keep girls home to help with chores and take care of siblings, in some cases allowing them to attend school just long enough to learn basic reading and arithmetic. In addition, the fact that classes have traditionally been taught only in Spanish has discouraged many among the 50 percent of children from Mayan-speaking households. Since the signing of the 1996 peace accords that ended Guatemala's long civil war, universal primary education has been a top priority.

USAID/Guatemala's **SO, Better educated rural society**, comprises three

Intermediate Results: 1) increased access to intercultural and bilingual primary education for children of rural Quiché Department; 2) greater access to education services for rural communities in the seven Departments designated the "Peace Zone"; and 3) implementation of education strategies and policies that enhance gender and cultural pluralism. In particular, USAID has supported an intercultural bilingual education program that directly affects 96,000 children in Quiché Department.

Program efforts include teacher training, developing and applying innovative pre-primary and primary instructional materials and methodologies, organizing communities around educational issues, and increasing parents' and especially mothers' participation in educational management and student learning. National policy reform activities complement these activities to strengthen the educational policy environment to support cultural pluralism and gender equity.

USAID reported progress in meeting this SO both in Quiché and at the national level. The gross primary enrollment ratio for girls in Quiché increased to 93.3 percent in 2000, up from 79.1 percent in 1999 and from the 1997 baseline of 62.1 percent. The gender equity ratio in rural primary schools in Quiché, the number of girls enrolled per 100 boys, continued its gradual climb, reaching 78.7 percent in 2000, up from 74.2 percent in 1997. Finally, the third grade completion rate for girls in Quiché increased from 22 percent in 1999 to 28 percent in 2000, providing evidence of improved quality, equity, and system efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

These improvements contributed to an increase in the net primary enrollment ratio at the national level, from 69 percent in 1996 to an estimated 84 percent in 2000. Additional progress was seen in the area of policy toward bilingual education. For example, the Ministry of Education issued a decree mandating that, in all schools located in indigenous areas, teachers who speak indigenous languages should be assigned to pre-primary through third grade. Meanwhile, the Government committed to provide funding for an additional 75,000 primary school scholarships for girls, helping scale up an intervention pioneered by USAID to encourage educational participation among girls.



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MANAGEMENT DISCUSSION AND ANALYSIS

Wider Access to Basic Education in Guinea

Guinea is a poor country in West Africa. Its human resource base and domestic economy are still recovering from the dictatorship of Sekou Toure, who died in 1984 after 26 years of rule. During the dictatorship, essential social services and infrastructure collapsed, and state central planning devastated the private economy, including the formerly prosperous agricultural sector.

In 1990, the current government initiated a program of political and economic reforms that has liberalized the economy, restrained public sector spending, controlled inflation, and stabilized the exchange rate. The reform program has also helped improve the delivery of social services, including basic health and basic education. USAID has supported the reform program since its inception; efforts to reform basic education have been an important element in USAID's overall development strategy. USAID's current efforts in basic education build on progress achieved during the first phase of the education reform effort (1990-1995), in which Guinea increased the share of the national budget for primary education, reassigned many teachers from the secondary to the primary school level, and decentralized key budgetary and management functions to the regional and local level. These and other measures contributed to the increase in the primary enrollment ratio and the drop in the educational gender gap since 1990.

Despite this progress, Guinea has a long way to go to achieve universal

enrollment in primary education, especially among girls, and to improve educational quality. Thus, USAID has supported a second-phase reform effort since 1996 under the *SO, Quality basic education provided to a larger percentage of Guinean children, with emphasis on girls and rural children*. Major elements include: support for interactive radio instruction for all six primary grades, which reaches schoolchildren in remote areas and introduces new teaching strategies and greater gender sensitivity to teachers; assistance to the Ministry of Education to improve capabilities in strategic planning, management, and budgeting; support for local Parent-Teacher Associations (PTAs); and direct support for the construction of community schools in the poorest region of the country, based on a commitment to maintain a 50/50 boy/girl enrollment ratio.

USAID/Guinea assessed progress under the SO to have met expectations in 2000. The first interactive radio broadcasts were launched in late 1999, and have expanded to cover all six primary grades. The Government has assumed the cost of keeping the broadcasts on the air. The radio programs were complemented by a variety of on-the-ground measures to reinforce teachers' understanding and ability to use the new educational approaches. USAID encouraged decentralized educational planning by involving regional and local education authorities in assessing the effectiveness of teacher deployment. Also in 2000, a USAID grantee delivered training sessions in organizational management to 187 school PTAs, including nearly 4,000 female trainees.

Together, these activities supported Guinea's progress in basic education. At the national level, the gross primary enrollment ratio rose from 53.5 percent in 1999 to 56.8 percent in 2000. The percentage of girls in primary enrollments rose from 40 percent in 1999 to 44.3 percent in 2000, while the corresponding figure for rural girls rose from 36 percent in 1999 to 38 percent in 2000.

FY 2001 Strategic Goal: The world's environment protected for long-term sustainability

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development.

Environmental degradation in other parts of the world, particularly the loss of biological diversity, changes in global climate, the spread of pollutants, the careless use of toxic chemicals, and the decline of natural fish populations directly affects the United States. Struggles over land, water, and other natural resources in the developing world lead to instability and conflict, which often threaten U.S. security and trade interests.

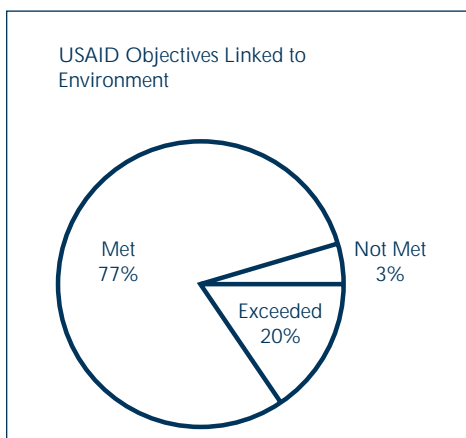
USAID programs tackle major environmental problems abroad before they pose more serious threats to the United States. Agency programs promote economic growth, global health, technology transfer, and conflict prevention and help people manage their activities in ways that enable the

MANAGEMENT DISCUSSION AND ANALYSIS

natural environment to continue to produce—now and in the future—the goods and services necessary for survival.

The Agency seeks to protect the environment for long-term sustainability around the world through programs directed at five broad areas:

- The threat of global climate change reduced;
- Biological diversity conserved;
- Sustainable management of urbanization, including pollution management, improved;
- Proportion of environmentally sound energy services increased; and
- Sustainability of natural resources increased through better management.



USAID met or exceeded 97% of assessed operating unit Strategic Objectives to protect the environment for long-term sustainability.

Illustrative Operating Unit Assessments of Performance

Improved Conservation and Natural Resource Management in Madagascar

Madagascar's separation from Africa engendered an evolution of flora and fauna found nowhere else. Madagascar is the world's 13th poorest country, placing unparalleled pressure on these biodiversity treasures. International conservation organizations cite Madagascar as the highest biodiversity priority in Africa and among the top three global "biodiversity hotspots." USAID is helping to preserve these invaluable natural resources through the **SO, Biologically diverse ecosystems conserved in priority zones.**

USAID has led Madagascar's National Environmental Action Plan (NEAP) donors since 1990, supporting biodiversity conservation, forest management, environmental policy development, and institutional strengthening. USAID's support reinforces Madagascar's capacity to develop and manage its protected area network, increase local participation in natural resources management, encourage adoption of sustainable agricultural technologies, increase ecotourism and private sector involvement in conservation enterprises, and establish enabling conditions and mechanisms for sustainable environmental agencies.

Preliminary data suggest that annual forest loss decreased in two priority conservation zones where USAID has worked for the last decade. Over 8% of Madagascar is now protected (versus 4.7% before the NEAP began in 1989) with 15 of 16 critical habitats in the

protected area network and 380 villages in priority conservation zones using community-based conservation techniques. Financing provided for local environmental activities by an independent Malagasy foundation, initially capitalized by USAID, has increased six-fold since 1997.

As the lead donor in establishing Madagascar's National Park system, USAID supported the National Park Service (ANGAP's) development and use of a protected area management plan, which provides a cohesive ecoregional management strategy: It identifies critical biodiversity areas; prioritizes unprotected area entry into the park network; outlines research, ecological monitoring, park development, community involvement and eco-tourism objectives; and creates systems for achieving National Park system financial sustainability. Park Service revenue has increased an average of 14% each year for the last five years. During the same period, Madagascar's tourism revenue showed an average 14% annual increase. With USAID support, three new ecotourism investment zones were established adjacent to three National Parks, encouraging eco-lodge and tourism investments. This has helped generate employment, and handicraft and farm revenue benefits for local communities.

USAID also supported a process to transfer management of nine classified forests to local communities: Forest management was transferred to four village associations following GOM approval of their management plans; and village forest management plans were finalized for 8 classified forests. Completion of management schemes for these classified forests (200,000

MANAGEMENT DISCUSSION AND ANALYSIS

hectares) empowered local communities to begin the process of sustainable forest resource use.

Emphasizing the connection between environment and economic growth, USAID helped link conservation to sustainable small farm agriculture and increased rural family incomes. The number of communities participating in conservation activities increased 71% in USAID intervention zones. USAID support has resulted in 7,312 farmers forming 280 producer organizations (POs) in biodiversity rich but unprotected forest areas. To participate, farmers formally abandon slash and burn farming. Fifty-two percent of participating farmers adopted improved agricultural practices. Despite last year's droughts and cyclones, many of these farmers doubled rice yields while off-season crop yields increased by as much as 120%. PO families have emerged within their communities as compelling examples of how good environmental stewardship contributes to more household food and cash.

Improved Energy and Natural Resource Management in Egypt

Egyptians rate solid waste as the top urban environmental issue, and Cairo air pollutant levels are among the highest in the world. Fuller utilization of the country's abundant natural gas reserves is needed to maintain economic growth while reducing the risk of climate change. Efficient use of Nile water, Egypt's most precious resource, is required for agricultural expansion, industrial growth, and the burgeoning population. And sustaining the natural resource base that supports tourism, the second largest source of

national income, requires proactive intervention.

