Transmittal Letter from the Administrator: Andrew S. Natsios

On behalf of the U.S. Agency for International Development (USAID), I am pleased to transmit the Fiscal Year (FY) 2003 Performance and Accountability Report (PAR). The purpose of this report is to offer the Congress, the Administration, and the public an occasion to learn more about USAID and the extent to which we are achieving our program objectives. As the world's leading bilateral foreign assistance agency, we take the responsibility for monitoring our performance—and making the results publicly known—very seriously. We are extremely proud to report that for the first time ever, USAID has achieved an unqualified (or "clean") opinion on our consolidated financial statements. This audit is just one of the ways in which USAID demonstrates accountability.

Fiscal Year 2003 proved to be one of the most challenging years USAID has ever faced. I am proud to say that our Agency responded in exemplary fashion. We had a dramatic increase in spending, from $7.9 billion in 2001 to $14.2 billion in 2003, and accomplished this through reliance on existing Agency systems, but without a similar increase in staff size.

In Iraq, we began preparing months before combat began, and we sent the largest Disaster Assistance Response Team (DART) in history to assess the country's needs. In part because of these careful preparations, no humanitarian emergency took place. Since the end of major combat operations, we have worked under the Coalition Provisional Authority (CPA). In just five months, and despite a difficult security environment, we restored several government ministries, rebuilt more than 1,500 schools, and provided 5 million new textbooks and 1.2 million school kits to Iraqi children. Working with dozens of partners, we repaired the port at Umm Qasr, fixed bridges and sewage treatment plants, and brought electricity back up to prewar levels. We funded vaccinations for 4.2 million Iraqi children, rehabilitated hospitals and health clinics, and—working with U.S. Army civilian affairs units—established local councils in much of the country.

In Afghanistan, the emergency humanitarian programs we set up two years ago have led to longer-term reconstruction and development projects. Our efforts have strengthened the central government and increased its ability to provide critical services to the Afghan people. We have helped launch a new currency, set up a viable local banking system, and developed a budget and customs system. Our programs have put people to work, encouraged girls to attend school, improved health care, contributed to the new Constitution, increased food production, provided 25 million textbooks, and paved the national road from Kabul to Kandahar.

Concurrently, we have refined and strengthened our programs in more than 100 countries, promoting agriculture, trade, and economic growth; democracy and good governance; and health, education, and environmental stewardship and maintaining our leadership as the world's largest supplier of emergency humanitarian assistance. In fact, this Fiscal Year 2003, working through the Public Law (P.L.) 480, Title II program, USAID provided more food

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assistance to more people than ever before: 3.16 million metric tons.

The nature of foreign assistance has changed dramatically over the past decade, and USAID has changed accordingly. Private capital—from foundations, corporations, universities, non-governmental organizations, and individual remittances—now makes up 60 percent of the funds the United States sends to the developing world. This is why Secretary of State Powell launched the Global Development Alliance (GDA) two years ago and why the GDA is a major focus of our work. Over the past year, USAID helped form some 140 new public-private alliances that brought new energy, new ideas, and $1.3 billion dollars in private-sector funding for international development.

Relations between the State Department and USAID grew closer this year under Secretary Powell's leadership. One result is the Joint Strategic Plan, unveiled in August 2003, which will enable us to work more effectively together. This is the last year, therefore, that USAID will report on its objectives and performance under the old Strategic Plan.

I am also pleased to report that USAID has made good progress toward meeting the President's Management Agenda (PMA) goals. As FY 2003 ended, we received "green" ratings for progress in human capital; financial performance; E-Government; and Budget and Performance Integration. Our Business Transformation Executive Committee (BTEC), working closely with the PMA, is implementing an ambitious management reform program, introducing new business systems and processes, and developing strategic plans for human capital and knowledge management. These efforts signal our ongoing commitment to management excellence.

Finally, as of September 30, 2003, the management accountability and control systems of the U.S. 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 and the material nonconformance of the financial management system noted within this report. This statement is based on the results of an Agency-wide management control assessment and input from senior officials. In addition, I hereby certify that the financial and performance data in the PAR are reliable and complete. A detailed discussion of the material inadequacies and actions that USAID is taking to resolve them is provided in this report.

Signed,

Andrew S. Natsios

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

November 14, 2003

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Management's Discussion and Analysis (MD&A)

Djeinabou Kante of Conakry, Guinea, who tripled her business, hired more employees, and found export markets for her fabulously dyed cloth with the help of USAID training 11 years ago.

Management's Discussion and Analysis (MD&A)

Mission of USAID

The mission of the United States Agency for International Development (USAID) is to contribute to U.S. national interests by supporting the people of developing and transitional countries in their efforts to achieve enduring economic and social progress and to participate more fully in resolving the problems of their countries and the world.

– USAID Strategic Plan (Revised 2000)

Introduction

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

As stated in the President's *National Security Strategy,* USAID joins the U.S. Departments of State and Defense as the three legs of our nation's foreign policy apparatus. USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and enhancing democracy in developing countries. These efforts to improve the lives of millions of people worldwide represent U.S. values and advance U.S. interests in peace and prosperity.

Side by side with concerns for our national security is the recognition that globalization and increased interdependence among nations bring a new urgency to development. There are clearly more opportunities for prosperity in a global economy. Decades of development assistance have achieved great improvements in life expectancy, literacy, and health; yet much remains to be done to assist those in need and to advance and protect U.S. interests. Millions of poor people around the world are not reaping the benefits of globalization: their poverty causes disease, ignorance, migration, conflict, and instability, which affect all Americans.

As the 21st century opens up new possibilities and new threats for all the world's people, USAID's mission is more important than ever. Today, foreign assistance is both the smart thing to do and the right thing to do.

This report, prepared in accordance with the Reports Consolidation Act of 2000, describes USAID results in economic growth, agricultural development, education, environmental protection, health, population, democracy and governance, and humanitarian assistance. These results are linked to the six strategic goals and one management goal laid out in the Agency's 2000 Strategic Plan and the targets set in the Agency's Fiscal Year (FY) 2003 Annual Performance Plan. Because USAID and the Department of State are preparing to implement a new joint strategy for FYs 2004–2009, this is the final Performance and Accountability Report that will use USAID's 2000 Strategic Plan.

Management's Discussion and Analysis (MD&A)

The FY 2003 Performance and Accountability Report (PAR) is divided into three major sections:

- *This document, the Management's Discussion and Analysis,* introduces USAID and highlights FY 2003 as a "Year of Challenge and Innovation." *Management's Discussion and Analysis* features (1) USAID's performance in Iraq and Afghanistan, (2) USAID's work against the spread of HIV/AIDS, (3) the Global Development Alliance (GDA), and (4) USAID management of the Online Presidential Initiatives Network (OPIN). It also describes USAID highlights and results toward the Agency's six program goals and one management goal in FY 2003, as well as a summary of Agency-wide performance in FY 2002.
- *The Program Performance section* available on CD-ROM describes results achieved and setbacks encountered in FY 2002 for the six USAID program goals and the GDA. This section provides comparative, multiyear data and illustrative examples of FY 2002 performance.
- *The Financial Performance section* available on CD-ROM covers FY 2003 and includes a letter from the Chief Financial Officer (CFO), USAID's financial statements and related auditor's reports, the Inspector General's summary of serious management challenges, and other required financial reports.

Electronic copies of this document will be available through the Agency's website (www.usaid.gov/pubs/par03/) in January 2004.

All comments regarding the content and presentation of this report are welcome. Comments may be addressed to:

U.S. Agency for International Development
Office of the Chief Financial Officer
1300 Pennsylvania Avenue, N.W.
Washington, DC 20523

For additional information, please contact:

U.S. Agency for International Development
Bureau for Legislative and Public Affairs
1300 Pennsylvania Avenue, N.W.
Washington, DC 20523

Organization of USAID

USAID is headed by Administrator Andrew Natsios, who is appointed by the President and confirmed by the U.S. Senate. The USAID Administrator reports to Secretary of State Colin Powell. USAID is headquartered in Washington, D.C., and maintains field missions in more than 70 countries and programs in more than 100 countries. USAID works in close partnership with private voluntary organizations (PVOs), non-governmental organizations (NGOs), universities, foundations, private businesses, and other U.S. Government agencies, as well as foreign governments and indigenous organizations. In FY 2003, USAID maintained working relationships with approximately 3,500 American companies and more than 300 U.S.-based PVOs.

As illustrated by the organizational chart in Appendix A, USAID comprises 10 bureaus, each headed by an Assistant Administrator who is appointed by the President and confirmed by the U.S. Senate. (Please see Appendix A for information about each of USAID's functional and regional bureaus.)

A lively market in Basrah teems with goods.

FY 2003: A Year of Challenge and Innovation at USAID

During FY 2003, USAID responded to immense needs around the world with unsurpassed technical skill and compassion. Despite considerable security constraints and physical danger, USAID staff and implementing partners addressed the challenge of reconstructing Afghanistan and Iraq. Elsewhere around the globe, USAID continued to provide valuable assistance in the fight against the HIV/AIDS pandemic and to forge powerful new alliances to increase development impact and leverage scarce development funds. In recognition of the Agency's global reach, the President assigned USAID the task of managing numerous new Presidential Initiatives, a process that USAID will monitor through a new Internet-based resource, the Online Presidential Initiatives Network (OPIN). The five stories below summarize these remarkable efforts in FY 2003.

Iraq

Before the 1990s, Iraq had one of the best education systems in the Arab world, achieving universal primary enrollment and significantly reducing women's illiteracy. When the Iraq war began in 2003, however, primary school enrollment had dropped to 76.3 percent and secondary school enrollment was down to 33 percent, with nearly twice as many girls out of school as boys. In health care, too, the downward trend was clearly evident. Today, almost a third of the children in the south and central regions of the country suffer from malnutrition. Low breast-feeding rates, high rates of anemia among women, low birth weight, diarrhea, and acute respiratory infections all contribute to Iraq's high child mortality rate: 131 deaths per 1,000 live births. This rate has more than doubled since the 1980s.[1]

[1] Testimony of Andrew S. Natsios, Administrator, USAID, before the Committee on Foreign Relations, U.S. Senate, June 4, 2003. Source: U.S. Agency for International Development (USAID).

Management's Discussion and Analysis (MD&A)

When USAID initiated programs in Iraq in 2003, a vacuum of political power coupled with limited infrastructure made for a difficult operating environment. Amid challenges, USAID is working closely with the Coalition Provisional Authority (CPA) in Iraq to provide humanitarian and reconstruction assistance to help the Iraqi people rebuild their country. Thanks to skilled contingency planning, the prepositioning of emergency supplies and a coordinated response avoided a humanitarian crisis in Iraq. USAID assembled a Disaster Assistance Response Team (DART) of more than 60 doctors; public health professionals; water and sanitation experts; food distribution and agricultural specialists; logisticians; security officers; and specialists in refugees, internally displaced persons (IDPs), and abuse prevention. In the months prior to the war, USAID began stockpiling emergency relief supplies, including water tanks, hygiene kits, health kits, plastic sheeting, and blankets. USAID also provided funding to the World Food

FY 2003 Results
USAID – Iraq Reconstruction Progress
(as of September 30, 2003)

Project Area	May 2003 Targets	Progress	October 2003 Targets	Progress	April 2004 Targets	Progress
Capital Construction	Critical power restored	Progress achieved	40% of population has power	Progress achieved	75% of population has power	Progress achieved ahead of schedule
	Urgent water needs met	Progress achieved	15 city water systems functional		45 city water systems functional	
	Major bridge repairs begun	Progress achieved			Baghdad sewage treatment system is functional	
Seaport Rehabilitation	Contractors mobilized	Progress achieved	3 berths functional	Progress achieved	12 berths functional	Progress achieved ahead of schedule
	Dredge up to 12.5 meters deep	Progress achieved	5 days/ship unloading capacity	Progress achieved	2 days/ship unloading capacity	Progress achieved ahead of schedule
	Power and grain facilities operational	Progress achieved	50,000-ton cargo ships can unload	Progress achieved	Iraqi authorities control seaport	
Airport Rehabilitation	Contractors mobilized	Progress achieved	Baghdad International Airport functional	Progress achieved	Three international airports functional	
	Critical air support needs identified	Progress achieved	Basrah International Airport functional	Progress achieved	Scheduled commercial air links restored	
	Transition to civilian air authority begun	Progress achieved	Iraqi participation in air administration		Iraqi authorities control airports	
Health System	Urgent health needs met	Progress achieved	Basic health care for 12.5 million	Progress achieved	Basic health care for 25 million	Progress achieved ahead of schedule
	Critical water needs met	Progress achieved	25 million receive health education	Progress achieved	Health facilities fully operational	
	Iraqi health professionals mobilized	Progress achieved	Advanced surgery available in 21 cities		Iraqi Ministry of Health manages health care system	
Education System	Back-to-school campaign	Progress achieved	3,000 schools refurbished		6,000 schools refurbished	
	4,000 schools surveyed	Progress achieved	25,000 teachers trained	Progress achieved	75,000 teachers trained	
	5 million math and science texts distributed	Progress achieved	School begins October 2003		Iraq Ministry of Education manages education system	
Community Development	Participation in more than 600 "quick impact" grants	Progress achieved	City/Governorate budgets guide decisions	Progress achieved	Inter-Community Cluster networks formed	
	Baghdad Advisory Council formed	Progress achieved	Operations in 18 Governorates	Progress achieved	Committee projects address needs	
	Advisory Councils formed in 7 other Governorates	Progress achieved	250 community projects complete			

Program (WFP), UNICEF, and NGOs to set up logistics operations, offices, and relief stockpiles.[2]

Capital Construction and Seaport Rehabilitation – USAID's reconstruction assistance is rehabilitating critical infrastructure to help maintain stability, ensure the delivery of essential services, and facilitate economic recovery. Iraq's roads and ports will be rehabilitated to facilitate humanitarian assistance, as well as trade. Potable water and sanitation services are being reestablished to prevent disease. USAID is also restoring the power supply to health and educational facilities, water supply facilities, and infrastructure that contribute to the local economy and employment generation.

As of September 2003, USAID is nearly five months ahead of schedule in opening port docking berths. 50,000-ton cargo ships have been able to dock three months ahead of schedule, and more than 500,000 metric tons of cargo passed through the port of Umm Qasr in August 2003.[3] The Al Mat bridge bypass, a major transportation link between Amman and Baghdad, is complete.

Iraq's poor water situation is not the result of the war, but of 15 years of failure to properly maintain water plants, causing an increase in child death rates in some parts of the country.[4] In response, USAID provided funds to UNICEF to purchase chlorine for water treatment in southern Iraq[5] and has also accomplished the following water and sanitation infrastructure improvements benefiting more than 14.5 million Iraqis in FY 2003:[6]

- Increased water flow in Baghdad to 200,000 cubic meters per day
- Repaired more than 1,700 pipe breaks in Baghdad's water network
- Rehabilitated 70 of the 90 nonoperational sewer pumping stations in Baghdad
- Began installing generators at 37 Baghdad water facilities and pumping stations
- Repaired two of the large collapsed sewer lines in Baghdad

Repairing Iraq's electrical power plants to provide power to water and sanitation systems, to homes and offices, and to street lighting to help reduce looting is vital to Iraq's reconstruction.[7] USAID has achieved the following results:

- On September 28, 2003, national electrical generation was at 3,927 megawatts, about 89 percent of the preconflict level.[8]

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[2] Ibid.

[3] Testimony of Andrew S. Natsios, Administrator, USAID, before the Subcommittee on Foreign Operations, Appropriations Committee, U.S. House of Representatives, September 30, 2003. Source: U.S. Agency for International Development (USAID).

[4] http://www.usembassy.it/file2003_04/alia/A3041808.htm.

[5] Natsios testimony, June 4, 2003, op. cit.

[6] Natsios testimony, September 30, 2003, op. cit.

[7] http://www.usembassy.it/file2003_04/alia/A3041808.htm.

[8] Natsios testimony, September 30, 2003, op. cit.

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- A key 400-kilovolt line from Bayji to Baghdad West failed in June 2003, but has been repaired and reenergized, allowing excess power from the North to be sent to Baghdad.

Health and Education System – USAID assistance is restoring basic health care services to vulnerable people and is strengthening the national education system. USAID programs include delivery of essential drugs, equipment, and supplies to health facilities and assistance for health and disease assessments. USAID is also supplying health information and education to the public, building the management capacity of Iraqi counterparts, and promoting fair and open access to health services. Education assistance increases access to primary and secondary public education for Iraqi children, helps keep children in the classroom, strengthens school administration, and develops reentry programs for out-of-school youth.

To support essential education and health services in FY 2003, USAID:

- Rebuilt 1,595 schools.
- Completed needs assessments for 3,000 of Iraq's 3,900 secondary schools.
- Completed revision of 45 math and science textbooks; reviewed 550 textbooks in all.
- Procured 15 million exam booklets for end-of-the-school-year exams.
- Ordered student kits for 1.2 million students and school kits for 3,900 schools.
- Awarded a grant to the Iraqi Nurses Association to revitalize Iraq's nursing system.
- Purchased and distributed 22.3 million doses of vaccines to cover 4.2 million children and 700,000 pregnant women in North and South/Central Iraq and reestablished routine immunizations.

Community Development – USAID assistance is promoting a competitive private sector, generating employment opportunities, and improving agricultural productivity. Activities include extending credit to small and microenterprise businesses; developing local, regional, and international business networks; and providing workforce development and training. Agricultural assistance supplied agricultural inputs for the spring and winter planting season and addressed livestock and poultry diseases. Farmers will be trained to use modern agricultural technologies to enhance profitability and competitiveness.

USAID is fostering social and political stability by providing Iraqis with the opportunity to participate in public decision making and by helping local government meet citizens' needs. Technical assistance strengthens the capacities of local administrations to manage and deliver services such as potable water, education, and health care. Programming is structured to support the development of local and national non-governmental organizations (NGOs) and civil society organizations. Technical assistance also supports the preparation and implementation of a new legal framework for decentralized government. USAID improved local governance and community institutions by inaugurating the Interim Baghdad Advisory Council on July 7, 2003, and elected members to nine District Advisory Councils. Neighborhood Advisory Councils representing 85 of 87 Baghdad's neighborhoods have also been established in FY 2003.

Shopkeeper in the Shahidan market, Afghanistan, rebuilt with USAID assistance, after being razed by the Taliban

Afghanistan

Years of civil war and drought, compounded by Taliban rule, devastated Afghanistan in the 1990s. When the Taliban fell in December 2001, approximately half of Afghanistan's 26.8 million people lived in absolute poverty, malnutrition was widespread, half of the population was unemployed, and 70 percent were illiterate. The Taliban had prevented female access to education, health care, and livelihoods, depriving women of the means to support themselves and their families, and few of the country's institutions or infrastructure were functioning.

In FY 2002, USAID helped prevent humanitarian disaster after the fall of the Taliban by providing humanitarian relief and launching transition programs to establish a legitimate Afghan government. In FY 2003, USAID helped avert famine for 8 million to 10 million Afghans and ensured that 5.9 million Afghans survived the winter by prepositioning food aid and providing emergency shelter kits. USAID also achieved the following results in FY 2003.

FY 2003 Results

Kabul-Kandahar Highway and Other Roads – USAID's major road-building target in Afghanistan is applying the first layer of paving to 389 km of the 482-km Kabul-Kandahar highway by December 31, 2003. As of November 1, 2003, we have completed 272 km of the roads and are on our way to meeting the established target. To help Afghans restart their economy and reinvigorate commerce along these trade routes, USAID also:

- Repaired more than 7,000 km of rural roads through the cash-for-work program.
- Repaired and managed the traffic control system for the Salang Pass, Afghanistan's major north-south route.
- Provided more than 23,300,000 person-days of cash-for-work jobs (the equivalent of one month of employment for a million Afghans).

- Carried out 250 projects related to road infrastructure (culverts, retaining walls, etc.) and reconstructed 73 bridges in FY 2003.

Agriculture – Because 70 percent of Afghans depend on agriculture for their income, revitalizing the agricultural sector was a pressing need. USAID rose to the challenge by:

- Providing 3,500 metric tons (mt) of seeds and 3,100 mt of fertilizer for the spring 2002 planting season, producing 1,000 mt of wheat that benefited 60,000 farmers and contributed to an 82 percent increase in wheat production over 2001.
- Distributing 5,000 mt of seed and 9,000 mt of fertilizer to 113,000 farmers in spring 2003. The UN Food and Agriculture Organization (FAO) forecast that this could be "the best harvest in 25 years," with a 60 percent increase in wheat production over 2002 yields. FAO noted that, in addition to good rainfall, more land in production and availability of seed and fertilizer accounted for the increase.
- Implementing 7,400 agricultural irrigation infrastructure projects, including canal cleaning, repair and cleaning of *karezes* (traditional underground irrigation tunnels), and repair of reservoirs and canal-way masonry.

Education – When children are in school, families sense a return to normalcy and can imagine a future for themselves and their communities. Given the destruction of Afghanistan's education sector after decades of civil war and Taliban repression, USAID committed itself to rebuilding Afghanistan's education sector at the community level, achieving the following results:

- USAID provided 15 million textbooks for the start of school in 2002 and 10.2 million in 2003.
- USAID also provided 30,000 basic teacher-training kits and since March 2002 has provided a food salary supplement, equal to 26 percent of income, to 50,000 teachers.
- As of September 30, 2003, USAID has rehabilitated 203 schools, day care centers, vocational schools, and teacher-training colleges.

Health – Afghanistan has the second highest maternal mortality rate in the world and one in four Afghan children die by the age of five, most by preventable causes. In response, USAID has launched a broad range of health programs, saving lives and instructing Afghanis in life-saving interventions. In FY 2003, USAID programs:

- Immunized 4.26 million children against measles.
- Provided access to basic health services to an area covering 3.8 million people in 17 provinces.

Access to Clean Water – In FY 2003, USAID rehabilitated the water systems for Kandahar and Kunduz. This benefited 650,000 people by increasing pumping capacity, extending service lines, and eliminating direct discharge of human waste into water sources through provision of sanitary latrines. In addition, USAID launched *Clorin,* a water purification solution now being produced in Afghanistan in partnership with the private sector, to combat child mortality due to diarrhea caused by drinking unclean water. USAID water programs also provided one-quarter of the Kabul water supply, focusing on the poorest districts, and carried out 3,637 potable water supply projects (wells, springs, small distribution systems).

Institution-Building to Assure Stability – In addition to people-level and community-level programs, USAID's Afghanistan portfolio includes institution-building programs to strengthen Afghanistan's government, media, and other organizations. In FY 2003, USAID provided $58 million to the Afghan Government for budget support and effectively managed the currency conversion process on behalf of the Central Bank by providing personnel to staff the 52 currency exchange points, counters, and shredders, as well as secure transportation for the currency. The new currency, named the *Afghani,* has maintained value and stabilized against the dollar since its introduction in late autumn 2002. Further, USAID funded the rehabilitation and purchase of equipment for 19 government ministries and offices and provided daycare centers to enable female civil servants to return to work. USAID provided a satellite phone and pouch mail systems so that the central government in Kabul can communicate with regional offices and established Afghanistan's first private-sector FM radio station. USAID also provided critical assistance to the United Nations for the emergency Afghan parliament, called the *Loya Jirga,* including logisticians who developed the plan for convening the congress, air operations support, educational firms on the *Loya Jirga* process for communities, international observers to ensure transparency in the selection of delegates, and nationwide expansion of Radio Kabul broadcasts about the *Loya Jirga.*

Diamond miners in Sierra Leone are considered at high risk for HIV/AIDS.

HIV/AIDS

At the end of 2002, an estimated 43 million people around the world were living with HIV/AIDS, including the 5 million people who acquired HIV in 2002. The epidemic claimed an estimated 3.1 million lives in 2002. Sub-Saharan Africa remains the most affected region, with 70 percent of the total number of people worldwide living with HIV/AIDS. AIDS is the leading cause of death among 15–44 year olds in the English-speaking Caribbean region, with 2 percent seroprevalence among the general population. Called a "pandemic" because of its global scope and impact, HIV/AIDS is more than a health emergency. It is a social and economic crisis that is threatening to erase decades of development progress. The pandemic has tended to hit hardest in the most productive age groups and in developing countries that are least able to respond.

USAID's programs aim to reduce HIV transmission and improve access to care, treatment, and support for people living with HIV/AIDS and children affected by HIV/AIDS. Through ongoing USAID programs, and in response to two Presidential Initiatives—the International Mother and Child HIV Prevention Initiative and the Emergency Plan for AIDS Relief—as well as through USAID support to the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM), USAID is the world's largest bilateral donor of HIV/AIDS assistance.

FY 2003 Results

In FY 2003, with a budget of $873 million, USAID implemented HIV/AIDS programs in more than 50 countries, 25 of which are considered high priority. USAID contributes staff time, policy advice, and resources to the GFATM. In FY 2003, Dr. Anne Peterson, the Assistant Administrator for USAID's Global Health Bureau, served as the U.S. representative on the GFATM board. USAID provided $248 million of the $347 million total U.S. Government contribution to GFATM. Combined U.S. Government (USG) funds accounted for approximately 50 percent of the total funds of the GFATM in FY 2003, although there is an effort to lower that percentage. In the January 2003 round of GFATM awards, 99 programs in 73 countries received approval for a total of more than $887 million in funding over two years. USAID staff and cooperating agencies were instrumental in many of these awards by helping to design national proposals and fill gaps in implementation for many of the countries awarded.

USAID's "Expanded Response" strategy enhances the ability of countries to prevent new HIV/AIDS infections. It also provides services for people infected by HIV or otherwise affected by the epidemic, especially orphans and vulnerable children. Key elements of the strategy and FY 2003 results include greater targeting of HIV/AIDS resources to regions and countries with high HIV prevalence.

Preventing New HIV Infections – USAID's long-term investment in HIV prevention is producing significant country-level results. USAID has been the major donor in two "rapid scale-up" (high-priority) countries that are experiencing significant change. In Uganda, prevalence dropped to an estimated 5 percent in 2001 from an estimated peak of 15 percent in 1991. In Cambodia, HIV prevalence declined from 3.9 percent in 1997 to 2.1 percent in 2001. In FY 2003, USAID distributed more than half a billion condoms worldwide, including more than 150 million for Ethiopia.

Care and Treatment – In FY 2003, USAID initiated antiretroviral treatment sites in Rwanda, Ghana, and Kenya. Lessons learned will be critical for designing and implementing the unprecedented expansion of treatment anticipated in the President's Emergency Plan for AIDS Relief. The respective country programs, with funding from the Global Fund, will scale up the models. At the end of FY 2003, 1,865 people in these countries have begun comprehensive care for HIV and more than 200 are receiving antiretroviral treatment.

Prevention of Mother-To-Child Transmission (PMTCT) – In response to the President's International Mother and Child HIV Prevention Initiative and Congressional interest in expanding PMTCT programs, USAID launched a $100 million agreement with the Elizabeth Glaser Pediatric AIDS Foundation to expand the availability of PMTCT services. In FY 2003, the Glaser Foundation established eight PMTCT sites. USAID has also negotiated an agreement with Columbia University to expand the PMTCT Plus program, which will provide treatment to mothers and families, primarily focused on the 14 PMTCT Presidential Initiative countries.

Support to Children and Families Affected by HIV/AIDS – USAID developed the initial state-of-the-art approaches to addressing the needs of orphans and children affected by HIV/AIDS and has supported studies that quantified the devastating extent of this problem. In FY 2003, USAID supported 80 activities in 24 countries for children affected by AIDS. Programs focus on strengthening the ability of extended families and communities to cope with problems of children affected by AIDS. One program in Uganda provided nutritious food to approximately 60,000 children and families affected by AIDS during FY 2003.

Future Challenges – The President's initiative provides resources on unprecedented scale for dramatic expansion of care, treatment, and support in 14 of the hardest-hit countries. Implementing the Presidential Initiative requires the best of U.S. and global expertise, as well as a major investment in the strengthening of health human resources and systems in USAID-assisted countries. Significant

Management's Discussion and Analysis (MD&A)

USAID assistance, particularly in HIV/AIDS prevention and in the control and containment of the epidemic, goes to an additional 20 countries. This assistance will continue to be particularly important in Asia, Europe, and Eurasia, where there is strong evidence of a rapidly emerging epidemic affecting millions.

With increased resources from not only the United States but also other international donors, as well as host-country governments, coordination, monitoring, and sharing of experience and results become even more important. As the impacts of HIV/AIDS become clearer, there are also increased opportunities to work with the private sector. Major international and U.S. corporations are now working with USAID to determine ways they can protect and care for their staffs.

With USAID training, monks from the Kien Kes Temple in Cambodia are helping communities overcome their fear of AIDS and meet the needs of their neighbors living with HIV/AIDS.

Global Development Alliance (GDA)

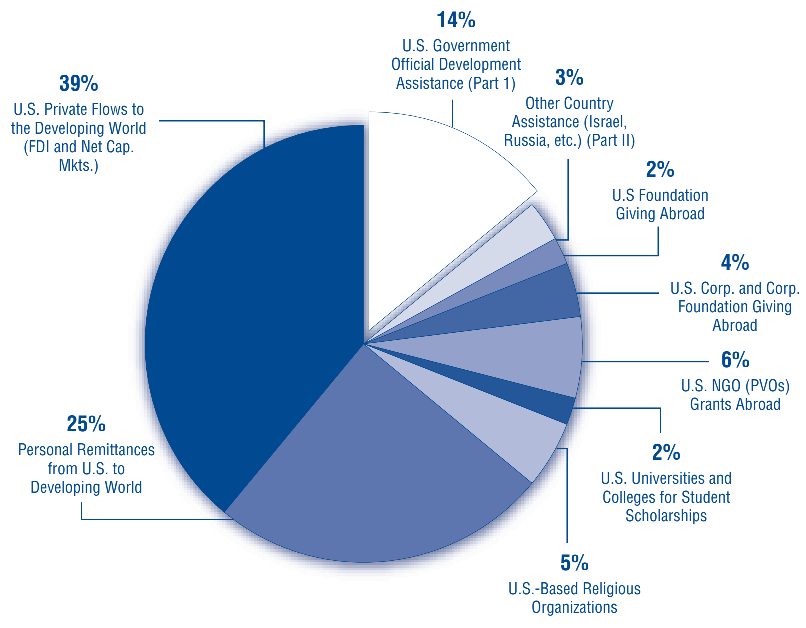
Since its inception, USAID has worked with the private sector and other partners to carry out development and relief programs. Today, the shift in resource flows to developing countries has made public-private alliances central to USAID's business model. In the 1970s, U.S. official development assistance (ODA) accounted for 70 percent of U.S. resource flows to the developing world. As illustrated in Figure A, in 2000, when total U.S. flows to the developing world surpassed $70.5 billion, private resources dwarfed the U.S. Government's ODA of $10 billion to the poorest countries and $2.5 billion to U.S. allies, such as Israel and Russia.

To harness the power of these private resource flows and to underscore the importance of public-private alliances, Secretary of State Powell launched the Global Development Alliance (GDA) Initiative in May 2001. GDA's goal is *to foster increased cooperation between USAID and traditional and new partners and promote the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own.*

FY 2003 Results

Figures B and C help express the growth in alliances and partner inputs over the past two years. In FY 2003, USAID was able to continue its success in developing public-

Figure A: U.S. Resource Flows to the Developing World in 2000: $70.5 billion[9]



[9] Sources: Organization for Economic Cooperation and Development; Department of Commerce; Carol Adelman, Hudson Institute; USAID Internal Estimates.

private alliances by initiating or substantially expanding an estimated 140 alliances with USAID funds equaling approximately $272.8 million, leveraging an estimated $1.228 billion in partner contributions.

Figure B: Comparison of Alliance Inputs for FY 2002 and FY 2003

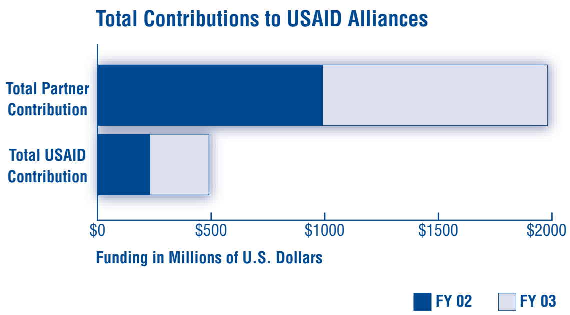
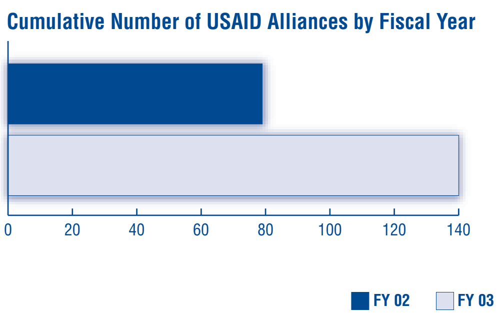


Figure C: USAID Alliances in FY 2002 and FY 2003



For example, in FY 2003, USAID expanded the *Sesame Street Alliance,* building on activities begun in 1997. This alliance produces *Alam Simsim,* a local *Sesame Street* TV series for Egypt, through the collaboration of USAID, Sesame Workshop, Al Karma Edutainment, the Egyptian Ministry of Education, Egyptian Television, Americana, Unilever, local educators, and 20 Egyptian NGOs. The television series promotes girls' education, builds literacy and numeracy skills, promotes desired health and hygiene practices, and encourages mutual respect and understanding. A fan of *Alam Simsim* writes, "I learn so many new things every day from your programs, things like intelligence, cleanliness, and honesty...the importance of friendship and nature." The Middle East Broadcasting Corporation will soon broadcast *Alam Simsim* to 22 Arab-speaking nations, reaching tens of millions of learners. USAID-sponsored *Sesame Street* programs also air in South Africa and Russia.

Other alliances built upon work begun in FY 2002. For example, the Global Alliance for Vaccines and Immunization (GAVI) leveraged approximately $149 million in partner contributions, with USAID providing $53 million in FY 2002. Alliance partners include the Bill & Melinda

USAID's Global Development Alliance brings Sesame Street to Egypt.

Gates Foundation, USAID, international institutions (including the World Bank, UNICEF, and the World Health Organization), the pharmaceutical industry, and other governments. Partners have initially focused their efforts on three major areas: moving resources to developing countries to increase immunization, augmenting the generous Gates Foundation commitment, and working with the vaccine industry to modernize the way vaccines are purchased for children in the world's poor countries. At the close of FY 2003, the alliance has expended $255 million, delivering more than 260 million doses of vaccine and reaching 30 million children.

In Yerevan, Armenia, an Armenian family prepares to move into a house constructed with the help of a USAID-sponsored housing program.

Also in FY 2002, the Armenia Earthquake Zone Alliance launched a comprehensive reconstruction plan to stimulate the development of a housing market and the removal of temporary shelters in the earthquake-affected region of Armenia. The alliance comprises USAID, the All-Armenian Fund, the United Nations High Commissioner for Refugees (UNHCR), the United Nations Development Program (UNDP), the Norwegian Refugee Council, the Jinishian Memorial Foundation, the A.G. Huntsman Foundation, and the Lincy Foundation. With $45.3 million in funding, the alliance has issued 3,975 housing vouchers and home improvement grants to eligible families who are still living in temporary shelters 15 years after the quake, allowing families to acquire preexisting homes at market prices and eventually gain title to their property. Alliance home improvement grants have also financed the completion of 650 unfinished houses in rural areas. At the close of FY 2003, the alliance had removed 2,204 temporary shelters, freeing up land to the community for future construction projects. The alliance is expected to provide homes to more than 10,000 families by mid-2004.

In addition to achieving alliance results, USAID worked to mainstream alliances in FY 2003. For example, USAID revised Agency planning and procurement processes to accommodate alliances as resource partners—not just grant recipients. USAID policy now provides guidance and encouragement to activity managers to consider public-private alliances to achieve development results, and the Agency has made creative use of underutilized procurement techniques, such as acceptance of conditional gifts. USAID has also participated in new governance structures to establish and sustain alliances. For example, in November 2002, USAID and ChevronTexaco each committed $10 million to a new $20 million public-private alliance to provide support and training for enterprise development in Angola. USAID and ChevronTexaco signed a memorandum of understanding to initiate this alliance, which also involved ChevronTexaco providing a conditional gift to USAID to manage the program.

Presidential Initiatives

The USAID-managed Online Presidential Initiative Network (OPIN) provides real-time performance information on key development initiatives outlined by President Bush. Launched in April 2003, the network is accessible via the OPIN website (*http://www.usaid.gov/about_usaid/presidential_initiative/*) and provides details on all of the Presidential Initiatives – their purpose, progress, financial data, and results. OPIN supports collaboration among the many participating U.S. Government agencies and will evolve to meet the Initiatives' changing monitoring needs.

Management's Discussion and Analysis (MD&A)

FY 2003 Results

Table 1 presents a snapshot of data on selected Initiatives through October 31, 2003. Overall, OPIN:

- Tracks Initiatives in multiple technical sectors, with work on Presidential Initiatives being carried out in 67 of USAID's 87 overseas operating units by the third quarter of FY 2003.
- Includes success stories, links to more comprehensive monitoring and evaluation (M&E) systems, photos or video clips, and other stories about these Initiatives.
- Reported FY 2003 data primarily at the input and output level; for many of the new Presidential Initiatives, FY 2003 was too early to report impact.