Under *SO 263-019: Improved management of the environment and natural resources in targeted sectors*, USAID seeks to improve management of Egypt's environment and natural resource base in four areas: 1) urban/industrial pollution; 2) Red Sea natural resources; 3) energy efficiency; and 4) Nile water resources. Results under the SO are being realized through three program initiatives: the Egyptian Environmental Policy Program (EPPP), Cairo Air Improvement Project (CAIP), and the Agricultural Policy Reform Program (APRP).

As a result of USAID support to the Ministry of Water Resources and Irrigation (MWRI) to improve Nile water management and water use efficiency, institutionalization of stakeholder participation in Nile irrigation water management is progressing. In 2000, the APRP garnered approval of a policy to adopt the Irrigation Management Transfer concept and promote water users' participation in irrigation and drainage system management. Real value of agricultural production per 1000 cubic meters of Nile irrigation water rose in 1998/99 to LE 551 (exceeding target), and is expected to reach LE 600 in 2001/02.

Sales of clean burning compressed natural gas (CNG) rose from 20.2 million gasoline gallon equivalents (GGE) to 28.795 million GGE in FY 2000, exceeding the expected level. Under the Cairo Air Improvement Project, USAID promoted CNG use in the transportation sector through technology transfer of CNG bus



components and garage equipment, and heavy vehicle emission testing equipment. Egyptian counterpart CNG technology investments totaled approximately \$13.1 million in buses, support facilities, and land. USAID also supported the development of CNG safety standards for fueling equipment and tanks and provided \$17.3 million in Commodity Import Program loans in FY 2000 to the private sector for environmental technology.

USAID support through EEEP led to Egypt's first solid waste management privatization contract in Alexandria, which will improve the lives of over four million residents. In FY 2000, USAID also assisted the Tourism Development Authority (TDA) in introducing environmental management systems (EMS) to Red Sea hotels, which included water/wastewater and solid waste reduction techniques and the use of renewable energy. The TDA implemented a pilot EMS program working with five hotels and issuing EMS guidelines to the tourism industry.

MANAGEMENT DISCUSSION AND ANALYSIS

USAID technical assistance documented 50 percent decreases in water and energy consumption by hotels, and the Starwood Corporation (Sheraton) has adopted EMS for its 14 facilities in Egypt. The percentage of rooms on TDA-owned lands investing in environmental best practices rose from 38.1 percent to 43 percent in CY 2000 (exceeding the expected level).

In FY 2000, the largest lead smelter in Egypt curtailed production and initiated plans for relocation and rehabilitation as a result of USAID's Cairo Air Improvement Program support. The average concentration of airborne lead in the Shoubra Al Kheima district in northern Cairo fell by 50 percent during FY 2000 compared to FY 1999 levels. In the energy sector, USAID provided assistance to the Energy Efficiency Council, which is completing a National Energy Efficiency Strategy Framework for Egypt (expected FY 2001). As a result of USAID technical assistance, energy efficiency service companies increased in number during CY 2000 from nine to 13.

Illustrative Strategic Objective Assessed as Not Meeting Expectations

In **Georgia**, USAID's **SO 114-015, A more economically efficient and environmentally sustainable energy sector** focuses on 1) creating a business climate that will attract private sector participation and ownership, leading to improvements in the management of resources and provision of services; and 2) improving energy sector efficiency in economic terms, with increased capital and operating resources available to energy sector companies. The SO did not meet

expectations, due to the energy sector's lack of generated revenues and poor management of cash flows.

In FY 2000, the number of customers served through privately held distribution companies held constant (480,810), and the proportion of electricity generated by private suppliers improved from 9.3 % to 22.6%, exceeding USAID expectations. However, although revenue collections for electricity improved in Tbilisi and other major cities, payments from large, state industrial users and local distribution companies declined, causing a drop in the economic basis for delivery of electricity from 43% (FY 1999) to 40% (FY 2000). Lack of revenues strapped the energy sector during the winter, as funds were not available to pay for imported gas for electricity generation, and widespread outages occurred.

In FY 2000, the largest lead smelter in Egypt curtailed production and initiated plans for relocation and rehabilitation as a result of USAID's Cairo Air Improvement Program support.

Factors such as the lack of political will to cut off non-payers account for the failure of the sector to meet heat and electricity needs. The formation and initial operations of the Georgia Wholesale Electricity Market (WEM), a transparent electricity trading mechanism, has not met expectations, and local distribution companies and large industrial customers are still not paying fully for electricity received. Likewise, the state-owned electricity transmission and dispatch organizations bow to political pressure and supply electricity to non-paying customers.

Management contracts are viewed as a politically acceptable solution to rectify this situation. Thus, issuing management contracts for the WEM and preparing the rest of Georgia's electricity generation and distribution entities for sale to qualified international investors, have been USAID's major emphases in this sector in 2000. In addition, in line with recent conditions for U.S. contributions for winter heat subsidies, the GOG agreed to cut off electricity to non-paying enterprises.

In mid-year, the Ministry for State Property Management (MSPM) broke off negotiations with several potential bidders for 26 western Georgian electricity distribution companies and several hydroelectric facilities, citing unreasonable expectations for tariffs and rates of return on investment. The MSPM and the Ministry of Fuel and Energy then "re-aggregated" the remaining municipality-controlled electricity distribution companies into eight regional companies and readied them for another privatization effort to be conducted in 2001. This re-aggregation should make it easier to

MANAGEMENT DISCUSSION AND ANALYSIS

sell these more economically sized entities to foreign investors. USAID will assist the GOG to reaggregate the local electricity distribution companies and improve revenue collections and technical operations. The goal of this assistance will continue to be preparation for commercial operations and privatization. The MSPM negotiated with the World Bank's International Finance Corporation, which USAID is financing, to provide investment banking services to facilitate the sale of the remaining distribution and generation assets.

Privatization of the gas distribution system for Tbilisi is also a major component of USAID's program. During the past two years, USAID had difficulty in finding investors willing to assume the deteriorating assets and poor history of payments. In response, USAID shifted its focus to customer meter installation, operational improvements, and increased revenue generation to improve the attractiveness of the system for another attempted sale.



2. The Global Health Pillar

Stabilizing the world's population benefits the American public by contributing to global economic growth, a sustainable environment, and regional security. Reduced population pressures will also lower the risk of humanitarian crises in countries where population growth rates are highest. Protecting human health and nutrition in developing and transitional countries also directly affects public health in the U.S. Unhealthy conditions elsewhere increase the incidence of disease and threat of epidemics that could directly affect U.S. citizens, retard economic development, and increase human suffering.

Stabilization of rapid population growth and improved health and nutrition are essential to sustainable development. They are also fundamentally interdependent. When people are nourished and free from the ravages of infectious diseases, they can contribute more fully to their own social and economic progress and to that of their nations. Nutrition education, investments to correct micronutrient deficiencies, and investments in basic health services will significantly improve the health of undernourished people, especially children and vulnerable populations. When people can control the size of their families, resources are made available at the household, national, and global levels for enduring improvements in quality of life. Moreover, improved health status of women and girls plays a critical role in child survival, family welfare, economic productivity, and population stabilization.

FY 2001 Strategic Goal: World population stabilized and human health protected

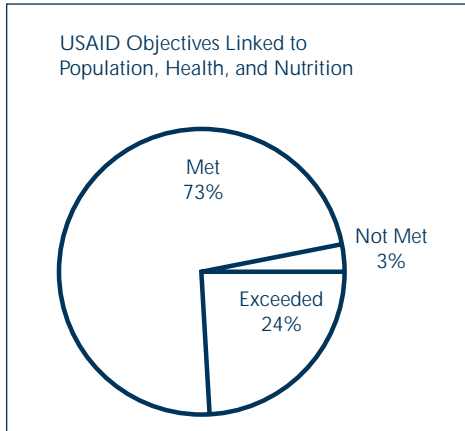
USAID works in the following five main Global Health areas:

- Reducing the number of unintended and mistimed pregnancies;
- Improving infant and child health and nutrition and reducing infant and child mortality;
- Reducing deaths and adverse health outcomes to women as a result of childbirth;
- Reducing the HIV transmission rate and the impact of the HIV/AIDS pandemic in developing countries; and
- Reducing the threat of infectious diseases of major public health importance.

While USAID has five main thrusts to its Global Health efforts, these are carefully integrated. In addition, research, policy dialogue, health sector reform, systems strengthening, and capacity building—while not among USAID's specific strategic objectives for population, health, and nutrition—are significant crosscutting activities necessary for ensuring long-term availability, accessibility, efficiency, and quality of population, health, and nutrition services.

Overall, 97 percent of assessed Strategic Objectives for stabilizing world population and protecting human health met or exceeded performance expectations.

MANAGEMENT DISCUSSION AND ANALYSIS



Illustrative Operating Unit Assessments of Performance

Comprehensive Child Survival and Infectious Disease Programs in India

In India, HIV/AIDS incidence is rapidly increasing, and over one-third of the population of more than a billion people lack adequate food. Food insecurity is one of many factors that contribute to a child mortality crisis: One of every 11 children in India dies before the age of five.

Two USAID/India objectives target these challenges. Through **SO-3, Improved child survival and nutrition in selected areas of India**, USAID has partnered with the GOI by programming over \$127 million in assistance to combat child mortality and nutritional shortfalls through the P.L.480 (Food for Peace) Title II program and Child Survival (CS) funds. CARE and Catholic Relief Services (CRS) implement the Title II program, the largest U.S. non-emergency food aid program in the world. The program reaches about 7.5 million poor women and children at the greatest risk to mortality, morbidity, and malnutrition in over 102,000 remote rural and tribal villages. With USAID support, CARE's

Integrated Nutrition and Health Program works within the GOI Integrated Child Development Services. CRS' Safe Motherhood and Child Survival program, also funded by USAID, is implemented through social service societies.