Table 1: OPIN Highlights
Presidential Initiative Highlights Through 4th Quarter FY 2003

Initiative	FY 2003 Results
Trade for Africa Development and Enterprise	11.5 person-months of training, 76 months of technical assistance provided, and $1.4 million growth in AGOA exports
Water for the Poor	3,048 water user groups established, 868 committees established and trained (water supply and sanitation), 1,034 completed water supply and sanitation projects that meet sustainability standards, 392 stakeholder governance groups supported (watershed management)
Africa Education	24,767 teachers trained
Central America Free Trade	27,922 people trained in trade issues
Clean Energy	Local capacity improved: 14,005 individuals trained; 1,097 institutions strengthened
Global Climate Change	27 energy-sector policies adopted, 43 land-use-sector policies adopted, 17 energy-sector policies implemented, 239 land-use-sector policies implemented, 32 energy-sector policies prepared, 342 land-use-sector policies prepared, 621,427 technical assistance/trainings in the land-use sector
International Mother and Child HIV Prevention	10% of HIV-infected pregnant women receiving treatment; 215 health sites providing services

Performance Monitoring in USAID

During FY 2003, the Agency pursued its mission through the six strategic goals established in the Agency's 2000 Strategic Plan, plus one management goal (as illustrated in Table 2):

Table 2: FY 2003 USAID Goals
USAID FY 2003 Strategic Goals

Goal 1	**Broad-based economic growth and agricultural development encouraged**
Goal 2	**Human capacity built through education and training**
Goal 3	**Global environment protected**
Goal 4	**World population stabilized and human health protected**
Goal 5	**Democracy and good governance strengthened**
Goal 6	**Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development reestablished**
Management Goal	**USAID's development goals achieved in the most efficient and effective manner**

Operating Unit Strategic Objectives Advance Agency Goals

USAID country missions and Washington offices, called "operating units," align their programs under selected Agency goals, depending on each operating unit's mandates, operating environment, and role in advancing U.S. foreign policy and Congressional priorities. Because of these factors and the need to tailor programs to the wide variety of circumstances in the countries where USAID operates, the framework for performance management in USAID is the individual operating unit's strategic plan. Country missions and Washington offices use these plans—which are reviewed and cleared by USAID/Washington—to set strategic objectives relevant to their country or program needs, but these strategic objectives must correspond to an Agency goal in Table 2. A strategic objective (SO) is the highest-level result that a USAID operating unit and its partners can materially affect, given the time and resources available. A Performance Management Plan, a mandatory tool for implementing and monitoring progress on operating unit strategic objectives, lays out specific annual and long-term performance targets.

Whether a strategic objective "exceeds," "meets," or "fails to meet" its target is the central performance measure that operating units address in their annual reports. At least nine months ahead of the annual report deadline, operating units set independently verifiable—and auditable—performance targets. Operating units then report on whether they have exceeded, met, or not met these targets. While full documentation of targets and accomplishments is not submitted to Washington, this information must be maintained and available for review and audit. Missions conduct data quality assessments to ensure that

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the Agency's five data quality standards (validity, integrity, precision, reliability, and timeliness[10]) are met. In FY 2003, USAID began rolling out a standardized triennial review process of all operating unit programs to verify results reporting.

For the Agency as a whole, USAID established the following performance targets for FY 2003:

90 percent of reported strategic objectives will have met or exceeded their targets for the year, with no more than 10 percent having failed to meet targets. Those strategic objectives that have been in place for less than one year are not required to report.

Data presented in this report identify the year they originated. In addition to highlighted performance results from FY 2003, this report also describes performance toward the USAID management goal through September 30, 2003. However, Agency-wide data on operating unit performance toward meeting or exceeding SO targets reflect results in FY 2002 as reported in operating unit Annual Reports, supplemented by May 2003 Bureau Program and Budget Submissions.

As illustrated in Figure D, of the 579 strategic objectives that operating units implemented Agency-wide during FY 2002, 392 (or 68 percent) met or exceeded FY 2002 targets. 29 (or 5 percent) did not meet their targets. 158 strategic objectives (or 27 percent) were not assessed, because they were less than one year old and therefore performance data were not verified.

Overall Agency performance for the strategic objectives required to report in FY 2002: 93 percent met or exceeded FY 2002 targets, and 7 percent did not meet their targets, as shown in Figure E.

USAID met the target in the FY 2003 Annual Performance Plan of 90 percent of USAID strategic objectives met or exceeded.

Figure D: FY 2002 Performance of All Operating Unit SOs

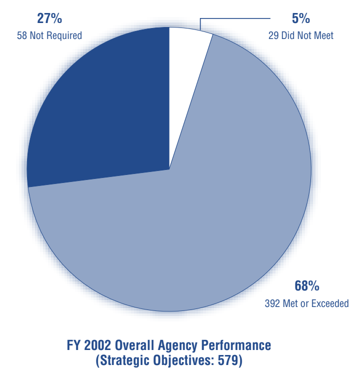
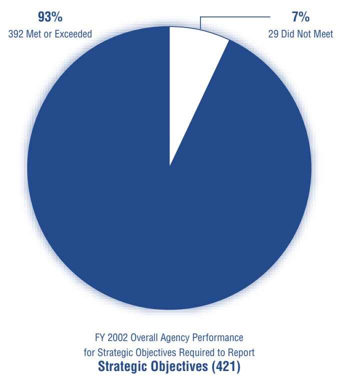


Figure E: FY 2002 Performance of SOs Required to Report



Performance Indicators Track Results

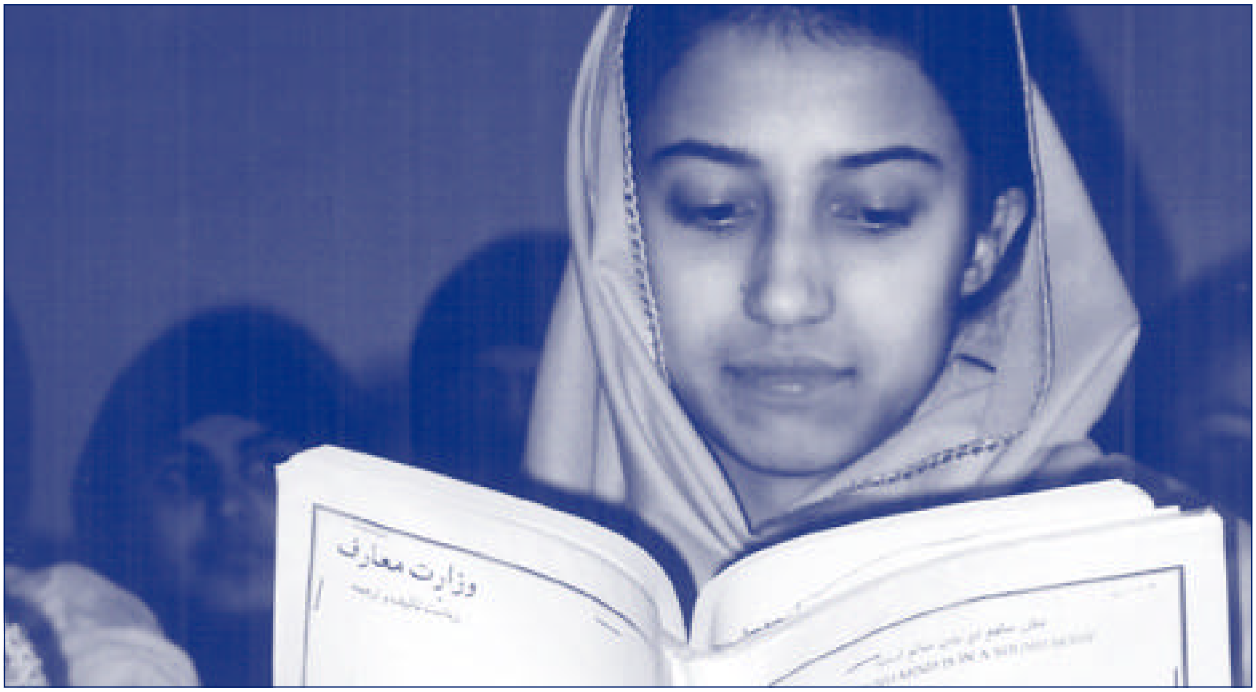
USAID has a country-based mandate to achieve development results in specific country settings. These vary in terms of their level of development, political stability, and the objective(s) for which U.S.

[10] USAID Automated Directives System (ADS) 203.3.5.1, Data Quality Standards.

assistance is appropriated.

Therefore, USAID results reporting is done on a country-by-country basis. In some sectors, there is sufficient comparability across country programs for USAID to use common indicators (e.g., in population, health, HIV/AIDS, microenterprise, and basic education programs). In these sectors, USAID missions and other operating units report against specific, common indicators so the Agency can "roll up" the data into an overall Agency presentation. For FY 2004–2005, USAID is moving toward integrating common indicators across sectors, as appropriate. In addition, in all sectors, USAID uses "context" indicators, which are high-level indicators that track country progress. While USAID is unable to affect the performance of these context indicators using our resources alone, the Agency does achieve some impact against these indicators in partnership with host governments, other bilateral and multilateral donors, and non-governmental development actors. For example, it is important to track changes in per capita Gross Domestic Product (GDP) in countries where USAID has economic growth programs, but USAID's inputs alone are insufficient to change a country's GDP. Context indicators help track how the environment in which we work is changing over time and are presented in the Program Performance section under each goal area.

To use performance information for management and reporting, USAID requires data quality assessments on data used for management decision making. USAID policy provides guidance on assessing data quality, as do USAID performance management training and other courses. (More information on indicators and data quality is provided in Appendix B.)



USAID announced an initiative to rehabilitate and reconstruct more than 1,000 schools across Afghanistan in the next three years.

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Performance Highlights by Strategic Goal in FY 2003

In FY 2003, USAID pursued strategic objectives through programs in more than 100 countries around the world. These operating unit strategic objectives, which must be approved by USAID headquarters, drive USAID's individual country and regional programs and are tailored to local conditions. Taken as a whole, these operating unit activities, which support the achievement of operating unit SOs linked to the Agency's strategic goals, constitute USAID performance. This section summarizes the Agency's performance with respect to the goals noted in Table 2.

Strategic Goal 1: Broad-Based Economic Growth and Agricultural Development Encouraged

Economic growth and agricultural development are effective means of bringing poor people and marginalized groups into the mainstream of an expanding global economy. By targeting programs directly at poor people and at national institutions and laws that support economic growth, USAID has improved the lives of millions overseas while serving U.S. economic, humanitarian, and security interests. Economic growth in developing countries matters here at home. In contrast to Europe and Japan, developing countries remain the fastest-growing markets for U.S. exports, which in turn support millions of U.S. jobs.

USAID supports broad-based economic growth and agricultural development through programs aimed at:

- Strengthening and expanding critical private markets.
- Encouraging more rapid and enhanced agricultural development and food security.
- Expanding equitable access to economic opportunity for the rural and urban poor.

USAID invests about $2.3 billion a year in activities aimed at fostering market-oriented, private-sector-led economic growth. Other areas of focus include financial-sector development, support for fiscal reform and strengthening, development of the laws and institutions needed to enable private-sector growth, and efforts to promote the development and increased competitiveness of the private sector.

In FY 2003, USAID achieved particular success in strengthening the capacity of developing countries to participate in the global trading system.

FY 2003 Results in Trade Capacity Building

The United States is the largest single country donor of Trade Capacity Building (TCB) assistance, with USAID playing a lead role among USG agencies. The United States is also the largest single contributor to the World Bank and other multilateral development banks, which provide TCB assistance related to the Doha Development Agenda.

TCB assistance activities fall into two broad categories:

- Assistance that addresses supply-side obstacles and helps developing countries create conditions conducive to open trade and respond effectively to the opportunities created by trade liberalization
- Assistance related to participation in, and implementation of, the WTO Technical Assistance Plan and regional trade arrangements, including activities that support

developing-country efforts to implement existing trade commitments

The President's Trade Policy Agenda for 2003 states that the "United States is committed to expanding the circle of nations that benefit from global trade . . ." and to helping " . . . developing economies build the capacity to take part in trade negotiations, implement the rules, and seize opportunities." USAID has responded quickly and decisively to the Doha Development Agenda's call to increase TCB efforts. This response includes:

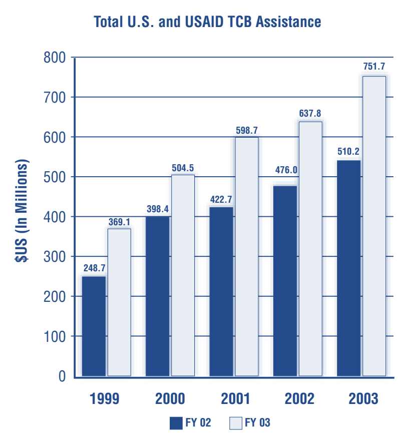
- Increasing TCB funding and expanding programs.
- Mainstreaming TCB into development strategies.
- Diversifying TCB assistance tools.
- Leveraging assistance by forging alliances with NGOs and the private sector.
- Strengthening collaboration with other donors.

According to the 2003 U.S. Government TCB Survey, USAID funding for TCB activities was $540 million in FY 2003, up from $369 million in FY 1999.[11] (See Table 3 for a regional comparison.) USAID funds 70 percent of total U.S. TCB assistance overseas (as illustrated in Figure F). This reflects the Agency's conviction that trade is a critical factor for development. The geographic distribution of these funds reflects the multiple objectives of the U.S. foreign assistance program. The largest recipient by far is Egypt, followed by West Bank/Gaza, Jordan, the Philippines, and Georgia. The largest increases between FY 2002 and FY 2003 took place in Afghanistan, Uzbekistan, Colombia, Mali, and Macedonia.[12]

Table 3: USAID TCB Assistance by Region
USAID Trade Capacity Building Assistance – FY 2003
Total USAID Funding: $540 million

Nontargeted global funding	$13 million
Sub-Saharan Africa	$86 million
Central & Eastern Europe	$49 million
Former Soviet Republics	$57 million
Asia	$63 million
Middle East & North Africa	$170 million
Latin America & Caribbean	$102 million

Figure F: Total U.S. and USAID TCB Assistance



USG and USAID Trade Capacity Building Assistance

[11] Previous surveys were conducted in 2001 and 2002. Survey methodology can be found in the 2001 report, *United States Government Initiatives to Build Trade-Related Capacity in Developing and Transition Countries – Main Report.* Survey definitions can be found in the U.S. Trade Capacity Building Database, www.usaid.gov, keyword TCB Database. This information is available publicly in a database accompanying the report: http://qesdb.cdie.org/tcb/index.html.

[12] USAID Trade Strategy, PD-ABX-241, p. 8.

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USAID/Egypt is increasing agricultural export capacity by assisting farmer organizations and agribusiness in processing and timely shipment of fruits and vegetables to European markets.

The case of USAID assistance to shrimp production in Bangladesh helps illustrate the interventions that USAID uses to build trade capacity. Hindered by a reputation for substandard product quality and environmental practices, Bangladeshi shrimp producers experienced a significant decline in exports in 2001. However, with help from USAID, the industry is changing both its practices and its image. USAID assistance is introducing shrimp exporters to hygienic processing practices and to environmentally friendly freshwater species. Further, through the Seal of Quality Program, USAID has helped the industry establish private third-party testing laboratories to ensure that producers meet quality standards and establish international credibility. Exporters are required to meet international codes. As a result of implementing these industry "best practices," exports have already grown by roughly 30 percent, to more than $350 million in FY 2003.

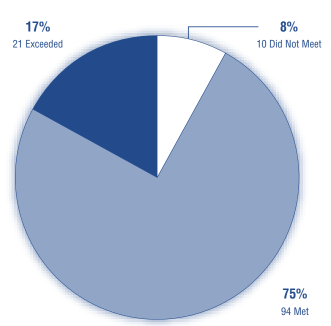
USAID also assisted regional trading consortia in FY 2003. For example, USAID is responsible for implementing the Trade for African Development and Enterprise (TRADE) initiative announced by President Bush at the African Growth and Opportunity Act (AGOA) Forum in October 2001. Funding for the initiative is $15 million for FY 2003 and $25 million for FY 2004. USAID works collaboratively with other USG agencies in managing this Presidential Initiative, the objective of which is to increase the African nations' engagement in the multilateral trading system, as well as African exports and investment flows into and within the continent. The TRADE initiative operates through three Regional Hubs located in USAID regional missions in Botswana (Regional Center for Southern Africa), Ghana (West Africa Regional Program), and Kenya (Regional Economic Development and Services Office). The Hubs have evolved over a short time from a concept to an operational entity. Initial outputs include establishing the operational and management systems to implement the TRADE initiative, developing a strategic plan and contracting mechanisms to fund initiative activities, and the selection of the contractors to conduct the work. FY 2003 activities included technical assistance on AGOA implementation and understanding of the U.S. market, placing Animal and Plant Health Inspection Service (APHIS) advisors to develop sanitary and phytosanitary standards (SPSs) for exports, and addressing trade constraints.

USAID also worked to complement and advance Free Trade Agreement (FTA) negotiations with the countries of Central America and with the Southern African Customs Union by establishing separate TCB Cooperative Groups that met in parallel with the negotiating groups. The TCB Cooperative Groups provided an opportunity for multiple donors to listen and respond to the needs and priorities of FTA partners. In addition, participating countries in the Free Trade Area of the Americas (FTAA) have created the Hemispheric Cooperation Program (HCP) to strengthen the trade capacity of participating countries.

USAID Operating Unit Performance in FY 2002

In FY 2002, 171 operating unit strategic objectives aligned with Strategic Goal 1, *broad-based economic growth and agricultural development encouraged.* (Figure G illustrates their performance.) 46 SOs were less than one year old and therefore were not required to assess performance until next year.

Figure G: FY 2002 Operating Unit SO Performance Linked to Economic Growth and Agriculture



Strategic Goal 2: Human Capacity Built Through Education and Training

> *Education contributes to progress in virtually every area of development.*

Education is the building block of development; yet today, more than 900 million adults cannot read or write, primarily in developing countries, and more than 125 million school-aged children are not in school. This loss of human potential affects all of us: ignorance leads to poverty, disease, and instability. In contrast, investments in education have been linked to faster and more equitable economic growth and lower birth rates.

USAID pursues its education and training goal through programs aimed at:

- Expanding access to quality basic education for underserved populations, especially girls and women.
- Enhancing the contribution of host-country colleges and universities to the process of development.

Basic education includes preprimary, primary, and secondary education; adult literacy programs; and training for teachers working in any of these levels. In developing countries, where boys outnumber girls in school, expanding access for girls to basic education is especially critical. Support for increased and improved basic education of girls and women contributes to family health, lower fertility, and the enhanced status of women. USAID's support for female education programs benefit millions of girls and women, while serving as an impetus for national governments and other donors to increase their efforts as well.

Higher education includes universities, community colleges, vocational and training institutions, and research institutes. Colleges and universities produce the educated leaders, skilled professionals, and trained workforce essential to the development of politically and economically sustainable societies, from the teachers who provide quality basic education to the decision makers and practitioners essential to sustained growth and progress in all sectors. Institutions of higher education in developing and transitional countries hold the potential to contribute more fully to the resolution of national and local problems through teaching, research, and community service. To help host-country institutions more fully realize their potential, USAID promotes partnerships with U.S. universities, private colleges, and community colleges in support of a wide variety of training, workforce development, and higher education programs. These partnerships strengthen faculties and administrations in developing countries and the United States, providing ongoing benefits to students in both settings. In addition, USAID provides short-term training opportunities to hundreds of thousands of individuals in developing and transition countries.

In FY 2003, President Bush supported USAID assistance to education through initiatives in Latin America and the Caribbean, sub-Saharan Africa, Iraq, Afghanistan, and Pakistan, with a total dollar value of more than $350 million. Each of the initiatives is designed to improve the quality of basic education through modern teaching methods and materials and to reduce the unmet educational needs of specific groups. The Latin American effort, for example, focuses on teacher training, while the African and Middle East initiatives provide scholarship programs for underserved populations, especially girls.

FY 2003 Results Through Education Initiatives

The Centers of Excellence for Teacher Training (CETT), created by the Presidential Summit Initiative, made significant progress in Latin America and the Caribbean in FY 2003. USAID supported three centers, one each in Peru, Honduras, and Jamaica, to train teachers on improving reading instruction at early grade levels. Curricula are being designed, and the first teachers have received the in-service training. USAID has also established CETT partnerships to raise funds and provide financial sustainability. To complement efforts to build support for basic education reforms among high-level leaders in Latin America, USAID has launched programs targeting local communities, parents and teachers, and grassroots education groups. USAID also continued to support UNESCO on the *Summit of the Americas Regional Indicators Project* to increase accountability in education by developing region-wide standards and assessment indicators.

The Global Education Development Alliance formed a worldwide education development alliance, doubling public contributions of $5,000,000 through equal resources from the private sector and the NGO community in FY 2003. This effort has expanded basic education in Nicaragua, youth training programs are being developed in the delta states of Nigeria, and higher education for Asian women is being planned for a regional program based in Bangladesh. The alliance has also developed a global education Internet portal to serve teachers and education managers worldwide.

The Education for Development and Democracy Initiative (EDDI) continued to achieve success in FY 2003, with activities implemented in 40 sub-Saharan countries, one more than its goal for 2003. EDDI successes included expansion of the Ambassadors' Girls Scholarship Program; adding new community resource centers, which bring modern information technology, training, and mentoring to school populations and surrounding communities; adding more programs to serve physically disabled students; expanding entrepreneurial training; expanding democracy networks;

enhancing school and university partnerships; establishing the endowment for the Ronald Brown Institute; communication with African ministers of education through the Association for the Development of Education in Africa; and the graduation of 450 technicians from 30 academies in 30 sub-Saharan countries, where some 2,500 students are enrolled. EDDI also provided scholarships and educational support to several countries emerging from crises, linked 20 African universities to the Internet, and established a Young Farmers Program in Mauritius.

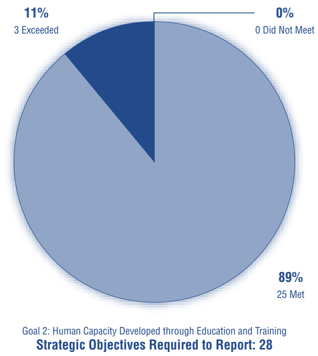
EDDI has worked to ensure that its programming is complementary to other African initiatives, such as the *New Partnership for Africa's Development (NEPAD),* multilateral initiatives such as the World Bank's *Education for All* program, and various U.S foreign policy objectives, including those outlined by the *Millennium Challenge Account (MCA).* This coordination helped avoid duplication of effort and streamlined program implementation. In fact, EDDI was able to leverage more than 33 percent of its funding with support from implementing partners and the private sector. In addition, EDDI's experience with cutting-edge approaches and unique responses to educational needs served as a platform for conceptualizing the President's Africa Education Initiative.

EDDI has also helped countries mobilize more resources to educate girls and women. In FY 2003, 15,000 girls received scholarships, and approximately 10,000 more received mentoring and support through activities—such as workshops, newsletters, and conferences—that EDDI sponsors. Primary- and secondary-level scholarships are not costly, but help ensure that promising children from underprivileged families receive an education. To help reach underserved populations, many of the scholarships have been reserved for girls whose families have been affected by HIV/AIDS; girls who are physically challenged; and those who, for various reasons, have dropped out of school, but want to return to complete their education.

USAID Operating Unit Performance in FY 2002

In FY 2002, 45 USAID operating unit SOs aligned with Strategic Goal 2, *human capacity built through education and training.* (Figure H illustrates their performance.) 15 SOs aligned with this goal were less than one year old and were therefore not required to report.

Figure H: FY 2002 Operating Unit SO Performance Linked to Education and Training



Strategic Goal 3: Global Environment Protected

Environmental degradation threatens human health, undermines long-term economic growth, and impairs the critical ecological systems upon which sustainable development depends. The loss of biodiversity, spread of pollutants, use of toxic chemicals, and decline of fish stocks directly affect the United States, as well as millions of people in developing countries. No matter where humans live, breathable air, nutritious food, and drinkable water are all dependent on regional or global natural systems. In addition to its direct impacts on health and prosperity, environmental quality also affects migration patterns and peace and security: struggles over land, water, and mineral resources are often significant components of civil unrest and armed conflict, which can threaten U.S. interests and require U.S. intervention.

USAID's approaches to addressing environmental problems vary by environmental challenge and regional priorities. Combining policy dialogue and institution building with other development activities, USAID's environmental programs aim to:

- Conserve biological diversity.
- Improve the sustainable management of urbanization, including pollution management.
- Increase the proportion of environmentally sound energy services.
- Increase the sustainability of natural resource management.

USAID's programs in natural resource and pollution management are closely linked with programs to improve health, increase agricultural productivity, mitigate or adapt to climate change, and even to governance—in this case, governance of the environment. Natural resources not only provide the first step up the ladder of economic growth for most countries, but equitable access to resources can also serve as a foundation of democratic governance. USAID is working with partner organizations to help countries design and implement development strategies, which reflect the intrinsic linkages connecting sustainable ecosystems, sustainable economies, and equitable societies.

Children enjoy water from a fountain at Naim Frasheri school in Veles municipality, Macedonia.

FY 2003 Results in Pollution Control, Energy Efficiency, and Access to Clean Water

USAID works in more than 35 countries to address the issue of global climate change through programs focused on reducing pollution and increasing energy efficiency. Progress is particularly noteworthy in India, where USAID-funded programs have helped prevent millions of tons of greenhouse gas emissions. FY 2003 activities there focused on energy efficiency and conservation in power plants, industry, and the transportation sector; cogeneration; demand-side management; and other forms of technical assistance.

Working in partnership with private and public entities in both the United States and India, USAID helped promote renewable energy and clean technologies, as well as environmental management systems for Indian industry. For instance, successful U.S.-India joint ventures have resulted in India's first commercial electric car. USAID also helped fund the creation of the Center for Power Efficiency and Environmental Protection (CenPEEP) in India's National Thermal Power

Corporation to improve the operating efficiency of the nation's coal-fired power plants. This effort saves millions of dollars annually in coal costs and continues to increase technology transfer and cooperation with the U.S. Department of Energy's National Energy Technology Laboratory. CenPEEP received the U.S. Environmental Protection Agency's Climate Protection Award in 2003, in recognition of the Center's outstanding contributions to mitigating the effects of global climate change.

USAID is also a leader of the Global Village Energy Partnership (GVEP), a key component of the Presidential Clean Energy Initiative that provides energy access to underserved populations. As a result of USAID support to GVEP in 2003, 28 countries are working on national plans to increase energy access for all. These action plans are an integrated effort by the energy, health, water, agriculture, and education ministries of each GVEP partner country. In FY 2003, USAID assistance to GVEP has directly increased availability of clean energy and provided a means of income generation to rural populations. For example, the Government of Zambia has developed a Rural Electrification Road Map that focuses on policy and institutional reform, building a regulatory framework, and access to finances. Implementation of the road map will improve and increase energy services to rural areas. Through a World Bank loan made possible by the national action plan, the Zambian government made an initial investment of $120 million that will increase electricity access to more than 100,000 households, or 500,000 rural poor, utilizing micro-hydro power and solar technologies. Also in FY 2003, USAID installed solar power equipment in 10 rural "telesecundaria" schools in Chihuahua State, Mexico, to provide lights and computers in classrooms for more than 1,000 students. This project has provided power to more than 60 schools thus far and will enable students to participate in distance education opportunities, even while in remote areas.

USAID has long supported potable water and sanitation programs, as well as efforts to increase the availability of water for farming and commercial use. These programs help to ensure results in other development sectors, from child survival and environmental health to decreased reliance on rain-fed agriculture. In FY 2003, USAID continued its ongoing work and began implementing the President's Water for the Poor Initiative.

Over the years, USAID-supported water and sanitation projects in 50 countries have provided more than 16 million people with improved access to water supply and sanitation. In FY 2003, for example, USAID's Water Efficiency Team (WET) project in Indonesia worked with financially troubled water authorities to help them achieve economic self-reliance without additional capital. As a result of this work, at least a million Indonesians received access to piped water, and $10 million of local and provincial government investment has gone to improvements in distribution. Similar efforts in El Salvador in FY 2003 to promote recycling and wastewater treatment plants leveraged an additional 50 percent of non-USAID funding, thereby permitting construction of new demonstration plants in other locations.

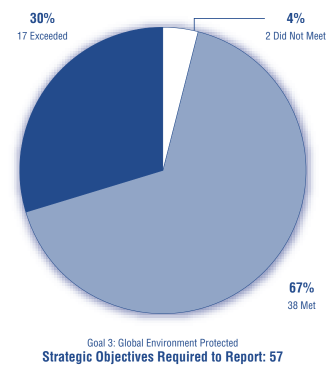
In the important area of watershed management, USAID/El Salvador also supported stream and groundwater protection and physical implementation of watersheds and supported the participation of 9,000 farmers in watershed improvement activities. These farmers are now implementing water conservation practices on 67,000 acres to increase water table recharge and decrease soil erosion. Also in FY 2003, USAID provided equipment, renovated facilities, training, and technical assistance to restore and enhance monitoring capabilities in Armenia at 65 key sites in the Lake Sevan-Hrazdan River basin system. This information will support local initiatives to address water management problems and will provide the information needed to evaluate and improve the national policies for water management.

To increase the productivity of water, USAID supported the establishment of more than 200 water user groups in FY 2003 to promote more equitable allocation and sustainable use of water for agriculture. In Romania, irrigated land managed by water users' associations increased by 110,000 hectares, which led to the transfer of state-owned equipment to users' groups and the rehabilitation of outdated irrigation systems by business associations. In Mali, a USAID-supported assessment of principal irrigation systems identified sustainable agriculture activities that will be implemented under USAID/Mali's new Country Strategic Plan for the period 2003–2012. The strategy aims to increase economic growth and reduce poverty by combining increased agricultural productivity with production risk reduction and trade enhancement. Improved irrigation will both increase agricultural productivity and reduce risk by diversifying the irrigated food crops for which Mali has comparative advantage.

USAID Operating Unit Performance in FY 2002

In FY 2002, 74 operating unit strategic objectives aligned with USAID Strategic Goal 3, *global environment protected* (with performance illustrated in Figure I). 17 SOs were less than one year old and therefore were not required to assess performance until next year.

Figure I: FY 2002 Operating Unit SO Performance Linked to Environment



Strategic Goal 4: World Population Stabilized and Human Health Protected

Improving health and nutrition and stabilizing population size are essential to sustainable development. Healthy citizens can contribute to their own progress and to national prosperity. Efforts to combat HIV/AIDS, malaria, tuberculosis, and other infectious diseases constitute an enormous public health challenge, in which USAID distinguished itself in 2003. When people can control the size of their own families, resources are made available for enduring improvements in the quality of life. Improving women's and girls' health plays a critical role in child survival, family welfare, and economic productivity.

USAID is a global leader in improving the health and livelihoods of millions of people around the world. Investing in the health of the world's population contributes to global economic growth, reduction of poverty, a sustainable environment, and regional security. In addition to enhancing the lives of people overseas, with special emphasis on breadwinners, women, children, and families, protecting human health in developing and transitional countries affects public health in the United States by preventing the spread of HIV/AIDS and other infectious diseases.

USAID's strategy for global health seeks to stabilize world population and protect human health through programs in maternal and child health, HIV/AIDS, family planning and reproductive health, infectious diseases, environmental health, nutrition, and other life-saving areas. While this report describes performance against the FY 2000 USAID strategy, the Agency's Global Health programs are already moving toward the future. Under the new Department of State and USAID Strategic Plan for FYs 2004–2009, the performance goal is stated as "Improved global health, including child, maternal, and reproductive health and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis."

FY 2003 Results Highlight: Reducing Malaria and Tuberculosis

Malaria. In FY 2003, USAID was successful in expanding access to effective treatment and prevention measures for people at risk of malaria. Access and use of insecticide-treated nets (ITNs) is a key prevention strategy. Proper use of ITNs can reduce overall child mortality by up to 30 percent and significantly reduce morbidity in children and pregnant women. In FY 2003, USAID expanded the innovative public-private partnership for ITNs—called *NetMark*—from a five-year, four-country, $15.4 million program to an eight-year, sub-Saharan-Africa-wide, $65.4 million *NetMark Plus* program. Uganda, Ghana, and Mali have joined Nigeria, Senegal, and Zambia with national-level efforts. *NetMark* has been successful in leveraging $0.40 of private resources from partners for each $1 of public resources expended. In the first year since products were launched, *NetMark* partners have sold more than a million ITNs in Ghana, Nigeria, Senegal, and Zambia and an additional million retreatment kits. As a consequence of *NetMark* activities, more than 2.5 million young children and pregnant mothers living in malarious areas are protected from the threat of malaria.

Each year, 22 million pregnant women in Africa are at risk of malaria. Women in areas of seasonal malaria are at high risk of severe malaria. Placental malaria increases the risk of low birth weight and other adverse birth outcomes. Intermittent preventive treatment (IPT) of malaria as part of regular antenatal care can significantly reduce this risk to the newborn, as well as the mother's risk of anemia. In FY 2003, USAID technical assistance doubled the number of countries with IPT policies from 6 to 12. More than 7 million pregnant women and countless children will benefit from these revised policies.

In the Democratic Republic of the Congo (DRC), for example, an outdated treatment policy (along with poor diagnostic capacity and environmental degradation) was contributing to more severe malaria infections. USAID support focused on improving the capacity of the national program to develop and disseminate effective treatment and clinical management policies. With USAID's help, the DRC has developed a national malaria policy and new treatment guidelines have been distributed. In response to reports of high chloroquine resistance, a new drug policy has replaced chloroquine with sulfadoxine/pyrimethamine.

Tuberculosis. One way to improve tuberculosis treatment and to expand the Directly Observed Treatment Strategy (DOTS) is to expand the number of partners working in

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Tuberculosis (TB). In FY 2003, USAID made great strides in this direction by broadening the mandate of our PVO Child Survival and Health (CSH) Grants Program (CSHGP) to include TB and by awarding a new contract: TASC2 – TB. The new CSH grants will expand the reach of national TB programs and the number of partners active in TB control and DOTS expansion. These three- to four-year grants in Romania, Ukraine, and Indonesia address key elements of the WHO-recommended DOTS, including advocacy for policy reform, training, strengthened monitoring and evaluation of treatment outcomes and program performance, improved case detection and diagnosis, and community awareness and education.

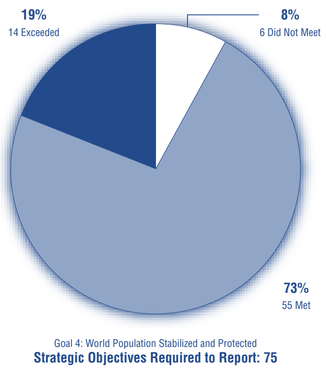
Partners in these efforts include U.S.-based PVOs, as well as in-country NGOs, Ministries of Health, and international organizations such as the Royal Netherlands TB Foundation and WHO. The total population in the areas that will be assisted by these three projects is approximately 10.4 million people. These grants were awarded at the end of FY 2003, and recipients are now developing detailed implementation plans for their respective programs. To further strengthen PVO capacity to implement DOTS, the PVO CORE Group is developing a website of TB resource materials and has conducted a training workshop for PVOs interested in working on TB control. USAID plans to award CSH grants for TB on an annual basis. Finally, three new partners in TB control—Management Sciences for Health, University Research Corporation, and PATH—were awarded TB contracts under this mechanism. Each organization has brought together a variety of subcontractors, PVOs, organizations, and universities to work with them in responding to TB task orders prepared by USAID missions and bureaus. This five-year contract has a ceiling of $100 million and was awarded at the end of FY 2003.

Women's ward in Thailand. Tuberculosis causes more than a third of all fatalities in HIV-positive people.

USAID Operating Unit Performance in FY 2002

In FY 2002, 98 operating unit SOs aligned with USAID's Strategic Goal 4, *world population stabilized and human health protected* (with performance summarized in Figure J). 23 SOs were less than one year old and therefore were not required to assess performance until next year.

Figure J: FY 2002 Operating Unit SO Performance Linked to Population and Health



Strategic Goal 5: Democracy and Good Governance Strengthened

As noted in President Bush's address to the National Endowment for Democracy in November 2003, expanding the global community of democracies is a key objective of U.S. foreign policy. At the same time, broad-based participation and democratic processes are key elements of sustainable development: they foster informed civic participation, encourage individuals and societies to take responsibility for their own progress, and ensure the protection of human rights. Democracy requires transparent and accountable government; fair and effective judicial systems; open access to, and use of, information; and citizen participation in the policymaking process.

Democracy and good governance help guarantee that government policy reflects popular will. This contributes to fairer uses of public resources across development sectors—including access to education, improved health care, and more effective management of natural resources. USAID invests in democracy programs not only because of their intrinsic importance but also because democracy provides a platform for success in other development activities. Economic growth and free enterprise, corruption-free governance, sound environmental management, and quality health care and other services all benefit from the popular participation, access to information, and emphasis on public accountability that democracy portends.

Democracy, respect for human rights, and transparent and accountable government also reflect the fundamental values of the American people and advance U.S. interests in global stability and prosperity. By building trust in government and preventing political destabilization, democracy programs help prevent armed conflict, massive flights of people from their homelands, destruction of the environment, and the spread of disease and epidemics.

USAID's efforts to promote democracy and good governance have five distinct, but related, aims:

1. Strengthening the rule of law and respect for human rights
2. Promoting more genuine and competitive elections and political processes
3. Increased development of a politically active civil society
4. More transparent and accountable governance
5. Mitigating conflict

FY 2003 Results Highlight: Kenya

In watershed elections on December 27, 2002, Kenyans voted to end the 24-year reign of former President Daniel Arap Moi and his KANU party. In an important democratic advance, Kenyans elected Mwai Kibaki, head of a broad opposition coalition, who has emphasized a platform of free education and anticorruption.