The Title II program has reached 98% of the planned target population, with 193,553 Metric Tons of Title II commodities supplied in 102,355 villages across the nation. Progress in integrating food and health continues. Further, Title II activities were refined in FY 2000 according to the recommendations of a mid-term review. CARE's Title II program implemented a unified capacity building strategy that replaced four previous models of varying intensity and interventions. CARE also developed, tested, and implemented a new Management Information System (MIS) that integrates commodity and health information systems.

Using Child Survival funds to address the causes of child mortality, USAID initiated discussions with the Government of Uttar Pradesh (GOUP) and UNICEF to improve vitamin A coverage in UP. The ongoing USAID-World Bank supported De-worming and Enhanced Vitamin A trial (DEVTA) in UP, covering about one million children and slated for completion in 2003, will validate the impact of concurrent vitamin A supplementation and de-worming on mortality and growth of children. Under the Program for the Advancement of Commercial Technology/Child and Reproductive Health activity, a leading Indian bank, ICICI Limited, supported the social marketing campaign to position Oral Rehydration Salts (ORS) as the

"In the last 40 years, infant mortality rates have dropped from 162 per 1,000 live births to 69, a drop of almost two-thirds. That drop was principally a result of the introduction of a series of technologies, many of them crusaded by this agency, that led to the lowering of newborn deaths."

Administrator Andrew Natsios at USAID's 40th Anniversary

scientific, doctor-recommended, first-line product for childhood diarrhea.

Through **SO-7, Reduced transmission and mitigated impact of infectious diseases especially STD/HIV/AIDS in India**, USAID targets the HIV/AIDS epidemic and its associated killer, tuberculosis. Although prevalence is less than one percent nationwide, India

MANAGEMENT DISCUSSION AND ANALYSIS

is second only to South Africa in the numbers infected. In addition, over 420,000 Indians die annually from TB and nearly 2 million new cases are diagnosed annually.

USAID results reflect the reduction in transmission of HIV/AIDS and related infectious diseases in the Indian state of Tamil Nadu, one of India's three recognized HIV epicenters. USAID began tackling the disease in Tamil Nadu in 1992 by developing the AIDS Prevention and Control (APAC) activity. This ten-year program targeted transmission in high-risk groups by using proven strategies for behavior change; increasing access to and utilization of high quality condoms; and expanding access to and utilization of quality treatment for sexually transmitted diseases (STDs). Results from Tamil Nadu are promising. APAC results continue to demonstrate high levels of condom use among commercial sex workers (CSW) and their clients. CSW condom use increased by 3.1 percent from FY 1999 to FY 2000 (88.1% to 91.2%) and 70.1% of truckers reported condom use during their last non-regular sexual encounter, up from 66.9% in FY 1999. Condom use among Sexually Transmitted Infection (STI) patients is 19%; more work is required to increase use for this risk group.

In 1999, USAID supported the development of a model Directly Observed Therapy Short Course (DOTS) treatment center in Tamil Nadu in collaboration with WHO. USAID saw a doubling of treatment success through 2000. Tuberculosis control data from the DOTS project indicated that 70% of cases were detected in the project area, of which 75% were

treated successfully. Over 100,000 people were tested for TB as part of a systematic community survey in Tamil Nadu.

With USAID and World Bank support, over 50% of Tamil Nadu has been covered by DOTS, although the effectiveness of coverage needs to be improved. A TB resistance survey was completed and data indicated about 2% of TB patients present some form of resistance. The Multidrug-Resistance TB (MDRTB) survey will continue. Through the DOTS project, over 1,400 health providers have completed in-depth training.

Illustrative Strategic Objective Assessed as Not Meeting Expectations

In **Namibia**, USAID assessed that **SO673-005, The risk of HIV/AIDS transmission reduced through a model prevention program** in a key region did not meet expectations. Performance data were unavailable for the Results Review and Resource Request (R4) due to revision of the results framework.

USAID launched a new program designed to assist Namibia in its multi-sector HIV/AIDS prevention and care efforts. Initially designed to target only one key geographic region, the USAID program is now being reviewed in conjunction with the Government of Namibia (GRN) to better counteract the burgeoning spread of HIV/AIDS across a wider geographic area. Another critically important dimension to the program began in early FY2001 to address the challenge of adequately caring for orphans and vulnerable children. USAID/Namibia was unable to reach

agreement with the Government on the originally designed program and is currently negotiating a new program. Outside the context of an agreement with the GRN, USAID began to implement activities through Family Health International (FHI). To date, FHI has established productive relationships with the two ministries of education, the Ministry of Labor, several municipalities, and a number of NGOs. Prospects for the future, however, will depend on the strength of the USAID health program's relationship with the Ministry of Health and Social Services, which is charged with national coordination.



In consultation with the GRN, USAID is planning to increase efforts to support the care of orphans and vulnerable children (OVC), and focus on behavior change and other related activities of the target populations of youth and labor in four municipalities. Following the recommendations of a recent design team and input from the Africa Bureau, the Mission has modified the Intermediate Results and indicators of the Special Objective to better reflect the program as it is currently being implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

3. The Democracy, Conflict and Humanitarian Assistance Pillar

In the aftermath of September 11, 2001, the goal of a peaceful, stable world order has assumed even greater importance to U.S. foreign policy. This single event will have sweeping social, economic, political, and military consequences that will bear directly on world freedom and democracy.

In this new context, USAID plays an important role in promoting resilient, well-governed, capable states that are less vulnerable to violent conflict. With the heightened threat of terrorism, comes the necessity to swing states toward more effective, accountable, legitimate and democratic governance.

The global focus on terrorism brings opportunities to advance the rule of law, establish justice, and help countries develop a stake in global integration and stability. USAID will spearhead reforms in developing and transition countries to improve education, promote transparency and accountability, and preempt terrorism. These efforts will complement USAID's broader development programs to help address the underlying sources of alienation, anger, and despair that feed radicalism and propel acts of violence and terror.

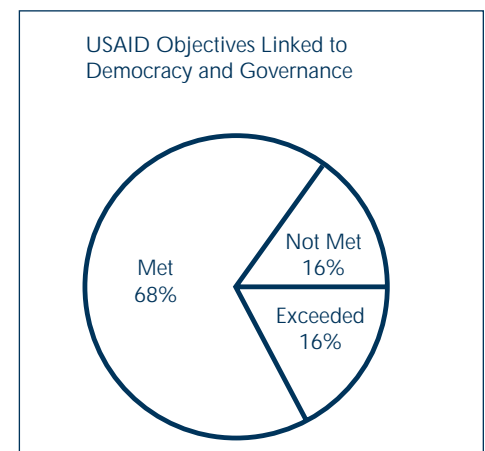
Fragile democracies fail because of poor economic performance, stalled economic reforms, inequality, endemic corruption, dysfunctional rule of law, ethnic and religious differences, and violence. Support for democracy and confidence in democratic institutions is declining in many transitional democracies. Increasingly, failed democracies and economies result in civil war and conflict.

Nearly two-thirds of countries where USAID works have been ravaged by civil conflict over the past five years. Civil war has produced an unprecedented number of people who fled their homes in search of food and personal security. At the end of 2000, at least 57 countries were the source of significant uprooted populations. These situations are marked by widespread violence, collapse of central political authority and public services, the breakdown of markets and economic activity, massive population dislocation, and food shortages leading to starvation, malnutrition or death.

In response to this new global reality, USAID is restructuring its programs. The new pillar on Democracy, Conflict, and Humanitarian Assistance integrates programs and approaches to deal more effectively with the underlying social, economic, and political problems that contribute to failed states, and that lead to humanitarian crises. This pillar integrates programs in democracy and governance, economic and social development, agriculture and food security, international disaster assistance, and post-conflict transition initiatives that prevent the re-ignition of conflict. USAID, in collaboration with other U.S. Government agencies and



partners, is addressing the causes of conflict to help prevent, mitigate, or resolve conflict. USAID has introduced a new emphasis on dealing with conflict situations into existing Agency programs: By expanding Agency efforts to promote stability, USAID will assist countries in recovering from conflict, preventing terrorism, and responding to humanitarian crises.



FY 2001 Strategic Goal: Democracy and good governance strengthened

Expanding the global community of democracies is a key objective of U.S. foreign policy. As the primary channel for U.S. foreign assistance in the developing world, USAID has taken a lead role in promoting and consolidating democracy worldwide. This role has been carried out through USAID's second strategic goal, which calls for the strengthening of democracy and good governance through efforts in four areas:

- Helping legal systems operate more effectively to embody democratic principles and protect human rights;

MANAGEMENT DISCUSSION AND ANALYSIS

- Supporting political processes, including elections, that are competitive and more effectively reflect the will of an informed citizenry;
- Promoting informed citizens' groups that effectively contribute to more responsive government; and
- Aiding national and local government institutions in becoming more open and effective in performing their public responsibilities.

Eighty-four percent of the Agency's assessed Strategic Objectives that support democracy and governance met or exceeded expectations.

Illustrative Operating Unit Assessments of Performance

Strengthened Institutions and Democratic Reforms in Bolivia

Although shaken by violent demonstrations rooted in popular dissatisfaction and impatience with the pace of democratic and economic development, Bolivia has continued to move forward in its long march toward a stable democratic system. In the process, USAID has played an important role in strengthening the sustainability of political reform under the **SO, increased citizen support for the Bolivian democratic system**. Its assistance has deepened needed decentralization and judicial reform by increasing participation and transparency, and strengthening judicial, legislative, and municipal institutions.

The implementation of the Code of Criminal Procedures represented a critical step forward for judicial reform

in Bolivia. With the government fully committed to the Code's implementation, the key areas targeted for USAID assistance included legal and institutional reform, training, case backlog resolution, and public awareness. Major progress occurred in 2000 with congressional approval of the Public Ministry Law, which professionalized and institutionalized the selection and training of public prosecutors. In addition, USAID assisted in drafting a new Police Law under review in Congress. USAID further contributed to the Code reform process through the training of over 9,000 judicial trainers (judges, prosecutors, defenders, and investigators), whose training of colleagues has led to sharp reductions in trial time and use of preventive detention throughout the country. A massive public education campaign, designed with USAID's assistance, aimed at consolidating the reform process by reaching over 400,000 Bolivians in an attempt to increase awareness of the Code. Results from a nationwide survey showed that over half of the respondents had heard of the Code and showed strong support for oral trials, one of its major goals.