USAID/Kenya's democracy assistance played an important role in ensuring that Kenya's elections were free and fair through true political competition and enabled the newly elected government to take immediate steps in implementing priority reforms. These FY 2003 accomplishments represent the fruition of several years of USAID democracy investments in Kenya and open the door for even greater progress in the future.

As the third-largest economy in sub-Saharan Africa, Kenya is the dominant economy in the Greater Horn of Africa. As a center for commercial and economic activity in a regional market of nearly 200 million people, the country also has the potential to promote economic growth and stability throughout the region.

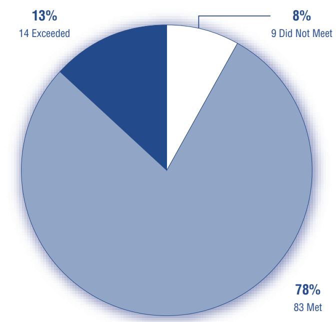
USAID/Kenya's FY 2003 elections program provided technical support to the Election Commission of Kenya (ECK) that enabled significant improvements in the administration of the election at a time when the international community was very concerned about the ECK's independence. USAID-funded election monitoring ensured transparent documentation and reporting of the entire election process—from voter registration through ballot tabulation.

In the postelection environment, USAID's earlier democracy and governance investments paid off when the new government enacted key bills, such as anticorruption measures, whose drafting had been supported through a parliamentary strengthening program in 2003. In addition, USAID responded quickly to the new government's desire for judicial reform by funding a judicial strategic planning retreat in the immediate postelection environment, kick-starting the reform process and providing a blueprint to garner broader donor support.

USAID Operating Unit Performance in FY 2002

In FY 2002, 138 operating units aligned with Strategic Goal 5, *democracy and good governance strengthened* (with performance illustrated in Figure K). 32 SOs were less than one year old and therefore were not required to assess performance until next year.

Figure K: FY 2002 Operating Unit SO Performance Linked to Democracy and Governance



Goal 5: Democracy and Good Governance Strengthened
Strategic Objectives Required to Report: 106

Strategic Goal 6: Lives Saved, Suffering Associated with Natural or Man-Made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished

A hurricane tears through Central America. Civil war creates refugees in the Balkans. Famine strikes the Horn of Africa. Two decades of war in Afghanistan leave its new government unable to deliver basic services. In these and similar situations around the world, USAID is proud to deliver life-saving humanitarian assistance on behalf of the American people.

True to our humanitarian tradition, the United States gives more to people and nations in crisis than any other country in the world. USAID is responsible for providing our nation's foreign disaster and humanitarian assistance, which we program through grants and transfers to private voluntary organizations and international organizations like the World Food Program and the United Nations Children's Fund (UNICEF).

USAID provides essential food, shelter, water, and health services to keep people alive during disasters. While providing the basics for survival, USAID also works to improve developing countries' capacity to plan and prepare for disasters, mitigate their impact, and respond when disaster strikes. In addition, USAID supports longer-term rehabilitation and recovery for countries in transition, such as Afghanistan and Iraq. Such transition

Citizens attend a town meeting in Honduras.

programs address the special needs of countries emerging from crises caused by political and ethnic strife and help local institutions promote economic, political, and social stability.

USAID implements humanitarian assistance programs in pursuit of two broad aims:

- Meeting urgent needs in times of crisis
- Reestablishing personal security and basic institutions to meet critical needs and protect basic human rights

FY 2003 Results Highlight: Sudan

For the past 19 years, Sudan has been embroiled in a complicated civil war. Since 1983, more than 2 million Sudanese people have died, and more than 4 million have been displaced from their homes—the largest displaced population group in the world. Sudan has also experienced three periods of famine since 1990. Since the civil war began in 1983, the United States has provided more than $1.7 billion in humanitarian assistance to the Sudanese people.

In May 2001, President Bush appointed USAID Administrator Andrew Natsios as U.S. Special Humanitarian Coordinator for Sudan and former U.S. Senator John Danforth as Special Envoy for Peace to Sudan. In July 2001, the Administrator led a high-level USG delegation to North and South Sudan. Mr. Natsios was able to expand the "humanitarian space" in the devastated Nuba Mountains of central Sudan, which established the platform for expanded U.S. diplomacy for peace in the country.

USAID continues to be at the forefront of sustained international engagement to increase humanitarian access to war-affected areas in Sudan and to support the peace process. By the end of 2002, this involvement helped bring about a formal cease-fire agreement for the Nuba Mountains, a negotiated agreement for the cessation of attacks against civilians, the establishment of periods of tranquility for special humanitarian programs, and an international inquiry on slavery in Sudan. U.S. involvement also helped create a favorable environment for peace talks under the auspices of the regional Intergovernmental Authority on Development (IGAD). These peace talks produced (1) the Machakos Protocol, signed by the Government of Sudan (GOS) and the Sudan Peoples' Liberation Movement (SPLM) on July 20, 2002, which establishes an overall framework for peace, and (2) a memorandum of understanding signed in Machakos on October 15, 2002, which calls for the cessation of hostilities between the two sides and unimpeded humanitarian access throughout the

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country. The peace talks continued in May and June 2003.

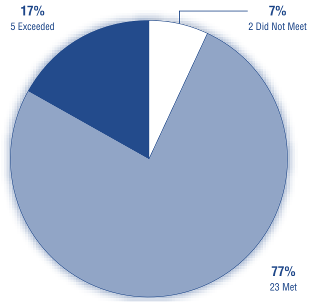
As of August 2003, the total USAID assistance to Sudan in FY 2003 was $157,323,715. This included 124,180 metric tons of Title II Emergency Food Assistance valued at $113.8 million and distributed through the World Food Program and several non-governmental organizations.[13] In FY 2003, USAID approved its new three-year strategic plan for Sudan. This $473 million strategy focuses on the areas of education, health, economic recovery, and governance and highlights USAID's approach of transitioning from relief to development in Sudan. With peace on the horizon, an active planning-for-peace process is under way involving both parties to the conflict, as well as the international community. Throughout FY 2003, USAID has been at the forefront of facilitating negotiations between donors, the SPLM, and the GOS. These donor meetings led to the development of the Joint Planning Mechanism (JPM), with the SPLM and the GOS coming together to discuss the shape of the Sudanese government after the conflict. USAID has also been actively supporting the six preinterim task forces that will transition into more permanent planning bodies once a final peace is negotiated.

Iraqi child shows humanitarian food rations.

USAID Operating Unit Performance in FY 2002

In FY 2002, 55 USAID operating unit strategic objectives aligned with the Agency's Strategic Goal 6, *lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development reestablished* (with performance illustrated in Figure L). 25 SOs were less than one year old and therefore were not required to assess performance until next year.

Figure L: FY 2002 Operating Unit SO Performance Linked to Goal 6



Goal 6: Lives Saved, Suffering Associated with Natural or Man-Made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished
Strategic Objectives Required to Report: 30

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[13] USAID/DCHA/OFDA Sudan Complex Emergency Situation Report #4, FY 2003, August 13, 2003.

Management Goal: USAID Development Goals Achieved in the Most Efficient and Effective Manner

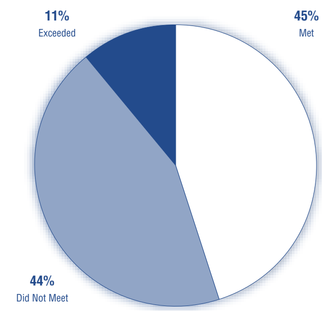
USAID's management goal provides the foundation for all of the Agency's development achievements. To achieve the best possible results in assisted countries, our business processes and management systems must utilize modern management approaches and technology. The Administrator has challenged Agency leadership to transform USAID into a smarter, faster, and more responsive foreign policy agency. The management objectives under this goal focus on the following management priorities:

- Installation of a worldwide financial management system that meets Federal accounting standards and provides the breadth of cost information to enable effective management of our programs worldwide
- Development and installation of secure information and knowledge management capability for USAID's worldwide operations
- Development of enhanced workforce planning, recruitment, and training efforts to address the decline in the number of personnel with critical expertise to fill overseas posts and to improve the effectiveness of our staff
- Improvement in our ability to procure and deliver services worldwide in a more timely manner
- Improvements in the logistical and administrative services that support Agency operations in Washington and field missions

USAID FY 2003 achievements under this goal are also reported as accomplishments under our Agency Business Transformation Initiative and under the President's Management Agenda (PMA). This information is further detailed in the section that follows, titled "Business and Management Transformation of USAID," and in the Performance Section.

Figure M provides a summary of results for FY 2003 management targets. Detailed information is provided in the Performance Section. (These results are taken from the table of Management Results for FY 2003 and are included in Appendix C.)

Figure M: FY 2002 Management Bureau Performance Linked to the Management Goal



Management Goal: USAID Management Goals Achieved in the Most Efficient and Effective Manner.
Total FY 2003 Management SOs: 18

Business and Management Transformation of USAID

In FY 2003, USAID continued to implement broad management reforms aligned with its Management goal, *"USAID's development goals achieved in the most efficient and effective manner,"* as well as the President's Management Agenda (PMA).

Business Transformation Executive Committee

The Administrator established the Business Transformation Executive Committee (BTEC) to guide transformation activities and ensure broad-based leadership, participation, and ownership throughout the Agency. Six subcommittees are chaired by BTEC members, with representatives from

Washington organizations and missions.

Meeting foreign policy and program management challenges requires a modern, flexible, and well-disciplined organization. In close alignment with the PMA, USAID is aggressively implementing an ambitious management reform program to introduce new business systems, processes, and changes to our organizational structures.

Management reforms under way include development of strategic plans for human capital and knowledge management. We will also procure new acquisition and assistance software, begin pilot testing our Phoenix financial management system overseas, and reintroduce the International Development Intern program for recruitment and training of junior Foreign Service Officers.

The BTEC oversees these management reforms in accordance with the Agency's Business Transformation Plan, structured around the following four interrelated initiatives that are consistent with the five goals in the President's Management Agenda (PMA):

- ***Strategic Management of Human Capital*** – During FY 2003, the BTEC approved the strategic objectives for USAID's human capital strategy, identified the short-term priorities, and endorsed criteria for competitive sourcing decisions. In addition, criteria were developed and applied to rationalize the deployment of Foreign Service Officers overseas. The Agency's *Development Readiness Initiative (DRI),* which parallels the State Department's *Diplomatic Readiness Initiative,* is the cornerstone of the Agency succession planning efforts. The human capital strategy will be carried out in the context of an overall "rightsizing" and a competitive sourcing plan that will improve our ability to do comprehensive workforce planning. The rightsizing effort will consider regionalizing USAID processes to perform work more efficiently. It will also address our need to have surge capacity to meet crises such as in Afghanistan and Iraq. We have also developed an electronic database (e-World) that provides current high-quality data regarding the Agency's workforce. This information allows knowledge of the number, skills, and deployment of Agency personnel to meet our future programmatic needs and to develop strategies for succession planning and leadership continuity. This accountability tool facilitates workforce planning and resource reallocation decision making.

- ***Business Systems Modernization (BSM)*** – In FY 2003, under the direction and guidance of the Administrator, USAID began the process of BSM, with the goals of increasing the speed, efficiency, program integrity, and responsiveness of management systems serving the Agency, its customers, and its partners. The BSM initiative includes three major, closely related projects:

  - **Deployment of the Agency's financial management system to the field.** In FY 2003, USAID finalized plans to deploy the *Phoenix* accounting system to our field missions. The rollout will begin with the piloting of the Phoenix financial management system in three missions (Egypt, Peru, and Ghana) in FY 2004. Following successful piloting and cutover to production, Phoenix will replace the existing Mission Accounting and Control System (MACS) worldwide by the end of FY 2005 and will be expanded for usage beyond Controllers' offices in and after 2006.

- **Deployment of a new global procurement system.** As part of our BSM reform efforts, we are evaluating, with the Department of State, the feasibility of more closely linking our procurement systems to achieve operating efficiencies.
- **Development of the Agency's enterprise architecture.** USAID began its enterprise architecture (EA) initiative in close collaboration with the Department of State (DoS) in FY 2003 as a part of the Agency's Business Systems Modernization agenda and in response to guidance from the Office of Management and Budget (OMB) and the Chief Information Officers (CIO) Council. During FY 2003, the BTEC also approved procedures for capital planning and investment control (CPIC) to ensure that we spend our information technology (IT) resources efficiently. The CPIC process has proved to be quite effective. OMB rated our FY 2005 business cases as excellent and described our CPIC process as a "best practice."

BSM directly addresses the PMA areas of expanded e-government and improved financial management. USAID is a partner on six of the President's e-government initiatives, collaborating on projects where standardization and integration of similar business processes and systems are more cost-effective.

- **Knowledge for Development** – USAID's strength derives from our rich field experience and extensive knowledge of development issues. Managing our knowledge as a critical asset allows us to improve strategy, operations, and results. This initiative directly addresses objectives for knowledge management and organizational learning in the PMA human capital initiative, as well as PMA e-government objectives for technology-enabled business transformation. During FY 2003, the BTEC approved the objectives and overall direction of USAID's Knowledge for Development strategy. Access to knowledge resources was enhanced and pilot communities of practice were initiated to facilitate knowledge sharing among groups of employees with common program interests.
- **Strategic Budgeting** – This overarching initiative includes reforms to improve the Agency's strategic planning and resource allocation process in ways that incorporate such factors as country and program performance, country need, and foreign policy priorities, while directly addressing the PMA goal for performance and budget integration. We have developed a strategic budgeting model to enable us to link

performance and resource allocation more efficiently.

The President's Management Agenda – Getting to Green

USAID has fully embraced the President's Management Agenda (PMA) since President Bush first announced it in the summer of 2001. In close coordination with the PMA, USAID is aggressively implementing its own ambitious management reform program.

Like all agencies, we started with a mostly "red" scorecard on the PMA. However, during FY 2003, we have moved to "green" on progress for all PMA initiatives except Competitive Sourcing. We will continue to work on these initiatives, as we have established specific goals and milestones to be achieved during FY 2004. Following is a discussion regarding the status of each area as of the end of FY 2003. (See Table 4 for a summary of our status and progress towards all PMA initiatives.)

Human Capital

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts, and decisions to effectively shut down recruiting in the 1990s, our workforce is stretched thin, rapidly "graying" and approaching a retirement exodus, and lacking in critical skills.

To meet these challenges, we are undertaking a comprehensive and integrated workforce planning analysis, building on competency-related work already performed by many parts of USAID to establish the basis upon which further workforce planning and general human capital strategic management can be developed. When completed, we will address skill gaps through new recruitment initiatives, training, and career development plans.

We are ramping up recruitment initiatives at entry and midcareer levels. To meet the critical need to create the 21st-century Foreign Service corps, we are undertaking a *Development Readiness Initiative (DRI)* that parallels the Department of State's *Diplomatic Readiness Initiative;* this will include the recruitment of junior officers, called International Development Interns (IDIs), to assure a regular infusion of new blood into our system. The DRI is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We are finalizing a comprehensive Human Capital Strategic Plan that will describe the specific core competencies needed by our overseas staff to make the Agency operate effectively and efficiently. In

Table 4: USAID September 30, 2003, PMA Scorecard
U.S. Agency for International Development
President's Management Agenda Scorecard

Initiative	Current Status (as of September 30, 2003)	Progress in Implementing the PMA (as of September 30, 2003)
Human Capital	RED	GREEN
Competitive Sourcing	RED	RED
Financial Performance	RED	GREEN
E-Government	RED	GREEN
Budget & Performance Integration	RED	GREEN

developing this plan, we considered the recommendations from a report by the National Policy Association that contains 25 recommendations for reforming personnel practices at USAID.

Competitive Sourcing

We have provided training for our procurement staff on performance-based contracting to focus on desired results and outcomes. We are developing comprehensive USAID Competitive Sourcing and Action Plans to achieve efficient and effective competition between public and private sources that will generate savings and performance improvements.

Financial Performance

We are very proud of USAID's progress on this PMA initiative. We achieved a green progress score for continuing progress in our collaboration with the Department of State on a shared financial management system; submitting the Performance and Accountability Report and audited financial statements in a timely manner; closing a material weakness in financial reporting; and addressing most of the audit recommendations and weaknesses from the FY 2002 GMRA audit. We are optimistic that USAID's financial management rating will continue to improve in FY 2004 and FY 2005 as our financial system is deployed worldwide.

Electronic Government

We are partners on several of the President's 25 e-Government initiatives, collaborating on projects where standardization and integration of similar business processes and systems make sense and are more cost-effective. Our efforts are directed at ensuring high-quality services for citizens while reducing the cost of delivery of these services. We are developing a joint enterprise architecture with the Department of State that will serve as a strategic management tool to identify information technology redundancies and duplications and inform decisions about program implementation and information technology investments. We have established procedures for capital planning and investment control to ensure that we spend our resources efficiently. We have greatly enhanced our computer security efforts. We are providing training for the Agency's project managers to ensure that appropriate best practices and standards are adhered to in order to reduce redundant spending and improve the return on information technology investments.

Budget and Performance Integration

The joint State/USAID Strategic Plan containing performance indicators and functional goals was vetted with our stakeholders and finalized. An overseas workforce template was developed to rationalize our Foreign Service positions in the field. We have initiated a process for verifying operating unit performance reporting during our triennial reviews of mission programs.

New Joint USAID/Department of State Strategy

In FY 2003, USAID and the Department of State worked together to prepare a joint Strategic Plan. This strategy will take effect in FY 2004 and ensure that U.S. foreign policy and development programs are fully aligned to advance the *National Security Strategy* that President Bush issued in 2002. This strategy recognizes that both diplomacy and development assistance are critical tools for building a safer, freer, and more prosperous world. The joint strategy lays out foreign policy and development assistance priorities for the FYs 2004–2009 period and promotes an organizational culture

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More than 90 percent of registered voters went to the polls in East Timor's first national election in August 2001.

within the Department of State and USAID that values effectiveness and accountability.

At an operational level, USAID and the Department of State will collaborate more closely through integrated financial management and procurement systems, ongoing work on joint enterprise architecture, shared information infrastructure, coordinated human capital strategies, and better interagency support services.

Joint USAID/State Financial Systems Integration Collaboration Project

The Department of State and USAID are working together to implement a shared financial management system for the beginning of FY 2006, as recommended by a study commissioned by DoS and USAID. The Joint Financial Management System (JFMS) will combine the State Global Financial Management System (GFMS) and USAID Phoenix system into one common financial management platform.

During the transition period to the joint platform, both State and USAID will continue deployment of their respective financial systems, in conjunction with establishment of the joint platform for FY 2006. Any redundancies will be minimized, and all investments during the interim period will be scrutinized for compliance with the joint platform.

This will result in each agency being better equipped to reach its financial performance goals for its respective projects during FY 2004 and FY 2005, while at the same time moving forward on the deployment of the collaborative system for FY 2006. The State Department's business case will reflect the impact of the State/USAID interagency collaboration project by modifying the previously submitted business case for FYs 2006–2015.

In addition, through a unique agreement with the commercial off-the-shelf (COTS) software supplier, many of the custom State/USAID features developed as part of this project have been integrated into the software for use by other Federal departments. This will reduce both State and USAID long-term maintenance costs, as well as provide other Federal agencies with these capabilities.

Joint USAID/State Enterprise Architecture

Implementation of the joint USAID/State enterprise architecture (EA) provides a rational means for accruing cost savings through the simplification and unification of information technology (IT) investments across the two agencies and among bureaus. From a business perspective, the target section of the EA is being developed with selected segments of each agency's business functions. Savings will be accrued as similar business functions currently performed separately by each agency are integrated into unified or integrated systems that are responsible for both agencies. Financial and acquisition systems are an example.

USAID, in conjunction with the State Department, met the joint EA goal of providing a joint EA plan with a modernization blueprint to the Office of Management and Budget by September 2003. USAID, in partnership with the State Department, is on track to develop a complete modernization blueprint (for all business functions) mapped to the Federal enterprise architecture by end of FY 2005.

The lines of business to be pursued following the financial management initiative will be decided by the Joint Management Council, with representatives from both USAID and State. Given the importance to, and impact on, both agencies, such decisions must be made in a senior-level forum with participation by both agencies. Our initial EA strategy is focused on the convergence of HIV/AIDS and financial management. This critical program and management system intersection addresses USAID plans to overcome a long-standing problem to report timely and accurate information.

Joint USAID/State Policy and Management Councils

The joint State/USAID Strategic Plan and its implementation is well under way and provides the opportunity for greater collaboration between the agencies on a number of policy and management issues. As part of this coordination effort, USAID has established the USAID/State Joint Management and Policy Councils, to include the implementation of joint policy recommendations into USAID operations and to explore the integration of State/USAID's annual planning processes and systems.

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; the amounts owed (Liabilities); and amounts that constitute the difference between assets and liabilities, which is the Agency's Net Financial Position or Equity.

Assets. Consistent with the prior year, Fund Balance with Treasury and Loans Receivable represent the vast majority of USAID Assets. Together, they account for 91.2 percent ($19.9 billion) of the $21.8 billion in Total Assets, as of September 30, 2003. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by about $2.3 billion (19.5 percent) from $11.9 billion to $14.2 billion during FY 2003. This increase is due to an increase in the FY 2003 appropriation for Economic Support, as well as a supplemental appropriation bill for Iraq relief and reconstruction, signed into law on April 16, 2003.

Loans Receivable, resulting from disbursement of funds under the Direct Loan Programs, totaled $5.7 billion at year-end, net of estimated write-offs due to loan defaults. This balance is $301 million, or 5 percent, lower than the preceding year's ending balance because of routine collection during the year of outstanding amounts owed.

The largest percentage change in assets from FY 2002 to FY 2003 occurred in Accounts Receivable. Intragovernmental Accounts Receivable increased by $638 million, or 128.5 percent, primarily because of the increase in Disbursing Authority Receivable from the Department of Agriculture's Commodity Credit Corporation. Net Accounts Receivable with the Public increased by $35 million, or 113.1 percent, mainly because of Credit Program Accounts Receivable activity.

Liabilities. Total USAID Liabilities amount to $9.3 billion at year-end. This amount represents an $840 million, or 9.9 percent, increase in Total Liabilities from the prior year.

Credit Program Liabilities, consisting mainly of amounts payable to the U.S. Treasury, account for most of USAID's Total Liabilities. The amount payable to the Treasury decreased by $189 million (3.2 percent) from $5.9 billion to $5.7 billion during FY 2003. The remaining Credit Program Liabilities of $1.2 billion represent the estimated liability associated with USAID's guarantees of loans made by private lending institutions. The Loan Guarantee Liability increased by $111 million (10.6 percent) from last year. To calculate this liability, USAID uses prescribed post-1991 and pre-1992 methods, both of which are prescribed by Federal regulation.

The largest percentage change in Liabilities occurred in Intragovernmental Debt, which increased by $62 million, or 372.8 percent, because of an increase in net borrowing in the Direct Loan Programs.

Net Position. USAID's Net Position or Equity totals $12.5 billion as of September 30, 2003. Most of this amount—$11.8 billion, or 94.3 percent—represents funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2003.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. The majority of costs incurred by USAID is in direct support of its programs. The Agency's indirect costs relate to general operations such as salaries, training, and support for the Office of Inspector General. Overall, costs increased by $2.1 billion, or 26.2 percent, from FY 2002. This increase is consistent with the increase in appropriated funds for additional program and operational activity.

During FY 2003, USAID made further improvements to the Statement of Net Cost. A detailed analysis of the linkage between strategic objectives and Agency goals was conducted, and several linkages were updated to reflect the current focus of program activities. This review results in a more refined depiction of costs associated with Agency goals. In addition, the Statement of Net Cost is now presented by responsibility segment. Federal financial accounting standards require that agencies define and establish responsibility segments for reporting an agency's net cost. A responsibility segment carries out a mission or conducts a major line of activity. Managers of responsibility segments usually report to the top management directly, and their resources and the results of their operations can be clearly distinguished from those of other organizational segments. USAID's functional and geographic bureaus meet the criteria of a responsibility segment. The Agency's net cost by responsibility segment is presented in Footnote 17 of the financial statements.

Following is a breakout of net cost by outcome goal for FY 2003:

Program Costs and Percentage of Costs by Outcome Goal
U.S. Agency for International Development

Outcome Goal		Net Cost (in thousands)	Percentage
Goal 1	Broad-Based Economic Growth and Agricultural Development	$ 3,702,625	37%
Goal 2	Human Capacity Built Through Education and Training	331,251	3%
Goal 3	Protect the Environment for Long-Term Sustainability	757,063	8%
Goal 4	Stabilizing World Population and Protecting Human Health	2,163,167	22%
Goal 5	Strengthen Democracy and Good Governance	972,366	10%
Goal 6	Lives Saved Through Humanitarian Assistance	2,067,093	20%
Totals		$ 9,993,565	100%

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. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations increased by $1.7 billion, or 17 percent, from FY 2002 to FY 2003. This increase is principally the result of the supplemental appropriations bill for Iraq relief and reconstruction authorizing new funding in April 2003.

Cumulative Results of Operations amounts to $714 million as of September 30, 2003, an increase of 23.5 percent from the $578 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2003, between funds available to USAID from all financing sources and the net cost of USAID programs and operations.

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. During FY 2003, USAID received more than $10.8 billion in direct appropriations, less $437 million in net appropriations transfers to other agencies. USAID obligated more than 81 percent of all available budgetary resources for the year. Among the unobligated funds, more than 93 percent are available for new programming and obligating in future years.

Appropriations received from the U.S. Treasury increased by 33 percent from FY 2002, primarily because of increased funding in the following major appropriations:

- $2 billion for the Economic Support Fund

The American Bank of Kosovo, established with the USAID mission's support, gave more than 500 loans to small businesses.

- $393 million for the Child Survival and Health Programs
- $221 million for the Development Assistance Fund
- $108 million for the International Disaster Assistance Fund

Consequently, the increase in appropriated funds also caused increases in the Obligations Incurred and Net Outlays.

Statement of Financing

The Statement of Financing reconciles net obligations reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Net obligations increased by $2.1 billion, or 26.5 percent, from FY 2002. This increase is due to increased appropriations received for FY 2003.

Limitations to the Financial Statements

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

Systems, Controls, and Legal Compliance

USAID has an aggressive management controls program, which implements the Federal Managers Financial Integrity Act (FMFIA), an internal program for reviewing management controls, identifying risks and deficiencies, and establishing corrective action plans to address the issues. There is also a strong audit management program in place, in accordance with OMB Circular A-50. This program monitors and responds to audit recommendations issued by the Office of Inspector General (OIG) and the General Accounting Office (GAO). Policies and procedures related to financial systems and controls are covered in the automated directives system (ADS) 500 and 600 series, which include management and financial and budget policies.

The Federal Financial Management Improvement Act (FFMIA) requires USAID to implement and maintain a financial management system that complies substantially with:

- Federal requirements for an integrated financial management system.

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

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

> *The current target date for substantial compliance with FFMIA is the end of FY 2005, which coincides with our worldwide deployment of the financial management system.*

Additional information regarding the status of material weaknesses and noncompliance issues, as well as the Agency's audit management and management controls program, is contained in the Financial Section.

Improper and Erroneous Payments

USAID has taken steps to review and analyze programs that might be subject to the provisions and thresholds established by the Improper Payments Information Act of 2002 (P.L. 17-300). The Agency has not identified any particular programs as being susceptible to significant erroneous payments. USAID does not have entitlement programs, but administers its programs through contracts and grants. Because the total dollar value of the Agency's grants and contracts currently exceeds $500 million, this is the basis for the program. Potential improper payments are identified through questioned costs from annual financial audits of our contractors and grantees. To determine whether USAID meets the threshold, FY 2002 data were analyzed, which revealed that out of $2 billion of grants and contracts, sustained questioned costs were less than $4 million. This is approximately 0.2 percent, which is far below the 2.5 percent threshold requirement for establishing recovery audits. The Agency does not believe that it will meet the reporting thresholds for the Improper Payments Act, but will further develop this methodology and implement a system for annual review of questioned costs from contracts and grants to verify the amounts. If either criterion for review and reporting under the Act is met, USAID will comply. In addition, Agency staff will continue to monitor recovery efforts under audits. For FY 2003, the total amount of questioned costs recovered was $3,238,966.

Discussion of Purchase and Travel Card Usage

Purchase Cards

On average, 242 employees, or 3 percent, had active purchase card accounts in FY 2003. Approximately 33 purchase card accounts were canceled in FY 2003. Approximately 79 new purchase card accounts were activated.

On average, the ratio of approving officials to cardholders is 1:6. The total dollars spent in FY 2003 using purchase cards was $9,515,791. USAID earned approximately $24,000 in total rebates in FY 2003.

There were neither disciplinary actions taken nor cases reported to the Agency Inspector General for fraudulent, improper, or unauthorized use of the purchase card. The purchase card dispute process between USAID and Citibank that is outlined in the Worldwide Purchase

Card Program Manual minimizes losses from possible erroneous payments.

Travel Cards

There are 2,542 active Individual Billed Accounts (IBA) travel cards. The USAID policy is to issue travel cards to travelers who travel two or more times a year. There are about 62 Centrally Billed Account (CBA) travel cards used to purchase airline tickets only.

USAID spent $18,887,416 in FY 2003 with travel cards. The rebates earned on travel cards equaled $53,357 in FY 2003. Monthly delinquency rates for travel cards ranged from a low of 2.9 percent to a high of 16 percent for the IBA, and from 0.004 percent to 11 percent for the CBA. There were no disciplinary actions taken during FY 2003 related to the travel card.

Colombians gather at a meeting house or cabildo *built as part of a USAID project in Villa Garzan, Department of Putumayo, Colombia.*

Introduction

A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just nor stable. Including all of the world's poor in an expanding circle of development—and opportunity—is a moral imperative and one of the top priorities of U.S. international policy.[14]

USAID is the principal U.S. agency providing foreign assistance to developing and transitional countries, spending less than one-half of 1 percent of the Federal Budget to encourage economic growth, enhance global health, mitigate conflict, promote democratic values, and provide humanitarian assistance. 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 programs worldwide are a powerful antidote to the frustration, ignorance, and despair that fuel terrorism, while helping more people worldwide develop a stake in a prosperous global economy. The USAID results summarized in this Performance and Accountability Report (PAR) directly serve U.S. national interests by promoting good governance and managing conflict across the globe, as well as erasing illiteracy and stemming the spread of infectious disease. In fact, as the President underscored repeatedly in FY 2003 with Presidential Initiatives for development, our nation's foreign policy interests are directly intertwined with efforts to eradicate HIV/AIDS and other infectious disease, increase access to education, prevent global climate change, and maintain a liberalized international economic system.

Table 5: Appropriation Summary – USAID Managed Accounts

Budget Authority (thousands of dollars)	FY 2003 Appropriated	FY 2004 Request
Development Assistance (DA)	1,379,972	1,345,000
Child Survival and Health Programs Fund (CSH)	1,824,562	1,495,000
Subtotal	**3,204,534**	**2,840,000**
International Disaster Assistance (IDA)	288,115	235,500
Transition Initiatives (TI)	49,675	55,000
Famine Fund (FF)	–	200,000
USAID Operating Expenses (OE) [Note 1]	618,545	758,400
Total USAID	**4,160,869**	**4,088,900**
Food Aid (P.L. 480, Title II)	1,440,575	1,185,000
Andean Counterdrug Initiative	248,375	259,400
Economic Support Fund (ESF)	2,280,082	2,535,000
Assistance to Eastern Europe and the Baltic States (AEEB)	521,587	435,000
Assistance for the Independent States of the Former Soviet Union (FSA)	755,060	576,000
Global AIDS Initiative	–	450,000
Total	**9,406,548**	**9,529,300**

Note 1: Includes Operating Expenses, Capital Investment Fund, and Development Credit Authority Administrative Costs

USAID Goals and Organization

This report describes USAID's work to achieve the six program goals set forth in the Agency's 2000 Strategic Plan, the Global Development Alliance, and one management goal. (Please see Table 2 for the list of USAID goals.) The Agency's Statement of Net Cost, located in the

[14] The National Security Strategy of the United States of America, September 2002, p. 21.

Program Performance

Financial Highlights section of the MD&A, provides FY 2003 financial data for these goals. In addition to reporting on the program and management goals, this report also describes USAID's progress on the President's Management Agenda.

USAID is organized both in headquarters and overseas missions to achieve its goals and priorities efficiently. As described in Appendix A, USAID headquarters bureaus represent the Agency's geographic regions and key functions, as well as three program pillars that provide technical expertise and leading-edge research for the entire Agency:

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

In addition to these program pillars, USAID's fourth pillar, the Global Development Alliance (GDA), is our new business model and applies to all USAID programs. As described below, USAID is now engaged in innovative public-private alliances across its program portfolio, in areas as diverse as environment and energy to health and housing.

FY 2003 Performance Indicators

The FY 2003 PAR reflects the President's commitment to fund development assistance based on measurable goals through the use of specific indicators and targets. USAID measures our accomplishments in three ways:

1. Operating units'(OUs')[15] progress toward their own specific strategic objective (SO) targets, rather than against expectations of performance
2. Required Agency-wide "common" indicators in key sectors: (1) health and (2) economic growth, agriculture, and trade
3. "Context" indicators that monitor development trends over time

Each year, an operating unit reports on whether its strategic objectives exceeded, met, or failed to meet targets. For FY 2003, in most goal areas, the Agency-wide target is for 85 percent of these operating unit SOs to meet or exceed targets. This is a change from reporting practice through FY 2001. In the past, the Agency has asked missions to report on whether programs have met, exceeded, or failed to meet expectations. The data for FY 2000 in the performance tables below report "expectations," rather than "targets," and are therefore not strictly comparable with data for FY 2001 and subsequent years.

In those sectors where it is feasible, notably Economic Growth, Environment, and Global Health, the Agency has selected specific indicators on which OUs are required to report; these are then "rolled up" to provide indicators for Agency accomplishments. As provided below, these indicators help track Agency-wide impact in such areas as microenterprise lending, natural resource management, and care of those with HIV/AIDS.

To help understand the overall context in which the Agency is working, the Agency also uses "context indicators" in some development sectors to illustrate overall trends. In the Democracy sector, for example, the context

[15] An operating unit is a section of USAID that has responsibility for obligating and managing funds. OUs include all country missions and many offices in USAID/Washington.

indicator is the Freedom House Index score for a given country, as described below. USAID typically does not control sufficient resources to directly affect context indicators, but is one of many stakeholders that influence outcomes. Because of this lack of direct attribution, the Agency does not set targets for context indicators.

One of the most significant reporting changes is that USAID will aggregate context and performance data to the Agency level only on programs that total $1 million or more. Countries that graduated from USAID assistance during the 1990s are added to this list, notably eight countries in Eastern Europe.[16] While we are no longer providing substantial assistance to these countries, the benefits of past work continue to accrue and are captured in the performance or context indicator tables. Lists of countries used to calculate each indicator are in the technical annex. Limiting reporting in this way captures between 75 and 90 percent of program funding and ensures that Agency reporting focuses on results in countries where significant resources exist. All programs, regardless of size, are required to report on whether they achieved their targets.

Reporting on Failure to Meet Targets

All operating units are required to report whether their programs exceeded, met, or failed to meet established targets, which are set during the planning or early implementation process in a document called the *Performance Monitoring Plan.* Missions and other OUs are regularly audited to determine whether they have developed and are using these plans. All OUs that report failure to meet targets are required to report why they failed and what they will do to address the issue.

USAID works in many countries and has many sources of data. Some of these can be reported on a U.S. fiscal year, but many cannot. Even data that can ultimately be recalculated to reflect the U.S. fiscal year are rarely available by the new reporting deadlines. As permitted in OMB Circular A-11, data will be reported when available and will be updated in the subsequent PAR. All data will have their reporting periods included in the tables below.

Organization of the Performance Report

The PAR contains six chapters that describe performance against the Agency's program goals, a seventh chapter describing the Global Development Alliance, and an eighth chapter on management achievements toward the USAID management goal. The program goal chapters each begin with a brief overview, a discussion of how this goal benefits the American public, and a description of what USAID is doing in each development sector, including a bulleted list of the Agency-level objectives that support each goal.

Each goal chapter proceeds with a summary of program costs and a discussion of performance monitoring in a particular sector, including targets for operating unit SO performance and a description of other data being monitored. For example, if relevant in the goal area,

[16] Lithuania, Latvia, Estonia, Poland, Czech Republic, Hungary, Slovak Republic, and Slovenia.

context indicators provide a perspective on recent trends. After text and tables on performance, each goal chapter concludes with illustrative examples of operating unit strategic objectives meeting targets or not meeting targets. (The complete listing and description of strategic objectives is accessible at www.USAID.gov.)

Strategic Goal 1: Broad-Based Economic Growth and Agricultural Development Encouraged

Overview

Increased trade and investment spur economic growth, which in turn benefits the poor. Effective economic governance makes trade and investment possible by establishing an environment that provides the necessary legal framework, security, and a skilled and healthy human resource base. Sound policies—and programs geared toward the microentrepreneur, community development, and small business—ensure that the poor as well as the rich can participate in, and benefit from, trade and investment. Over the long term, a growing economy is essential for reducing poverty.

Benefits to the American Public

Encouraging broad-based economic growth and agricultural development in developing and transition countries is critical to the American public. As the economies of transitional and developing nations become more open, transparent, and market-oriented, Americans and the U.S. economy as a whole benefit through increased trade and improved investment opportunities.