As part of USAID's major strategy to increase popular support for democratic reform, the Agency has continued to encourage the decentralization process in Bolivia. In particular, USAID has facilitated the creation of municipal associations in eight of nine Bolivian departments, helping to establish an effective voice for local government on the national level. This voice was particularly helpful in pushing implementation of the landmark Popular Participation

Law, in spite of lukewarm government support. With USAID support, departmental associations have formed an official lobby, the Federation of Municipal Associations, insuring a strong presence in national policy discussions. USAID has also supported efforts to increase women's participation in municipal government, providing funding for the creation of an Association of Women Council Members.

Despite the turmoil caused by last year's street protests, survey data show that Bolivian citizens increasingly recognize the importance of the municipality in political and economic life. A nationwide Democracy Values Survey revealed that 46 percent of respondents agreed municipal governments should receive more resources and responsibility, compared to just 16 percent arguing for more central government authority. In a dramatic show of popular support for municipal control of resources, a



National Dialogue Law called for 70 percent of all resources secured during the current Enhanced Highly Indebted Poor Countries debt relief initiative to

MANAGEMENT DISCUSSION AND ANALYSIS

be processed through municipalities, with the remaining 30 percent to be channeled into health and education with municipal participation. By 2000, municipal governments controlled 50 to 60 percent of all public investment—a marked contrast to the situation before 1995, when central and departmental authorities controlled 90 percent of all funding.

Improved Local Governance and Human Rights in South Africa

South Africa faces daunting problems, such as widespread poverty, HIV/AIDS, and an increasing crime rate. However, it also has important assets for democracy, including two free and fair national elections and the stewardship of former president Nelson Mandela. Building on these assets to foster the development of a stable, responsive, and effective government, USAID has assisted South Africa's democratization through its *SO, democratic consolidation advanced*.

These USAID-supported efforts have been successful on several fronts. For example, in the area of local government, the year 2000 saw the fruits of nearly ten years of effort to transform the legacy of apartheid into the new system of governance mandated by the Constitution. With significant contributions from USAID, the government demarcated new municipal boundaries incorporating previously all-white and non-white areas, legally established 284 municipalities covering the entire country, and passed major legislation to define municipal powers and functions and modernize management systems and practices. In addition, as the new local government system

moved toward full implementation, USAID launched direct assistance projects in 20 target municipalities to support the new councils and strengthen citizen-council engagement in planning, revenue management, and operational effectiveness. These projects resulted in increased property tax payments, growing citizen participation, and improved government performance.

USAID has also promoted awareness and observance of human rights. Some 56,032 South African citizens—nearly twice the number planned—were educated on the new Constitution and Bill of Rights. More than double the number of expected human rights violations were reported (9,923 actual against 4,055 expected), which suggests that South Africans may be becoming less acquiescent when human rights violations are committed. In addition, 192 (200 planned) human rights public awareness events were held, and about 6.5 million people—one million more than planned—were reached through these and other such activities.

Finally, USAID efforts have furthered reforms of the criminal justice system. Most significant has been the support provided to the Criminal Justice Strengthening Program, a six-year program with the Ministry of Justice designed to create "a more effective and accessible criminal justice system." In addition, USAID has worked with the National Director of Public Prosecutions to help reduce outstanding caseloads by 52% (from 5,750 to 2,750 cases). Additional assistance to this agency helped its asset forfeiture unit win 37 of 43 cases tried under newly promulgated laws.

Illustrative Strategic Objectives Assessed as Not Meeting Expectations

In **Ecuador**, democracy efforts focused almost exclusively on criminal justice sector reform, with particular emphasis on the role of the Prosecutor General's Office in combatting public and private corruption. However, the Prosecutor General was found to be blocking prosecution of corrupt bankers, resulting in the suspension of this major component of the mission's democracy program. In **Guatemala**, targets were not met in two democracy objectives, primarily because of a lack of resolve on the part of executive branch officials and hard-liners in the Congress. As a result, the Portillo administration failed to meet seminal Peace Accords targets for increased revenue collection and its corollary, social investment. Similarly, Guatemala's Congress failed to produce key Peace Accords legislation and to follow through on commitments to institutionalize USAID-supported technical units.

In the Central Asia Republics, Kazakhstan, Kyrgystan, and Turkmenistan, government policies and actions have continued to undermine USAID democratic reform efforts. In **Turkmenistan**, the government continued to tighten its grip, blocking civil society activities, strictly controlling the media, and trampling citizens' rights. The **Kazakhstan** government has been unwilling to make meaningful changes on decentralization and local government reform, while in **Kyrgystan**, harassment of opposition candidates and manipulation of results in last year's failed parliamentary and presidential

MANAGEMENT DISCUSSION AND ANALYSIS

elections have negatively affected the development of civil society and independent media.

FY 2001 Strategic Goal: Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established

The United States is one of the largest bilateral donors in humanitarian assistance. American values mandate offering assistance and international leadership to alleviate human suffering from crises. In fulfilling this mandate, USAID has two objectives under the Agency's humanitarian assistance goal:

- To meet urgent needs in times of crisis; and
- To reestablish personal security and basic institutions to meet critical intermediate needs and protect human rights.

USAID provides essential food, shelter, water, and health services to keep people alive during disasters. USAID mobilizes assistance as soon as a disaster strikes and warrants U.S. Government response. Each year, millions of people suffer from disasters. Many of these millions—whether refugees fleeing war, or residents fleeing from floods—are affected by conflict and disaster year after year. In 2000, more disasters were reported than in any year over the last decade, affecting the lives of 256 million people worldwide. This is

well above the decade's average of 211 million. While more people were affected, the number of lives lost due to disasters was 20,000—below the decade's average of 75,250 deaths per year.¹

USAID responds to both natural disasters and complex emergencies. Physical hazards such as drought, earthquake, cyclone, flood, pest and disease outbreaks are considered natural disasters. Those killed are usually the poorest people, with the majority or two-thirds from the least-developed countries. The cost of natural disasters is significant. For this reason, USAID invests in disaster prevention and mitigation programs that enhance regional, national, and local capacity to plan for, prepare, respond to and mitigate disaster events.

Complex emergencies may include natural disasters such as drought, but are usually caused or complicated by civil strife. They are manifested in armed conflict, displaced populations, hunger, and death. In 2000, there were

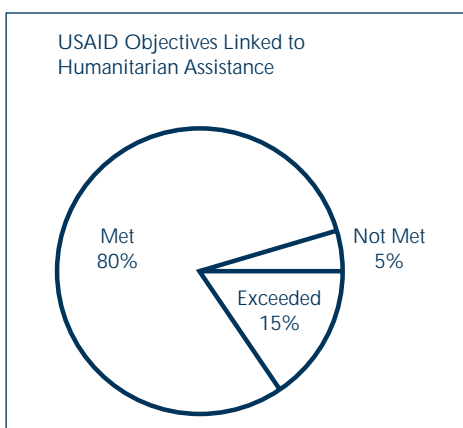
25 major armed conflicts in 24 locations. By the end of 2000, at least 34.5 million people—refugees and internally displaced—had fled their homes because of war, persecution, and human rights abuses.² The number of internally displaced persons (IDPs) continued to exceed the number of refugees, due to the persistence and violence of conflicts and severe government repression and to the growing unwillingness of many states to host long-standing refugee populations.

Ninety-five percent of the assessed Strategic Objectives to promote humanitarian assistance met or exceeded expectations.

Humanitarian Relief

In relief situations, USAID monitors the health and nutritional status of populations in crises using two benchmark indicators. These are Crude Mortality Rates (CMR) and prevalence of acute malnutrition in children under 5 years of age. Rates of mortality and malnutrition decrease when essential needs are met—such as food, water, health care, and shelter. Thus, if humanitarian assistance is effective, CMR and malnutrition rates will decrease over time.

USAID initiated the monitoring of CMR and nutritional status of populations in emergency situations with the broader goal of instituting a global, coordinated system for gathering, analyzing, reporting and disseminating information on progress of relief



¹World Disasters Report, 2001

²U.S. Committee for Refugees, World Refugee Survey, 2001

MANAGEMENT DISCUSSION AND ANALYSIS

assistance. This is a collaborative effort with implementing partners, the State Department's Bureau of Population, Refugees, and Migration (State/PRM); the World Health Organization (WHO); and the United Nations Administrative Coordinating Committee/Subcommittee on Nutrition (ACC/SCN). The Refugee Nutrition Information Network (RNIS) of the ACC/SCN and WHO's Emergency and Humanitarian Action (EHA) monitor pilot sites and provide updated analysis of CMR and nutritional status of beneficiaries. PVOs/NGOs, and UN agencies such as UNICEF, the UN High Commission on Refugees (UNHCR), and the World Food Programme (WFP) provide data.

As stated in the FY 2000 and FY 2001 Agency Performance Plan (APP), these performance indicators are experimental. Progress to date shows that this is a feasible undertaking, and additional sites are being added. In selected sites, CMR and nutritional status indicators are monitored over time to ensure rates are within international standards. The benchmark established was:

- Four to five pilot sites selected and baseline established from published data;
- CMR and nutritional status in pilot sites monitored;
- Methodology for CMR data collection and analysis reviewed, pilot-tested and refined; and
- Data collection and operational issues (including nutritional status data as part of regular reporting)

coordinated within USAID and with other agencies.

The Agency achieved the following progress on the benchmark:

1. USAID has exceeded the target of 5 pilot sites. There are 11 pilot sites in 11 countries to monitor CMR. There are 14 sites in 12 countries to monitor nutritional status.
2. CMR and nutritional status in these sites are being monitored.
3. The methodology for CMR data collection with the nutrition survey protocol was reviewed and pilot-tested by World Vision in Sudan. The methodology was found to be feasible for PVOs/NGOs. With the assistance of Action Against Hunger, guidelines are being finalized for wider dissemination.
4. Data collection and operational issues are being addressed and coordinated within USAID and with other agencies. USAID is leading the effort to institute a global, coordinated system for measuring and reporting on CMR and nutritional status. Since CMR is not yet routinely collected by USAID-funded PVOs, USAID is developing a support mechanism for PVOs that enables them to gather, analyze, and report on CMR and nutrition indicators. This will also provide much needed assistance to strengthen overall technical capacity of humanitarian assistance organizations to undertake nutritional and health assessments in emergencies. In addition,

USAID plans to establish a real-time web-based information center where data from the field can be posted and accessed to facilitate rapid program planning and design. A technical core group from collaborating agencies, and individual experts in emergency health and nutrition, is being formed to ensure that technical assistance is available and can be readily accessed by implementing partners. Training will be integrated with ongoing field activities, such as the Sphere Project, a collaborative effort of the humanitarian community to build more transparent systems of accountability. CMR and nutritional status are included as two of the Sphere measures for minimum standards in humanitarian response.

One measure of USAID's success is the recent adoption by State/PRM of CMR as one of their humanitarian response performance indicators. This is now reflected in State/PRM's Bureau Performance Plan, a key management tool that outlines how State/PRM intends to fulfill the Department's responsibility for their strategic goals. As a joint USG effort, USAID and State/PRM are advocating to other donors the use of these indicators to monitor relief situations, and coordination on the provision of technical assistance to implementing partners. USAID's efforts to coordinate with other donors have been welcomed by implementing partners, as this will facilitate their reporting to several of their donors.

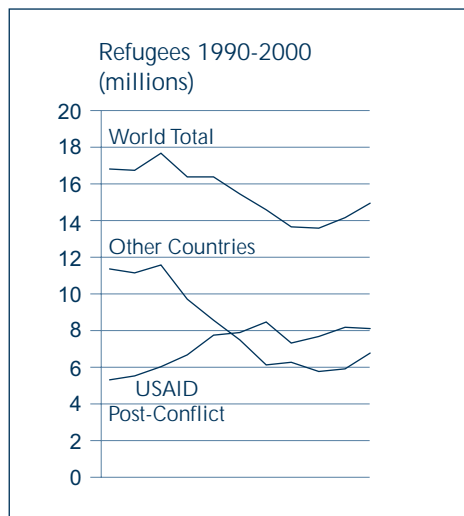
MANAGEMENT DISCUSSION AND ANALYSIS

Transition

USAID reviews performance in achieving the "transition" objective against benchmarks in a set of post-conflict transition countries that were selected in 1998. These include eight sub-Saharan African countries: **Angola, Burundi, the Democratic Republic of the Congo, Liberia, Rwanda, Sierra Leone, Somalia, and Sudan**; three countries from Asia and the Near East: **Cambodia, Indonesia, and West Bank/Gaza**; six countries from Europe and Eurasia: **Azerbaijan, Bosnia, Croatia, Georgia, Serbia/Montenegro, and Tajikistan**; and four countries from Latin America and the Caribbean: **El Salvador, Guatemala, Haiti, and Nicaragua**. In light of changing situations in transition countries, this list will be updated as necessary.

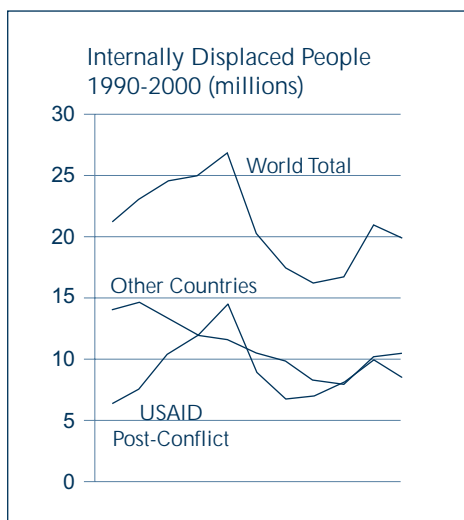
USAID uses two performance benchmarks to monitor progress and trends: The U.S. Committee for Refugees' *World Refugee Survey* on the number of refugees and internally displaced persons, which USAID uses to understand the breadth of crisis and open conflict in a country; and the Freedom House Index, as expressed in *Freedom of the World*, which provides trend data to assess the democratic status of transition countries. These indicators provide contextual information for assessing changing trends of transitions in various regions.

Of the 21 post-conflict countries reviewed by USAID, only two were classified as "free" in 2000 by Freedom House. Croatia and El Salvador both experienced significant political change in the latter part of the 1990s. Croatia held presidential and parliamentary elections in 2000. In addition the Croatian parliament passed legislation that limited the power of the president. El Salvador has been considered "free" since



1997, following the end of the civil war in 1992 and elections held in 1994 and 1997.

Seven countries are still considered "not free." In Africa, continued civil war exists in Angola, the Democratic Republic of Congo (DROC), Somalia, and Sudan. Cambodia, partly free during the mid-1990s, continued to experience government crackdowns on alleged guerillas and political opponents. Despite the 1997 peace agreement and parliamentary elections in 2000, Tajikistan's classification continued to be "not free." The recent elections were considered irregular, and were accompanied by violence from paramilitary groups. Due to the instability



in Israel, no democratic improvements in the West Bank/Gaza occurred.

Despite these setbacks, the number of countries considered "not free" declined from thirteen in 1993 to eight in 2000. Improvements in Liberia, Sierra Leone, Indonesia, Azerbaijan, Bosnia, Serbia/Montenegro and Haiti contributed to this trend.

The total number of persons displaced by open conflict in 2000 decreased by over one million people from 1999. Resettlement in Rwanda, Angola, and Bosnia contributed to this decline. Of the over 20 million internally displaced people (IDPs), those within post-conflict countries accounted for 11 million. Sudan, the DROC, and Angola (despite a sizeable decline) account for 6.9 million IDPs. Resettlement progress occurred in Bosnia where the number of IDPs declined by 400,000 during the year. The largest IDP increase during 2000 was in the DROC (one million).

In addition to producing refugee flows, post-conflict countries were also burdened with hosting refugees from other countries. For instance, Sudan currently hosts an estimated 385,000 refugees; the Federal Republic of Yugoslavia, 484,000 and the Democratic Republic Congo, 276,000. Over ten percent of all refugees in 2000 were living in these three countries.

Refugees from post-conflict countries made up the majority of worldwide refugees. The number of refugees from Burundi and the Democratic Republic of Congo, as well as the number of Palestinian refugees from West Bank/Gaza each grew by over 100,000 during the past year. Refugees from Angola and Sudan also increased significantly.

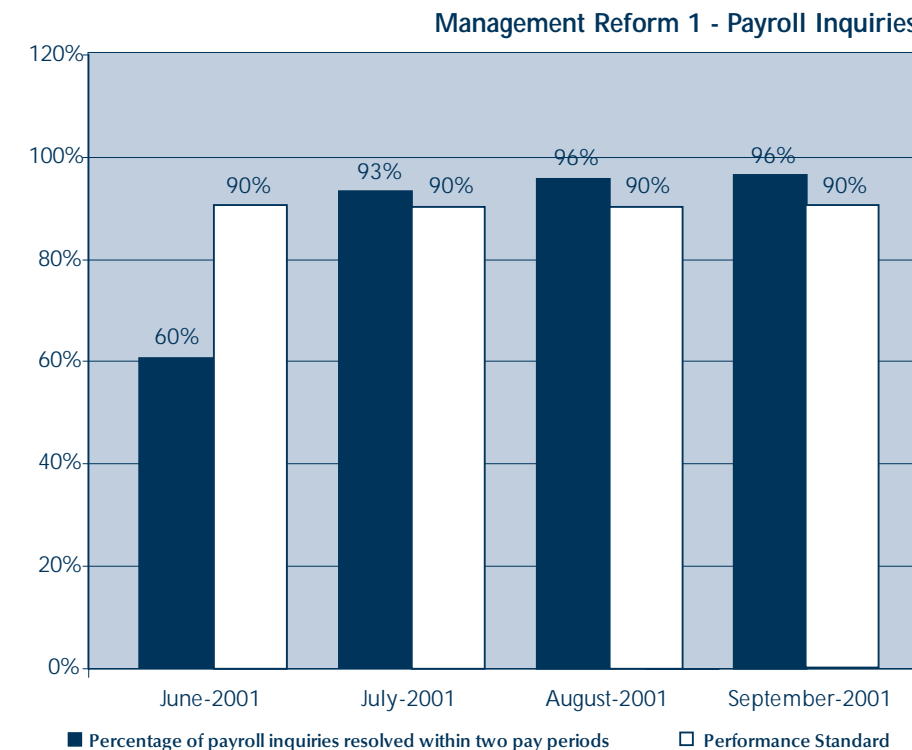
MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT GOAL AND 2001 RESULTS

FY 2001 Agency Management Goal: Achieve USAID goals in the most efficient and effective manner

USAID's management goal provides the foundation for all USAID development achievements. USAID/Washington's role is to provide the management infrastructure and support to facilitate the efficient administration of field programs—the ultimate customers of Washington's management function. Since the Government Performance and Results Act became law and USAID's original Strategic Plan was prepared, USAID has substantially realigned its management objectives and achieved incremental progress in better supporting development operations. USAID's objective throughout has been to become a more flexible and responsive organization that continuously learns, adapts, and improves its ability to achieve its goals.

USAID's *FY 2001 Annual Performance Plan* stated the Agency's management goal, "USAID Evolves Into a Model 21st-Century International Development Agency." The goal expressed USAID's commitment to being a leader in development assistance, to pioneering effective solutions to pressing development problems, and to delivering development assistance as efficiently



and effectively as possible. The management goal was further refined in USAID's 2001 Strategic Plan and the *Agency's FY 2000 Performance Overview*.

As noted earlier in this report, Administrator Natsios established agency reform and reorganization as priorities for his first year at USAID, consistent with the Administration's emphasis on improved government performance. The reform of five key processes—procurement, administrative services, personnel, information management, and financial management—will improve Agency operations. During FY 2002, USAID will carry out a detailed review of how each of the systems is working and will finalize plans for more effective and

efficient worldwide operations. This effort will also ensure that the limited investment dollars are focused on the most critical and highest payoff opportunities to meet evolving priorities.