Economic development is the third pillar of the United States National Security Strategy. The Department of State and USAID together have established a goal of improved economic prosperity and security in a joint Strategic Plan. As the Plan states, "The United States needs a stable, resilient, and growing world economy to secure prosperity at home and abroad. As the world's largest economy and trading nation, total U.S. trade is equivalent to about one-quarter of our nation's income. Over the past decade, exports accounted for one-quarter of our economic growth. One out of every three acres of our farmland is devoted to exports, as is one out of five jobs in manufacturing. U.S. firms and households have more than $6 trillion invested abroad." The security and prosperity of the United States are enhanced when developing countries grow and become more stable.

What USAID Is Doing to Enhance Economic Growth and Agricultural Development

Through this Agency goal, USAID is dedicated to reducing poverty and promoting prosperity in developing and transition countries. USAID programs are designed to raise incomes, end hunger, protect the environment, and equip institutions and people with the knowledge and skills to build equitable, stable, and sustainable economies and societies.

USAID supports broad-based economic growth and agricultural development through programs directed at three Agency-level objectives to:

- Expand and strengthen critical private markets
- Enhance agricultural development and encourage food security
- Expand and make more equitable access to economic opportunity for the rural and urban poor

USAID's agriculture programs address the challenge of increasing developing-country food production, raising agricultural productivity, and promoting sound management of the natural resource base necessary for agriculture. "Agriculture" includes all activities relating to farming, fishing/aquaculture, livestock production, and forestry, as well as the marketing and processing activities that are required before the products reach the consumer.

The Agency's poverty reduction programs address the needs, capabilities, and vulnerabilities of the poor and contribute to the Millennium Development Goal of halving extreme poverty by 2015.

Program Costs

In FY 2002, USAID incurred net costs of more than $2.88 billion in economic growth and agriculture programs.

Tracking Performance in Economic Growth

USAID uses a combination of strategic objective performance indicators and context indicators for measuring performance under this Agency goal, as described below.

Context Indicator: Per Capita Economic Growth Rate

USAID uses a context indicator to measure per capita economic growth rates in USAID-assisted countries. The target is for economic growth in these countries to exceed population growth by at least 1 percent. The number of countries meeting the target increased from 24 in the early 1990s to 40 by the end of the decade. During the same period, the number of countries with slow or negative growth fell from 40 to 24 (as is shown in Table 6). This shows that countries with substantial USAID economic growth programs have made significant progress in increasing per capita gross domestic product over the past 10 years.

Table 6: Context Indicator: Average Annual Gross Domestic Product Growth Rate per Capita

Countries Reporting

Category	1988-1992	1991-1995	1994-1998	1997-2000	1999-2002
5% or More	1	5	11	8	12
1%-4.99%	14	19	31	32	33
0%-0.99%	5	9	9	9	8
Negative	38	31	13	15	8
Data Not Available	6	1	0	0	1

Note: Data reflect only countries with significant USAID economic growth programs or those that graduated from USAID assistance during the 1990s. No GDP data are available for Kosovo, Montenegro, West Bank/Gaza, and Liberia. The Average Annual Gross Domestic Product growth rate introduces some distortion into the analysis of overall country economic status, but it is the most widely available and commonly used indicator to measure economic growth. FY 2000 is used as the base year for comparison.

Sources: International Monetary Fund, *World Economic Outlook* (GDP annual growth rates); World Bank, *World Development Indicators* (population). Average annual rates for GDP and population growth are calculated using the geometric mean, based on end points, and are four-year rolling averages.

Data Quality: USAID is not required to confirm the quality of data collected by other agencies.

Context Indicator: Economic Freedom Scores

USAID also tracks Economic Freedom to gauge the impact of our economic growth (EG) programs that focus heavily on policy reforms. If only the worst case—that of "repressed" countries—is examined, Table 7 documents a shift away from repression (10 countries in 1998, 4 in 2003) toward "mostly unfree" (24 in 1998, 30 in 2003). Much of this progress has been made in the eight Eastern European countries that have graduated from USAID assistance. Many of them are on their way to full membership in the European Union. However, backsliding remains a problem. The

Table 7: Context Indicator: Index of Economic Freedom Scores Countries with at Least $1 Million in FY 2000 In Any EG Agency SO (1.1)

Number of Countries

Category	1998	2001	2002	2003
Repressed (score 4.0-5.0)	10	5	4	4
Mostly Unfree (score 3.0-3.95)	24	26	29	30
Mostly Free (score 2.0-2.95)	12	15	14	12
Free (score 1.0-1.95)	0	0	1	1
Data Not Available	2	2	0	2

Note: Data reflect only countries with significant USAID economic policy reform programs or that have graduated from USAID assistance during the 1990s. Reliable data were not collected for all countries prior to 1998. FY 2000 was used as a base year for country selection.

Source: Heritage Foundation, Index of Economic Freedom.

Data Quality: See Appendix B.

number of "mostly free" countries has varied from year to year.

Economic Growth Agency-Level Objective 1: Critical Private Markets Expanded and Strengthened

USAID supports the adoption of economic policies that stimulate private markets and growth. Most funding in this area is allocated to Eastern Europe and Eurasia. Egypt and a few other countries also have programs exceeding $1 million per year.

In Africa, USAID is promoting harmonization of trade and customs policies, more transparent and efficient finance and investment environments, and business linkages. Under our Trade for African Development and Enterprise Initiative, USAID mobilized a coalition of U.S. and host-country partners to build trade capacity in the recipient countries.

In the Near East, USAID increased attention to legal and regulatory reform programs that foster competition and business investment. In East Asia, the Agency focused on work to liberalize international trade, improve economic governance, increase competition, eliminate restraints on foreign and domestic investment, improve financial-sector performance, and privatize infrastructure.

In Latin America and the Caribbean, USAID has been working through several crosscutting initiatives, including the Opportunity Alliance, the Andean Regional Initiative, and the Third Border Initiative, all of which support establishment of a free trade area for the Americas by July 2005.

Strategic Objective Performance

In FY 2002, USAID's target for operating unit strategic objectives to expand critical private markets was for at least 90 percent to meet or exceed their planned targets for the year and for one-third to exceed their targets. Exceeding targets entails such significant results as helping a country pass a new privatization law or adopt new prudential regulations in the financial system.

As Table 8 shows, 91 operating unit strategic objectives focused on strengthening private markets. Of these, 58 met their targets, 8 SOs exceeded their targets, and 25 were not required to report. None failed to meet their targets. However, only approximately 10 percent of individual operating unit strategic objectives exceeded their targets, which is below the one-third target. In addition, 73 percent of total operating unit SOs met or exceeded their targets, below the 90 percent target because of the large percentage of new SOs that were not required to report.

Table 8: Performance Indicator: Percentage of Private Market SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	19%	10%	10%	9%
Met	64%	70%	63%	64%
Not Met	17%	13%	11%	0%
Not Required to Report	1%	6%	16%	27%
Number of SOs	67	67	62	91

Source: USAID missions, Annual Reports. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for Government Performance and Results Act (GPRA) documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Illustrative Example of a Strategic Objective That Exceeded Its Target

The SO *"Growth of a Competitive Private Sector in Armenia"* exceeded expectations in FY 2002 as tax reform, banking-sector reforms, and enterprise development achieved notable success. Activities under this SO improved Armenia's macroeconomic situation by strengthening the legal and regulatory environment that encourages both foreign direct investment and the growth of local businesses in Armenia. Major accomplishments included:

- USAID provided technical assistance for legislation that led to Armenia's accession to the World Trade Organization (WTO) in December 2002.
- There was an almost two-percentage-point increase in tax revenues as a share of gross domestic product (GDP): tax revenues as a percentage of GDP recently increased from 14.36 percent to 16.31 percent in FY 2002. This increase was especially significant in terms of actual collections, as GDP rose by more than 9 percent during the year.
- With USAID assistance, Armenia has shown remarkable performance in demonstrating compliance with international banking standards. Seventy-two percent of Armenian banks were in compliance with the Basel Core Principles, far exceeding the target of 66 percent.
- Small and medium enterprises (SMEs) receiving USAID assistance increased total value of sales by $8.7 million, more than double the target of $4 million. This increase represents an almost 14 percent annual increase in total client SME sales.

Strategic Objectives That Did Not Meet Targets

There were no operating unit strategic objectives under the Agency-level private markets objective that did not meet their targets.

Future Challenges

For FY 2003, the mix of market-strengthening programs changed somewhat. We have requested additional resources to address trade capacity building as part of the USG commitments made at the Doha meeting of the World Trade Organization.

Economic Growth Agency-Level Objective 2: Agricultural Development Enhanced and Food Security Encouraged

If developing countries are to reduce hunger over the next 20 years in a meaningful way, farmers—both men and women—will have to more than double the productivity of their land, labor, and water resources without further encroaching on marginal land.

At the same time, trade globalization will require these same farmers to become more competitive in marketing what they produce. The need to double productivity and compete globally will require countries to institute market-based policies while developing the institutions, infrastructure, and rural finance systems to ensure that farmers have access to the necessary technologies and the incentive to use them.

To meet this huge challenge, USAID is revitalizing its agricultural programs and encouraging public and private donors and development partners to do the same. Increased agricultural funding will also help offset the reduction in food monetization permitted under Public Law (P.L.) 480, Title II Food For Peace programs. USAID uses four priority approaches to agricultural development:

1. Developing science-based agricultural solutions, including accelerating the use of biotechnology to reduce poverty and hunger
2. Developing global and local trade opportunities for farmers and rural industries
3. Increasing knowledge at the local level through training, outreach, and adaptive research
4. Promoting sustainable agriculture and sound environmental management

Tracking Performance in Agriculture

For FY 2002, USAID had three targets for increasing agricultural production and improving food security:

- At least 90 percent of strategic objectives in this area will meet or exceed their targets for the year. This includes country targets related to agricultural production and marketing.
- At least one-third of the strategic objectives will achieve a significant result. This includes such achievements as introducing new crop varieties, strengthening extension services, and promoting agricultural cooperatives and other farmer groups.
- While individual operating units track different indicators based on their specific agriculture programs, the Agency tracks trends in net per capita agricultural production. This indicator tells whether gains in agricultural production are keeping up with the rate of population growth, and it is an important way to track both food availability per person and development of excess production to increase savings and investment.

Performance Indicator: Percentage of Operating Unit Strategic Objectives Meeting Targets

In FY 2002, USAID's general target for increasing agricultural production and improving food security was for at least 90 percent of operating unit agriculture SOs to meet or exceed their targets and for at least one-third of all agriculture SOs to exceed their targets. As indicated in Table 9, in FY 2002, USAID did not meet these targets.

Agency-wide in FY 2002, 28 operating unit strategic objectives focused on agricultural development and enhanced food security. Of these, 16 met targets, 1 exceeded targets, 3 did not meet their targets for the year, and 8 were not required to report. The overall percentage of USAID SOs in the agriculture sector meeting or exceeding their targets decreased from 64 percent to 61 percent, below the 90 percent target. In addition, only 4 percent of the SOs exceeded their targets, below the goal of one-third.

Table 9: Performance Indicator: Percentage of Agriculture SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	38%	20%	9%	4%
Met	54%	63%	55%	57%
Not Met	5%	5%	30%	11%
Not Required to Report	3%	12%	6%	29%
Number of SOs	30	30	33	28

Source: USAID missions, Annual Reports. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Context Indicator: Net per Capita Agricultural Production

USAID also uses a context indicator to track the performance of countries with at least $1 million in USAID agriculture programming. Table 10 summarizes performance against this indicator:

USAID was not particularly active in the agriculture sector through most of the 1990s. The fact that a majority of the countries where we are currently working have negative per capita agricultural production growth rates demonstrates the need for the Agency to once again focus on this important sector. Despite this, and as shown above, many countries, particularly in Eastern Europe, increased their agricultural performance. Where 24 countries experienced negative growth in 1989–1993, this was cut by a third by 1998–2001. The number of countries in the 1 to 4.99 percent annual growth rate doubled in the same period. Despite these improvements, many countries continue to lag behind.

Table 10: Context Indicator: Average Annual Agricultural Production Growth per Capita Countries with at Least $1 Million in FY 2000 in Agency SOs (1.2)

Category	FY 1999	FY 2000	FY 2001	FY 2002
5% or More	2	7	3	2
1%–4.99%	6	9	16	12
0%–0.99%	4	6	7	7
Negative	24	16	13	16
Data Not Available	3	1	0	4

Note: Table reflects only countries with USAID agricultural programs exceeding $1 million in FY 2000. FY 2000 is used as the base year for comparison.

Source: World Bank, *World Development Indicators.* Average annual rates for agriculture and population growth are calculated using the geometric mean, based on end points, and are four-year rolling averages.

Data Quality: See Appendix B.

Strategic Objective That Exceeded Its Target

USAID/Nepal exceeded all indicators for its strategic objective *"Increased Sustainable Production and Sales of Forest and High-Value Agricultural Products in Nepal."* The aim of this SO is to improve the living standards of Nepalese small farmers by helping them increase yields and rates of farm and forest products. Two illustrative accomplishments included:

- A significant increase in the number of households producing forest and high-value agricultural products—a total of 338,000 households. This exceeded the target of 300,000 households and is significantly greater than the 272,000 households involved at the end of the prior year.
- Sales of products increased to $47 million, well above the target of $37 million and the prior year's achievement of

$39.51 million. Furthermore, annual production of forest and high-value agricultural commodities grew substantially to 335,599 metric tons—nearly double the original program target of 170,000 metric tons.

Illustrative Examples of Strategic Objectives That Did Not Meet Targets

USAID's strategic objective, *"Increased Income of Enterprises, Primarily Rural, with Emphasis on Exports in Eritrea,"* did not meet its expectations. In FY 2002, the intended purpose of this SO was to expand rural incomes and employment. Principal beneficiaries include (1) businesspeople who receive technical assistance and credit financing; (2) customers who benefit from a wider range of goods and services offered; and (3) the nation as a whole, which benefits through earning hard currency from exports.

Despite the assessment of having missed its overall targets, there were several positive outcomes in this challenging, conflict-prone nation. For example, USAID's program was instrumental in advancing economic recovery in the two most important agricultural regions of the country. In fact, USAID's rural enterprise program has been the only donor assistance effort to provide credit to SMEs in war-affected areas. In addition, USAID made a significant contribution to facilitating a new role for private voluntary organizations (PVOs) in Eritrea's economic development. Finally, with a loan repayment rate approaching 100 percent for the overall portfolio, the SMEs are showing good progress in generating income and employment.

However, this strategic objective did not meet expectations for the following reasons. At a macroeconomic level, postponed demobilization slowed the economic recovery. In addition, delays in securing the return to the Commercial Bank of Eritrea (CBER) of trained loan officers further postponed the long-awaited improvement in the Bank's financial services. At 550 to 1, the number of loans handled by each loan officer remained excessive, with this overload having obvious negative implications for the quality of financial oversight and reporting. Moreover, the CBER's noncompetitive salary structure continued to discourage staff initiative and inhibit the recruitment of new staff.

USAID has taken steps to rectify the controllable causes that contributed to this strategic objective not meeting its targets. The Rural Enterprise Unit (REU), for example, has begun implementing a revised, more competitive, salary structure for its staff. The REU has also prepared subsector studies with the assistance of voluntary experts, as well as doubling the enterprise investment loan ceiling per enterprise. Finally, USAID has made changes to the strategic objective itself and developed the new Integrated Strategic Plan (ISP) through 2007, based on the lessons learned from a formal assessment of the program.

USAID's strategic objective, *"Reduced Illicit Coca Production in Targeted Areas of Peru,"* did not meet its intended targets for the fiscal year, although the Agency's Alternative Development Program (ADP) assisted the Government of Peru's (GOP's) coca eradication efforts. USAID's ADP led to the eradication of almost 1,000 hectares of coca of the 7,000-hectare eradication target. However, new coca planting surpassed the rate of eradication, and net coca production in Peru rose.

The recent limited impact of coca reduction efforts can be largely attributed to factors external to the ADP: coca leaf prices reached an historical high; coca growers' *("cocalero")* associations organized strong and often violent opposition to eradication and alternative development activities; prices of important traditional licit crops fell below their production costs; and the GOP´s newly formed coordinating counternarcotics agency struggled to reorganize and reorient its activities to take on new institutional roles.

The adverse social climate in some ADP areas prompted the early termination of a major implementing mechanism that supported economic activities. Planning and coordination mechanisms have been reviewed and adjusted to allow more flexibility and a more rapid response to a changing environment. USAID has also modified its internal management structure at the mission. The program will be managed as a task force, and a U.S. contractor will provide technical and coordination support.

Economic Growth Agency-Level Objective 3: Access to Economic Opportunity for the Rural and Urban Poor Expanded and Made More Equitable

USAID works to reduce poverty by providing economic opportunities to the poor, women, and the disadvantaged. The Agency's poverty alleviation efforts use a two-fold strategy. At the national level, USAID focuses on appropriate macroeconomic policies to energize trade and foreign exchange earnings and on legal and regulatory reform to improve the economic environment for small and microenterprises. At the local level, USAID provides assistance to stimulate microenterprise growth. USAID support for microenterprise development includes the provision of financial services and business development assistance to microentrepreneurs and poor farming households.

Millions of poor households around the world participate in small businesses to earn income that pays for basic family expenses—food, clothing, shelter, education, and medicine. Other households use informal business activities to generate needed income during times of crisis and economic distress. In addition, many farming households use microenterprises to balance income flow and reduce risk.

USAID has three major approaches to improving economic opportunity:

- Providing financial and business development services for microentrepreneurs
- Supporting legal and regulatory reform to improve the small-business environment
- Providing management and financial support to financial institutions to expand their willingness and capacity to make small loans

Microenterprise programs are among the most widespread of all USAID programs. USAID implements microenterprise activities across all four of USAID's geographic regions. In each country, however, USAID designs and implements specific microenterprise program activities based on the local financial environment.

Tracking Performance in Microenterprise and Increased Economic Opportunity Programs

In addition to tracking the performance of operating unit strategic objectives, USAID also collects data on specific aspects of microenterprise lending, such as number and volume of loans, loan recipients, and repayment rates (as described below).

In FY 2002, USAID's targets for operating unit strategic objectives to increase access to economic opportunity through microenterprise programs were for at least 90 percent of reported strategic objectives to meet or exceed targets and for at least one-third of strategic objectives to achieve a significant result.

Table 11 indicates that the Agency did not meet its intended targets for the fiscal year under this Agency-level objective. In FY 2002, 52 operating unit strategic objectives focused on increasing economic opportunity for the rural poor. Of these, 20 met their targets, 12 exceeded targets, and 7 failed to meet targets, while 13 were not required to report. Thus, 62 percent of these strategic objectives either met or exceeded their targets, while 23 percent of the microenterprise SOs exceeded their targets.