As part of the operational plan to improve management processes, USAID developed and began implementing a series of initiatives during FY 2001. These management reforms were designed to ensure Agency compliance with Federal law, improve business processes, create operational efficiencies, and raise the overall level of customer satisfaction within the Agency. Management improvements were designed in each office and incorporate mechanisms for measurement that include baselines, performance standards, and indicators,

MANAGEMENT DISCUSSION AND ANALYSIS

While recognizing the important role played by Washington-based staff in the Management Bureau and all headquarters bureaus in providing support to programs in the field, the 2001-2002 reorganization also ensures that field missions, as USAID's strength and comparative advantage, remain the focal point of assistance delivery.

and a feedback mechanism that reports performance back to management and to customers.

Within the office of Financial Management (FM), for example, the payroll function has seen operational improvement due to these management reforms. In July 2001, USAID implemented a system to expeditiously handle payroll action requests. The effort exceeded its goal of resolving 90% of payroll inquiries to the employees' satisfaction within two pay-periods (see chart on p.31). In addition to management reforms in FM, other reforms were underway in the Offices of Procurement, Human Resources, Information Resources Management and Administrative Services.

While recognizing the important role played by Washington-based staff in the Management Bureau and all headquarters bureaus in providing support to programs in the field, the 2001-2002 reorganization also ensures that field missions, as USAID's strength and comparative advantage, remain the focal point of assistance delivery. Toward this end, USAID is reviewing overseas staffing to more closely track with funding levels and program complexity. In addition, structural changes will streamline the way USAID does business, promote sound information sharing for senior decision-making, and reduce redundancies and disproportionalities in staffing that have accumulated over time.

(Note: In its FY 2000 Performance Overview Report, USAID modified the objectives, performance goals, and indicators that appeared in its FY 2001 Annual Performance Plan.)

During FY 2001, USAID made good progress towards four management objectives under the management goal. While not all specific targets were met, on balance, actual results indicate demonstrable steps taken toward achieving each objective. The following section describes the Agency's progress by specific management objectives. Appendix 1 provides a comparison of 2001 targets and actual results.

Management Objective 1: Accurate program performance and financial information available for Agency decisions

Performance Results

Financial management is a USAID management priority, in order to bring Agency financial management systems into compliance with the Federal Financial Management Improvement Act. The cornerstone of USAID's financial management improvement program is the implementation of a fully compliant core financial system. To this end, USAID successfully launched Phoenix, a commercial off-the-shelf core financial system that is compliant with Federal requirements. In December 2000, USAID deployed Phoenix to support Washington operations and during FY 2001, the Agency implemented tools to extract overseas financial information for an automated interface with Phoenix. USAID also completed the work necessary to interface Phoenix with two additional financial systems—the Department of Health and Human Services Payment Management System which services USAID-issued letters of

MANAGEMENT DISCUSSION AND ANALYSIS



credit for grantees and the Riggs Bank system, which services loans on behalf of the Agency. Phoenix and the Agency's acquisition and assistance system have also been interfaced to achieve internal efficiencies and to ensure the accuracy of financial information. In addition, USAID implemented a comprehensive program to train Agency staff to transition to Phoenix. As a result of all of these efforts, the new accounting system successfully completed one fiscal year accounting cycle.

Historically, Washington-based managers have not had access to accurate, timely and useful financial information from missions. This was a factor in USAID's reporting a material weakness in financial reporting and resource management. In response, USAID created a repository of overseas financial information in Washington in FY 2001 that provides Agency-wide financial reporting to support internal decision-making and external stakeholder information needs. Overseas financial transactions are

now captured and stored monthly in Washington in the Mission Accounting and Control System Auxiliary Ledger (MACSAL), which will be used to generate summary-level postings in the Phoenix General Ledger for external reporting. This management improvement will correct the material weakness in financial reporting, make financial information more readily available to managers, and reduce the number of cuff-record or shadow systems used by bureaus for tracking overseas financial activity. USAID is now meeting government-wide quarterly financial reporting requirements on time and with current and complete financial information.

In addition, USAID completed the first phase of its implementation of a managerial cost accounting (MCA) model. The model allocates operating expenses recorded in the general ledger from the Management Bureau to benefiting bureaus. The MCA model along with other cost allocation tools will be used in preparing the annual Statement of Net Cost, which reports

revenues and expenses by Agency goals.

The overseas deployment of the core accounting system will be resequenced to coincide with acquisition and deployment of a new procurement system and updated telecommunication network capabilities. Plans will be developed for the worldwide deployment of the system based on a detailed review of the Agency's management systems during FY 2002.

Although the Agency did not establish 2001 targets related to performance information, USAID took several steps to address program performance and reporting issues. For example, the Bureau for Policy and Program Coordination (PPC) and the Office of the Inspector General have worked together closely to develop an appropriate Performance Management Audit methodology, which, without compromising IG independence, is geared towards providing guidance on needed improvements.

In addition, PPC did a thorough rewrite of the Agency's Automated Directives Systems (ADS) sections on programming guidance, emphasizing the need to plan, collect, and report empirically reliable data. These new procedures support many of the management reforms and innovations described in this chapter and can be found at: <http://www.usaid.gov/pubs/ads/200/>.

Based on the rewrite of the programming guidance, PPC and HR developed a pair of courses to address immediate Agency training needs. The first of these, the ADS Rollout Workshop, covers all changes in the new ADS and has been given to some 700 USAID staff worldwide during FY 2001. Also in FY 2001, USAID gave

MANAGEMENT DISCUSSION AND ANALYSIS

the Performance Management Workshop, a weeklong, hands-on training, to nearly 300 staff and implementers worldwide. USAID has also taken steps to establish websites where performance knowledge can be shared, both inside and outside the Agency. For example, all of USAID's country results reporting is posted on the web as soon as the statutes permit. Other knowledge management websites are being pre-tested.

Management Objective 2: USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently

Performance Results

Human resources were identified as a critical management challenge for USAID. The first major human resource concern is workforce planning,³ defined as getting the right person, at the right time, for the right job, and doing the right work.



Since September 30, 1992, USAID experienced significant downsizing of its combined Civil Service (CS) and Foreign Service (FS) workforce. During FY 1996, it reduced its level of FS and CS employees by 14 percent (from 2,764 to 2,378) and continued to downsize since then. USAID's target employment level is 1,035 CS and 1,010 FS employees, a level 14 percent below its end of FY 1996 level. To reach these new, lower levels, the Agency essentially froze new hiring until FY 1999 and allowed voluntary attrition to occur. As a result, a skill imbalance now exists. USAID offered a "buyout" for the Civil Service in FY 2000 to accelerate voluntary attrition in occupational categories where fewer employees were needed. But more needs to be done to correct the existing skills imbalance and reshape USAID's workforce.

USAID's second major workforce concern is the high number of retirement-eligible employees. The average USAID CS employee is 47 years old; the FS average age is 48 years. As of September 30, 2000, 32 percent of USAID's CS workforce and almost 60 percent of FS employees were eligible to retire immediately or by September 30, 2005.

In FY 1998, USAID implemented the first annual Foreign Service recruitment plan, based upon analysis of each of the 19 FS occupational categories. The analysis projects the number of employees and number of positions five years from the beginning of the current fiscal year. The FY 1998 plan, for example, projected FS employee needs by occupational category through September 30, 2002. The

Agency used Mission data on projected staffing needs by occupation and attrition data to estimate the number of positions and onboard employees five years hence. The recruitment level is then based upon projected shortfalls and USAID's ability to absorb career candidates.

Excluding the OIG, USAID had 996 FS employees on 9/30/2000; and 992 on 9/30/2001. FS attrition was 92 in FY 2001. USAID projects FS attrition to be at least 90 per year through FY 2005 and that total FS & CS attrition will be 200, or about 10% per annum.

The Foreign Service Act of 1980, as amended, requires that the normal Foreign Service entry level be at salary class 4 or below. USAID refers to entry-level employees as New Entry Professionals (NEPs). In addition to NEPs, USAID recruited midlevel career candidate contract officers (salary class 3) and career candidate legal officers (salary class 2). USAID hired 30 career candidates in FY 1999; 51 in FY 2000; and 81 career candidates in FY 2001 (77 NEPs and four legal officers).

A total of 141 employees were brought on board in FY 2001, consisting of 77 NEPs (Foreign Service entry-level employees), 18 Presidential Management Interns, and 46 other career Civil Service (CS) employees. NEP Classes are about 10 employees fewer than target, due to last minute cancellations or lack of necessary medical/security clearances. The next NEP class enters March 2002. USAID staffed every critical position through FY 2001, and anticipates that human resource constraints will ease by the end of FY 2002.

³ The Office of the Inspector General (OIG) receives a separate appropriation and has separate human resource authorities. Accordingly, this discussion does not include OIG human resource issues.

MANAGEMENT DISCUSSION AND ANALYSIS

For the first time in almost a decade, the direct-hire staffing level did not decrease significantly from the previous year. The Agency received a "green light" on the Executive Branch Management Scorecard for its progress.



In addition to successfully increasing its intake of professionals in FY 2001, USAID also achieved significant progress in staff training. The Agency increased the number of senior managers trained through such external programs as the Federal Executive Institute and the Foreign Affairs Leadership Seminar. It also developed new in-house training programs designed to enhance managers' results orientation, financial management, acquisition and assistance, and supervisory skills. In FY 2001, 105 executive-level (FS-1/GS-15) employees and 147 midlevel seniors (FS-2/GS-14, senior level Foreign Service Nationals [FSNs] and US PSCs) received training. In addition, 480 employees received Acquisition and Assistance training; 385 employees received supervisory training; and 348 employees were trained in managing for results.

In the coming years, more work remains to better align Washington staff with USAID's strategic goals and objectives. USAID is developing a Washington workforce strategy that systematically and

comprehensively assesses headquarters staffing needs. This strategy will use a process similar to the FS employment analysis described above, and will include an examination of optimal organization structures in Washington. This analysis is expected to be completed in fall 2002 after the completion of USAID/W reorganization.

Management Objective 3: Agency goals and objectives served by well-planned and managed acquisition and assistance (A&A)

Performance Results:

USAID achieves development results largely through intermediaries that receive USAID funds, i.e., through contractors or recipients of grants and cooperative agreements. USAID's Direct Hire staff perform the "inherently governmental functions" of strategic planning, program oversight, financial management, assessment and reporting, and negotiations and policy reform with host-country governments. In this environment, efficient and effective acquisition and assistance systems and services are critical. For this reason, USAID leadership designated the development of more efficient and effective A&A services as a priority, and the Agency modified its A&A objective in the 2000 Revised Strategic Plan.

In the recent past, the Agency concentrated on increasing the number of performance-based contracts and results-based assistance instruments as the key to efficient and effective A&A services. While USAID continued to emphasize performance-based instruments in FY 2001, better collaboration and integration

among those involved in planning and carrying out A&A activities was identified as equally, if not more, important to achieving development results more quickly. This includes technical officers responsible for program design and implementation, contract officers responsible for A&A negotiations, and suppliers.

In FY 2001, USAID expanded its use of more flexible A&A instruments, such as indefinite quantity contracts and an innovative assistance mechanism known as "Leader/Associate Grants." Notwithstanding these and other A&A systems and procedural improvements, USAID did not fully achieve its goal of spreading obligations more evenly across the year. While Washington exceeded its target for obligations in the first three quarters, fourth quarter obligations Agency-wide were higher than projected.

The goal of reducing fourth quarter obligations is partly dependent upon when the Operating Year Budget (OYB) is made available. In addition, some programs, such as the Office of Foreign Disaster Assistance (OFDA), must react to emergency needs, requiring obligation of funds at any time. USAID has retained its obligation targets for FY 2002, but plans further review to determine whether the goals should exclude actions that cannot be planned in advance.

USAID continues to look for ways to improve the timeliness of procurement actions with available staff. The Agency established a pilot program under which another agency, through a franchise fund, will award and administer some contracts in order to enable the USAID contracting staff to concentrate on the most important, high dollar value contracts.

MANAGEMENT DISCUSSION AND ANALYSIS



USAID achieved important results with regard to skill certification in the A&A arena. By the end of FY 2001, 96 percent of Contract Officers (COs) with unlimited warrants and 77 percent of COs with warrants of \$2.5 million or more were certified. In addition, the Administrator approved the new Cognizant Technical Officer (CTO) certification program and the budget resources necessary to certify all CTOs in three years.

A new automated contract writing system was implemented in both Washington and the field that will allow quicker and easier capture of the data needed to report to the Federal Procurement Data Center and the Small Business Administration. Baseline data was developed on post-award meetings. Such meetings with contracting officers, technical staff, and contractors were held after about thirty percent of large new contracts.

Planning is well underway to co-locate two contracting branches with their client offices as an experiment to

determine whether performance will be enhanced. Finally, although the Contract Review Board (CRB) began reviewing contracts exceeding \$10 million in April, because most of the CRB's work occurred during the last three months of the year, the board has not yet provided its findings in order to establish a baseline.

Management Objective 4: Agency goals and objectives supported by better information management and technology

The information management and technology objective was established in USAID's *FY 2000 Performance Overview*. Specific performance goals and targets were not set for FY 2001. Performance goals, indicators, and targets for FY 2002 will be documented in the *FY 2003 Performance Plan*.

Performance Results

The following accomplishments during FY 2001 will provide the baseline for FY 2002 targets:

- Completed evaluation of new desktop operating system/office suite for USAID/Washington.
- Completed network operating systems and e-mail upgrades at eight missions.
- Completed telecommunications network equipment upgrades in three missions.
- E-Gov Strategy/GPEA Plan completed and annual GPEA report updated and submitted to OMB on schedule.

Given the Agency's decentralized, worldwide field presence, improving Agency information management and technology systems is imperative. To address these challenges, USAID developed an Information Management (IM) Strategic Plan for Fiscal Years 2001-05, mapping a course to use information management and technology more effectively in achieving development goals and objectives. Under this Plan, IM will achieve its goals of Exemplary Leadership, Superior Performance, and Full Compliance through the implementation of five strategic objectives: Improved Information Infrastructure, Cost-Effective Support Solutions, Integrated Program Solutions, Effective Knowledge Management, and Comprehensive Information Management. During FY 2002 USAID will complete a study to reengineer Agency business practices and develop a plan to accelerate deployment of improved Agency-wide systems.

USAID successfully completed its first Government Paperwork Elimination Act (GPEA) Plan, which identified transactions that were candidates for paperwork elimination. Since then, each of the candidate transactions has been analyzed for congruence with information security and architecture standards and prioritized in terms of business benefits, life-cycle cost, risk, and return on investment (ROI). The updated GPEA Plan consolidated and documented the results, successfully completing the GPEA Planning Phase on schedule. The Plan provides a platform for initial implementation of the USAID E-gov Strategy, summarized in terms of the IM Strategic Objectives. However, a number of IM requirements critical to the success of the IM Strategic Plan remain undeveloped.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

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.

Balance Sheet

The Balance Sheet presents amounts available for use by USAID (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Two major line items, Fund Balance with Treasury and Loans Receivable (net) represent 94% of USAID's assets. Fund Balance with Treasury is funding available in the Department of the Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Loans Receivable are loans for which funds have been disbursed under the Direct Loan programs. Since no new loans will be disbursed under this program, changes to Loans Receivable (net) is generally determined by collections of principal and interest, billings for interest, and calculations for loan loss allowances.

The assets showing the most significant change from FY 2000 to FY 2001 are Cash and Other Monetary Assets and Advances and Prepayments. Cash and Other Monetary Assets increased by 39% in FY 2001 due to an increase in foreign currency amounts reported at two overseas missions. Advances and

Prepayments (non-Federal) decreased by 63% in FY 2001 because of an expense adjustment of \$476 million related to the liquidation of outstanding Letter of Credit funded advances.

Credit program liabilities represent 81% of USAID's total liabilities. The bulk of these liabilities are reported as Resources Payable to Treasury and Loan Guarantee Liability. Resources Payable to Treasury represents the cumulative difference between pre-FY 1992 credit program assets and liabilities and revenues and expenses, that is considered payable to the U.S. Treasury. Loan Guarantee liability is comprised of an allowance established for potential defaults on loan guarantees obligated before FY 1992,

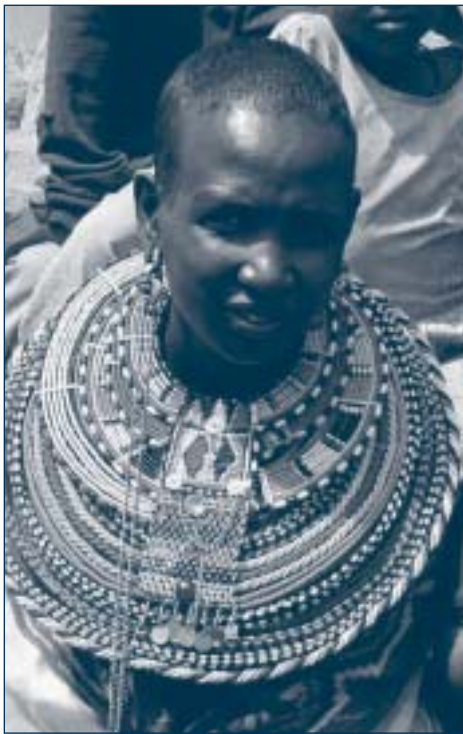
in addition to the estimated subsidy cost of loan guarantees obligated after FY 1991 as calculated in accordance with the Credit Reform Act of 1990.

The three liability line items showing the most significant change in activity from FY 2000 to FY 2001 are Accounts Payable, Debt, and Other Liabilities. Accounts Payable (intragovernmental) decreased 59% in FY 2001, the bulk of which is attributable to four Federal agencies. Debt decreased 45% to \$64.5 million due to principal repayments of \$52 million made to the Treasury. Other Liabilities (intragovernmental) decreased 71% to \$30.8 million. Over half of the decrease was the result of the collection of a \$40 million receivable due from the Polish American



MANAGEMENT DISCUSSION AND ANALYSIS

Enterprise Fund. The collection was recorded as an unavailable miscellaneous receipt and the funds were withdrawn to the U.S. Treasury. Other Liabilities (non-Federal) increased 27%, from \$209 million to \$266 million, primarily due to a \$60 million increase in the foreign currency trust fund.



The change in Cumulative Results of Operations is attributable to the effects of prior period adjustments related to the Agency's Credit Programs and changes in Plant, Property, and Equipment.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2001, approximately 85% of all USAID costs incurred were directly related to support of USAID programs. Costs

incurred for the Agency's general operations (e.g., salaries, training, support for the Office of Inspector General) accounted for approximately 15% of the total USAID cost.

Improvements to the Statement of Net Cost were made during FY 2001. USAID/Washington program expenses by goal area are now obtained directly from Phoenix, USAID's new accounting system. In addition, a cost allocation model was developed to distribute Management Bureau operating costs to specific goals. Further refinements are anticipated for FY 2002.

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. Imputed financing for pensions and other future retirement benefits decreased from \$17.9 million to \$12.4 million in FY 2001. Prior Period Adjustments related to the Agency's Credit Programs were \$11 million in FY 2001. There were no Prior Period Adjustments in FY 2000. The decrease in unexpended appropriations was \$199.6 million for FY 2001 versus an increase for \$203.3 million in FY 2000. The primary reason for this change was due to \$246 million in outlays in the Central America and Caribbean Emergency Disaster Recovery Fund for which no additional funds were received in FY 2001.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary

resources were made available for the year and what the status of budgetary resources was at year-end. USAID obligated 73% of all available budgetary resources for the year. The remaining 27% of funds are unobligated. Among unobligated funds, 99% are available for new programming and obligating in future years.

Two line items, Adjustments and Unobligated Balances, Not Available, accounted for the bulk of the changes in the Statement of Budgetary Resources from FY 2000 to FY 2001. These changes are mainly due to activities related to Credit Program transfers to the U.S. Treasury.

Statement of Financing

The Statement of Financing reconciles proprietary information to budgetary accounting information. The most significant increase from FY 2000 to FY 2001 was the Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided. The change in this line item was primarily due to the net increase in undelivered orders during FY 2001 for program funds. Additionally, Exchange Revenue decreased by 40%. This decrease is related to the net decrease of Credit Program interest receivable. Decreases in Credit Program loans receivable and collections during FY 2001 contributed to changes in the Total Resources that Do Not Fund Net Cost of Operations. For Financing Sources Yet to Be Provided, only Actuarial Life Insurance Liability showed a net increase during FY 2001.

Limitations to the Financial Statements

The financial statements have been prepared to report the financial

MANAGEMENT DISCUSSION AND ANALYSIS



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 the entity in accordance with the formats prescribed by 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 they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Looking Forward: Possible Future Effects of Existing Events and Conditions

Several operational and financial variables could affect USAID's performance in FY 2002. These relate to such issues as the Agency's mandate to provide development and

emergency humanitarian assistance in response to changing foreign policy priorities and crises, as well as the challenge of recruiting, retaining, and training a highly skilled workforce.

With regard to potential operational changes and cost implications, possible significant events that could occur include:

- A high number of disasters or humanitarian crises, whether natural or man-made, particularly if these were to occur simultaneously in multiple countries; and
- Direction by the President and Secretary of State to establish USAID in-country presence in Pakistan and Afghanistan.

With regard to USAID's workforce, the Agency is subject to the same general challenges that the entire Federal Government faces in attracting and retaining appropriate staff. These challenges are exacerbated at USAID, the Department of State, and other

international and intelligence agencies, however, due to additional security clearance requirements, the need for specialized skills (including foreign languages), and overseas service, including hardship posts. Beyond these recruitment challenges, demographic trends affecting the USAID workforce have resulted in an institutional knowledge gap between new hires and veteran staff, many of whom are expected to retire in the next five years. This gap is currently more serious in the Foreign Service than in the Civil Service.

While USAID has accelerated its recruitment and hiring for both FS and CS employees as described above, additional and unforeseen attrition, combined with the need to upgrade skills, will place added pressure on USAID to enhance staff training. Current projections, for example, indicate that at least 1,500 Cognizant Technical Officers should be trained over the next three years, at an estimated cost of \$3 million.

MANAGEMENT CONTROLS

MANAGEMENT CONTROL PROGRAM

USAID maintains an active management control program in response to the Federal Managers' Financial Integrity Act (FMFIA). USAID's FMFIA program uses external audits, annual internal reviews conducted by each of its operating units, special studies, and observations of daily operations to identify control weaknesses. It then develops and implements detailed corrective action plans for all weaknesses identified. The Agency's Management Control Review Committee, chaired by the Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when they have been successfully completed. Parallel committees operate within the Agency's overseas operating units. During FY 2001, management control assessments were conducted by USAID operating units worldwide in compliance with Agency policy and FMFIA standards. No new material weaknesses were identified. However, human capital challenges and building security were raised as areas of concern.

USAID continued to implement its plans to resolve the four remaining material weaknesses. The status of progress against these material weaknesses is described briefly below.

USAID's Primary Accounting System. Since 1988, USAID's accounting system 1) had not fully complied with all financial system requirements, 2) could not produce accurate and timely reports, and 3) did not have adequate controls. During FY 2001, USAID

Table 2-1 Pending Material Weaknesses

Title	Fiscal Year First Reported	Fiscal Year Targeted for Correction
USAID's Primary Accounting System	1988	TBD
NMS Reporting and Resource Management Capabilities	1997	2002
Information Resources Management Processes	1997	2003
Computer Security Program	1997	2003

deployed Phoenix, the new accounting system, in Washington. USAID successfully migrated financial records to the new system, trained employees on the use of the system, implemented essential interfaces, and provided accurate and timely financial information. Following an assessment of the results of the 2001 financial statement audit, an audit of the general systems control environment, and a review of FMFIA systems standards by the IG, the Agency will establish the target correction date.

USAID's NMS Reporting and Resource Management Capabilities. Since 1997, Agency-level financial reporting has not always been sufficiently timely, accurate or useful to support decision-making. The Agency also lacked a system for capturing data on overseas procurement actions to comply with Federal reporting requirements. The deployment of Phoenix has improved Agency-level financial reporting. For example, during 2001, USAID was able for the first time to report all of its enterprise wide financial information on budget execution to OMB in a comprehensive, timely manner. Agency-wide external reporting requirements are now more accurate and timely. Other external reporting

requirements are also more accurate and timely. USAID has implemented an automated procurement data capture system for overseas missions. Further work is underway to improve financial reporting on overseas programs.

Computer Security Program. By FY 2003, USAID plans to fully implement its computer security program which will comply with the Computer Security Act of 1987, the Agency's administrative policy, and requirements of the OMB Circulars A-123, 127 and 130. Decisions by top USAID officials resulted in designating Information Systems security as a capital investment in USAID's budget. By following Standard Certification and Accreditation Procedures, USAID has corrected eight of its material vulnerabilities. USAID is prioritizing and implementing security projects as funding allows. The Agency's IG, CIO and external agencies, such as the National Security Agency, are continuously reviewing best security practices in the IT arena. USAID's management oversight process will continue to assign responsibility and accountability for identifying, tracking, and correcting information security vulnerabilities.

MANAGEMENT CONTROLS

Information Resources Management (IRM) Processes. USAID plans to implement a process 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. During FY 2001, USAID established an information management interfaced product team to formulate and review the Agency's IT budget. Disciplined processes in life cycle management are being provided by experts. Redirecting the Agency from a systems integration organization to a technology acquisition organizations helps in achieving a Software Engineering Capability Maturity Model Level 2, a rating target representative of the top one-third of all technical organizations. USAID completed requirements

documentation toward CMM Level 2 status for the network upgrade initiative. When USAID's Information Technology Council becomes operational, IT portfolio management processes are implemented and the USAID Capital Planning and Investment Management Process is implemented, this weakness will be closed. The anticipated closure date is December 2002.

Material Nonconformance of Financial Management System

USAID implemented a system that is compliant with the Joint Financial Management Improvement Program (JFMIP) standards on December 15, 2000. The Agency strategy to achieve compliance with systems standards

was significantly advanced when the system was implemented with no changes to the core software. The core system complies with requirements for executing and reporting transactions consistent with the standard general ledger.

The system achieves this by processing some transactions individually and some at a summary level. This standard was implemented in submitting budget execution reports to OMB for all of its worldwide data. Improvements scheduled for implementation during 2002 will enable the Agency to refine the data. These improvements will enable OMB to receive USAID specific financial information used by its managers and stakeholders.

The USAID Inspector General has assigned an audit team to evaluate USAID's compliance with the Federal Financial Management Improvement Act (FFMIA). The accounting system will be evaluated against a checklist published by the U.S. General Accounting Office. We expect that the review will highlight opportunities for improvement with the standards. In addition based on findings by the IG and other assessment teams, we are taking action to strengthen general systems security and the security of our financial information.

Annual Assurance Statement

As of September 30, 2001, the management accountability and control systems of the Agency for International Development provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses noted. This statement is based on the results of an Agency-wide management control assessment, Inspector General audits, and input from senior officials.

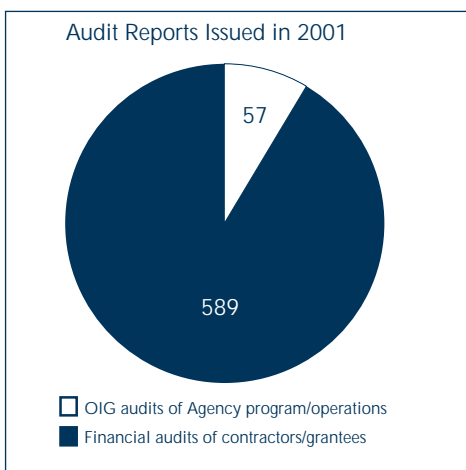
Andrew Natsios
Administrator

AUDIT FOLLOW-UP PROGRAM

USING THE AUDIT PROCESS FOR AGENCY IMPROVEMENT

The Office of the Inspector General (OIG) uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations.

The OIG contracts with the Defense Contract Audit Agency to audit U.S.-based contractors and relies on non-federal auditors to audit U.S.-based grant recipients. Foreign-based organizations are audited by either local auditing firms or the supreme audit institutions of host countries. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.



During FY 2001, USAID received 646 audit reports; 589 of these reports covered financial audits of contractors and recipients and 57 covered Agency programs or operations.

During FY 2001, the Agency closed 614 audit recommendations. Of these, 211 were from audits performed by OIG staff and 403 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with \$40.9 million in disallowed costs, and \$4.4 million was put to better use during the fiscal year.

At the end of FY 2001, there were 303 open audit recommendations, 137 fewer than at the end of FY 2000 (440). Of the 303 audit recommendations open at the end of FY 2001 only 26, or

8.6%, had been open for more than one year. The number of recommendations open for more than one year at the end of FY 2001 was almost one-half the number at the end of FY 2000, and exceeded the Agency's target of closing 90% of audit recommendations within one year.

As regards the 26 recommendations open for more than one year at the end of FY 2001, USAID must collect funds from contractors or recipients to complete actions on 7 of these recommendations. The remaining 19 require improvements in Agency programs and operations. Most of these are tied to the implementation of the interfaced financial management system and improvements in financial management policies and procedures.

Table 3-1 Management Action on Recommendations That Funds Be Put to Better Use

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/00	4	604
Management decisions during fiscal year	6	186,352
Final action	6	4,364
Recommendations implemented	6	4,364
Recommendations not implemented	-	-
Ending balance 9/30/01	4	182,592

Table 3-2 Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/00	138	34,039
Management decisions during fiscal year	212	14,098
Final action	251	40,942
Recommendations implemented	216	28,549
Recommendations not implemented	35	12,393
Ending balance 9/30/01	99	7,195