Table 11: Performance Indicator: Percentage of Increased Economic Opportunity SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	18%	12%	22%	23%
Met	72%	69%	59%	38%
Not Met	3%	2%	5%	13%
Not Required to Report	1%	3%	14%	25%
Number of SOs	26	26	37	52

Source: USAID missions, Annual Reports. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Table 12: Annual Microenterprise Results

Calendar Year	1998	1999	2000	2001	2002
Microenterprise Funding (Millions US$)	136.2	153.5	164.4	153.6	170.3
Active Number of Loans (000)	3,559	2,020	2,164	3,400	3,200
Percentage of Loans Made to Women	84	69	70	71	69
Repayment Rate (%)	95.3	95.2	93.7	93.3	96.0

Source: Annual Microenterprise Results Report.

Data Quality: USAID annually surveys financial institutions making microenterprise loans with USAID technical and financial assistance. These institutions report to USAID on the characteristics of their portfolios. The Agency does not have resources to cross-check all data, but the consistency across the years lends face validity. Because financial institutions report on a calendar-year basis, the figures above refer to the respective calendar years, not fiscal years.

Performance Indicator: Microfinance Results by Volume, Number of Loans, Percentage of Loans Made to Women, and Repayment Rate

USAID uses common indicators for microenterprise programs across the Agency, as illustrated in Table 12.

In FY 2002, USAID contributed $170.3 million to microenterprise development, a 10 percent increase over the previous year. The repayment rate for loans also continues to rise.

Illustrative Example of a Strategic Objective That Exceeded Its Target

USAID's strategic objective, *"Sustainable Increased Income for the Poor in Haiti,"* exceeded its targets. During FY 2002, USAID continued to build strong microfinance institutions (MFIs), whose portfolios and client base of small- and microentrepreneurs grew even as Haiti's economy shrank by an estimated 2 percent. Outstanding microcredit loans jumped to almost 70,000. The number of "Tier-One" MFIs—those seen as having the potential to move to operating and financial self-sustainability within the next two to three years—recently grew from five to seven. In addition, the number of clients with loans outstanding to Tier-One MFIs increased by 71 percent, from 22,740 to 38,844.

USAID's Microenterprise Capitalization Fund now supports 11 MFIs with lending capital, collateral for leveraging credit from commercial banks, and funding for institutional reinforcement and special initiatives. Also, in FY 2002, our Small and Medium Enterprise Guarantee Fund guaranteed 12 commercial bank loans worth $1.7 million, mostly in agribusiness.

Consider the MFI success story of Petiel Delezil, who lives in Baradères, a small coastal town on Haiti's southern peninsula. As with so many other Haitians, he migrated to the capital, Port-au-Prince, hoping to find work, but there was little to be found. So, with the meager savings of relatives, Petiel and a cousin opened a *"quincaillerie,"* a small shop selling batteries, razors, small electrical appliances, and the like. By the time they came to ACME *(Association pour la Cooperation avec la Micro Enterprise)* for the first time in September 1997, they had managed to accumulate a working capital of 10,000 gourdes (about $600 at the time), and they received a loan of an additional 5,000 gourdes. After repaying their loan fully and on time, Petiel came back to ACME, a USAID-supported microfinance institution, for a second loan, this time to strike out on his own. Today he is in the same business, but now acts as a wholesaler selling to small "traveling salesmen" who retail throughout the Haitian countryside. He employs two people and has a working capital of 100,000 gourdes (today more than $3,000). But Petiel is not through expanding: he just signed his seventh loan with ACME, for 40,000 gourdes.

Illustrative Example of a Strategic Objective That Did Not Meet Its Target

USAID's strategic objective, *"Access to Economic Opportunities for Disadvantaged Groups in Zimbabwe,"* did not meet its expectations. In FY 2002, the SO did not meet its targets during the first complete year of operation because of Zimbabwe's deteriorating political, economic, and social environment. While more than 67,000 tangible economic opportunities were created for targeted beneficiaries, including access to appropriate low-cost production technologies and legal services aimed at protecting assets for HIV/AIDS-affected groups, this represents only about a third of the target. Nonetheless, for many of those people the program was able to reach, it made the difference between dignified income-generating opportunities and destitution. In food-scarce Zimbabwe, this can mean the difference between life and death.

The program achieved good results in a rapidly worsening and increasingly difficult macroeconomic and social environment. This required a shift in focus from the microentrepreneur to the household, in an effort to deliver more direct, timely, and tangible benefits to an increasingly desperate target population. "Food security with income" became the core theme of the program. The targets will be reset for 2003 in light of what is realistically achievable in the macroeconomic environment.

The program's operating environment dramatically worsened in 2002 and promises to continue declining in 2003. The official inflation rate increased from 86 percent in October 2001 to 175 percent by the end of 2002. Local economists project real inflation at approximately 300 percent for the same period and estimate that it will exceed 500 percent in 2003. The Z$/US$ parallel foreign exchange rate, which handled 80 percent of all commercial transactions, deteriorated by 500 percent, sliding from Z$320 to reach approximately Z$1,600 during the last quarter of 2002. While data are not yet available for this year, initial indications are that a significant percentage of businesses are operating at below 30 percent of maximum capacity or have closed this year as a result of the economic collapse. The impact has been devastating on the program's targeted beneficiaries, who are less able than established businesses to withstand economic shocks.

As a result of a high level of political instability, particularly during the pre- and post-presidential election period (March 2002), access to targeted groups in rural areas by most of our partners was severely curtailed. Consequently, some activities were postponed. This situation will likely persist into 2003. Given the program's substantial accomplishments in 2002, experience has shown that the established targets were unrealistically high. The targets will be adjusted downward, taking into consideration the deteriorating operating environment and shortage of economic growth funds for FY 2003 to implement the program.

Strategic Goal 2: Human Capacity Built Through Education and Training

Overview

Many developing countries and communities face staggering challenges: how to achieve economic growth, good governance, poverty reduction, and broad social welfare without an educated population? How to foster dynamic economic development without an appropriately skilled workforce? How to create jobs for vast numbers of unemployed and underemployed youth who lack relevant education and training? And how can developing countries educate and train their citizens while HIV/AIDS and conflict continue to ravage their people, institutions, and communities?

To help meet these complex needs, USAID continues to emphasize basic education, but is also strategically targeting assistance where the social return-on-investment in education and training can be greatest. USAID's focus is to promote the development of education policy, strengthen systems, and expand capacity in order to increase opportunities for all citizens to acquire the skills they need to participate successfully in economic, political, and social life.

Benefits to the American Public

The United States and American people benefit by supporting access to quality education globally. Literate and skilled citizens contribute to the growth of their economies and civil society, as well as to nation building and prosperity, which in turn contribute to a safer and more stable global community. While some of the social and personal benefits of education and training are immediate, others continue to accrue for years; still others—as with the education of girls and women—

create positive impacts on health, literacy, and productivity that transcend generations. Education supports empowerment and helps curb corruption—two critical dimensions to developing responsible citizens, participatory governance, and democratic societies and—by extension—to resolving cross-national disputes diplomatically. In contrast, failure to meet educational needs contributes to ignorance, economic decline, and political instability.

USAID's basic education support at the preschool, school-aged, and adult levels provides the skills necessary to meet life-long learning needs. This capacity is critical in an integrated world community where knowledge doubles every few months and in a global economy where new businesses and the need for expanded skills are constantly emerging. Further, a qualified global workforce with the income to purchase U.S.-made products is especially important for American business.

In addition to basic education, USAID supports advanced skills training and higher education to help developing countries become competitive in the global marketplace; to offset the ravages of war, disease, and famine on their workforce; and to help recipient countries graduate from development assistance. At the same time, the many partnerships between U.S. and host-country universities bring many benefits to our own country. These partnerships serve to further the internationalization of U.S. universities, to the advantage of American students and researchers. U.S.-based training of developing-country participants also benefits the American society and economy: having a cadre of U.S.-trained leaders in developing-country governments, private sector, academia, and NGOs who are fluent in English and experienced in dealing with Americans facilitates U.S. trade and investment, as well as U.S. diplomacy and development efforts. These U.S.-trained professionals become friends, customers for U.S. products, and partners in the international arena.

What USAID Is Doing in Education and Training

USAID provides education and training to developing and transition countries through programs aligned with two Agency-level objectives to:

- Expand access to quality basic education[17] for underserved populations, especially for girls and women
- Increase the contribution of institutions of higher education to sustainable development

Basic Education, which provides literacy and numeracy, along with problem solving and other core skills, is especially critical to development. Investments in expanded and improved basic education have been linked to faster and more equitable economic growth, progress in reducing poverty, lower birth rates, and stronger support for democracy and civil liberties. In addition, expanded and improved basic education of girls and women contributes to enhanced family health, lower fertility, and the enhanced status of women. Where basic education rates are low, investments to broaden access and

[17] Basic education includes preprimary, primary, and secondary education; adult literacy programs; and training for teachers working at any of these levels.

improve basic education quality at all levels yield demonstrably high returns.

USAID's basic education activities strengthen education policies, capacity, data, country commitment, transparency, and performance. These activities result in outcomes at a systemic level, including district, provincial, and ministry education administration. This includes early childhood development, primary and secondary schools, literacy and numeracy programs for all age groups, and community support for schools.

Higher Education programs support economic growth by helping countries produce a trained workforce and increase institutional capacity. These programs develop skills needed for careers in sectors such as education, business, governance, management, administration, agriculture, and science and technology research that contribute to sustainable development. To leverage USAID's limited resources, higher education activities support institutional partnerships that extend beyond USAID-funded projects.

Workforce and Youth. For a nation to compete successfully in the global marketplace, workers' skills must match employers' needs. USAID's workforce and youth development activities engage communities, learners, and the private sector through school-to-business and community development programs to better align the needs and contributions of each. These USAID-funded programs help youth and adults to acquire the knowledge, skills, and behavior to find work and stay employed in a changing economy.

Training. Each year, USAID trains several hundred thousand people worldwide through targeted training programs that address multiple development challenges and USAID program sectors. In addition to transferring knowledge and skills, these training programs improve employees' on-the-job performance, thus building the capacity of the employer institution. This enables USAID's local partner institutions to contribute more to their own nations' development and to support the sustainability of USAID programs in health and infectious disease, judicial reform and rule of law, environmental quality, waste management, energy, disaster mitigation and management, journalism and media, legislative procedures, and other development sectors.

Program Costs

In FY 2002, USAID incurred net costs of $804.5 million in programs to improve education.

Tracking Performance in Education and Training

USAID uses both performance indicators and context indicators to track the progress of Agency programs in education and training. In addition, the Agency tracks data on girls' education and on school retention rates up to grade five, as described below.

Strategic Objective Performance

USAID's target for education and training performance in FY 2002 was for 85 percent of strategic objectives to meet or exceed their targets for the year, with no more than 10 percent failing to meet targets. Strategic objectives that have been in place for less than one year are not required to report.

Table 13: Performance Indicator: Percentage of Education and Training SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	22%	30%	12%	7%
Met	66%	64%	65%	58%
Not Met	3%	3%	5%	0%
Not Required to Report	9%	3%	18%	35%
Number of SOs	33	33	43	43

Source: USAID missions, *Annual Reports*.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

In FY 2002, 43 operating unit strategic objectives Agency-wide aligned with the education goal. Table 13 summarizes operating unit strategic objective performance for FY 2002. One hundred percent of reporting SOs met or exceeded their targets. Because of the Agency's reemphasis on education programming in FY 2002, 35 percent of the SOs Agency-wide under the education goal were new and therefore were not required to report in the first year. These new SOs are expected to meet targets when they report, and USAID is increasing its efforts to assist operating units in performance management and reporting, especially in the core issue of educational data and indicators. This challenge is particularly acute in developing countries, where statistics and data on enrollment and retention are often unavailable or of low quality.

Girls' Education and School Retention Data

Other education statistics reveal progress over a longer time span. For example, in countries with basic education programs, the number of girls enrolled as a percentage of the total number of girls of school age (gross enrollment rate for girls) has risen from a baseline of 70 percent in 1980, to 74 percent in 1990, to 84 percent in 1998. In addition, school retention to grade 5 in USAID basic education countries rose to 66 percent in FY 2002, up from 61 percent in FY 2001 and meeting our target.

Illustrative Results

Basic Education

In Morocco, USAID's education SO, *"Increased Attainment of Basic Education among Girls in Selected Rural Provinces,"* exceeded targets. In FY 2002, USAID successfully launched Phase II of a key educational program under the strategic objective (i.e., national adoption of Agency-developed training guides to increase rural girls'—and boys'—participation in basic education). The exponential increase from 12,470 to 469,906 children (215,973 girls and 253,933 boys) enrolled in USAID-affected schools attests to the enhanced diffusion of work that had been undertaken in selected provinces during Phase I. Furthermore, in the five provinces served by USAID thus far, girls' enrollment in the sixth grade has increased dramatically from 16 percent in 1994 to 43 percent in FY 2002, six percentage points above the national rural average of 37 percent.

A number of factors contributed to this success, including continued political will for education reform and implementation of the National Charter for Education and Training. USAID has succeeded in building strong ties with Morocco's Ministry of National Education (MNE), considered a difficult counterpart by other donors. USAID used a participatory approach with the MNE, both in evaluating Phase I and developing priorities for Phase II; as a result, USAID significantly increased the Ministry's buy-in and support for these education activities.

At the local level in Morocco, USAID achieved a significant program achievement through building Parent/Teacher Association capacity to manage local microprojects. This effort focused on assisting local PTAs to identify needs and priorities and to develop action plans for achieving them—while at the same time building the PTAs' organizational skills. The success of these PTA-generated microprojects demonstrated an important lesson for sequencing activities beyond the pilot schools: the microprojects indicated that communities' essential interests begin with tangible school infrastructure concerns; subsequently, as the PTAs develop greater organizational capacity and confidence, they turn to instructional quality issues.

For example, consider Saïda, a young woman in Zaouia Sidi Msaad, a small, remote—and shrinking—village. Before the USAID project, the local PTA existed on paper only until Saïda decided to revitalize it and improve the village school. For Saïda, who was forced to drop out of secondary school, the village school became her mission. With USAID assistance, Saïda participated in training workshops on PTA leadership. She applied these skills in the PTA and has opened a literacy course for women in her village. Saïda is part of an emerging and increasingly confident group of rural Moroccan women who are aware of the vital role they can play to improve their communities. Today, all 33 USAID pilot schools in Morocco have active PTAs, and the lessons learned are being used to develop a national training program for PTA and school personnel training.

In Namibia, USAID made exceptional progress across the strategic objective, *"Improved Delivery of Quality Primary Education to Namibian Learners in Grades 1–4 in the Most Disadvantaged Schools."* USAID achieved substantive results in the following priority areas: the SO's information and communications technology and HIV/AIDS initiatives, as well as instructional leadership, school management, and community participation in school improvement. Each demonstrated visible outcomes, innovative ideas, and lessons learned for future support. The mission attributed the significant FY 2002 progress to continued strong commitment and performance from USAID's counterparts in the Ministry of Basic Education, Sport, and Culture, ranging from political leaders to Ministry staff.

Support for strengthening the Ministry's instructional systems is taking hold. New and better teaching practices are visible in Namibian classrooms: a majority of the teachers in 62 percent of schools (against a target of 50 percent) demonstrated mastery of continuous assessment techniques. USAID-financed programs at both the school and regional level led to this SO-level indicator result.

Also in Namibia, USAID has stepped up its financial support to counter the devastating impact of HIV/AIDS on the country's education system. In collaboration with the Ministry and other donors, USAID supported an impact assessment of HIV/AIDS in the education sector. The alarming results, which were made available nationally, provided education administrators with data on the urgent need to address HIV/AIDS, or the entire education system could face collapse. As an immediate response to the findings, the Cabinet approved and established a permanent HIV/AIDS unit to serve government-wide. USAID also supported a revised five-year strategy for prioritizing the Ministry's response to the pandemic. In addition, USAID funded Namibia's first HIV/AIDS website competition, which involved schools around the country. The websites speak creatively to youth about the threat of HIV/AIDS and the many issues that surround the pandemic.

Presidential Initiatives

President Bush has actively supported USAID assistance in the education sector with separate initiatives in Latin America and the Caribbean, sub-Saharan Africa, and Iraq, Afghanistan, and Pakistan. In total, the dollar value of these different initiatives exceeds $350 million.

Each initiative is designed to improve the quality of basic education instruction through use of modern teaching methods and materials and to reduce the unmet education needs of specific groups. The Latin American effort focuses on teacher training. The African and Middle East initiatives provide scholarship programs for underserved populations, especially girls.

USAID has made significant progress in the Presidential Summit Initiative, creating *Centers of Excellence for Teacher Training (CETTs)* in Peru, Honduras, and Jamaica to train in-service teachers to improve reading instruction in the early grade levels. Curricula are being designed, and teachers have started training in all three countries. USAID has also established CETT partnerships to raise funds and increase financial sustainability. At the same time, USAID's successful educational reform programs at the national level in Latin America have encouraged these countries' leaders to push for additional reforms in the provision of basic education. Using this reform momentum, USAID has launched a complementary program focused on local communities, parents and teachers, and grassroots education groups. The objective is to create demand for tangible reform at multiple levels of society. USAID has also continued to support the United Nations Education Scientific and Cultural Organization (UNESCO) on the *Summit of the Americas Regional Indicators Project* to increase accountability in education by developing region-wide standards and assessment indicators.

Global Education Development Alliance. In FY 2003, USAID formed a new global education development alliance that doubled public contributions totaling $5,000,000, with equal resources from the private sector and NGO community. This new alliance has expanded basic education in Nicaragua; youth training programs are being developed in the delta states of Nigeria; and higher education for Asian women is being planned for a regional program located in Bangladesh. The alliance is also developing a global education Internet portal to serve teachers and education managers worldwide, while linking donors and developing countries more effectively to improve the availability and quality of education data.

The *Education for Development and Democracy Initiative (EDDI)* continued to achieve success in FY 2003 through activities in 40 sub-Saharan countries, one more country than EDDI's goal for 2003. Successes include:

- Expanding the Ambassadors' Girls Scholarship Program
- Adding new community resource centers, which bring modern information

technologies, training, and mentoring both to school populations and to their surrounding communities

- Adding more programs to serve persons with physical challenges
- Expanding entrepreneurial training
- Expanding democracy networks
- Enhancing school and university partnerships
- Establishing the endowment for the Ronald Brown Institute
- Communicating with African ministers of education through the Association for the Development of Education in Africa
- Training 450 technicians from 30 academies in 30 sub-Saharan countries, where some 2,500 students are enrolled
- Providing scholarships and educational support to several countries emerging from crises
- Linking 20 African universities to the Internet
- Establishing a Young Farmers Program in Mauritius

EDDI has also focused on coordination to ensure that its programming complements other African initiatives, such as the *New Partnership for Africa's Development (NEPAD);* multilateral initiatives, such as UNESCO's *Education for All program;* and various U.S foreign policy objectives, including those outlined by the Millennium Challenge Account. This coordination has helped avoid duplication of efforts while streamlining implementation. In fact, EDDI was able to leverage more than 33 percent of its funding through implementing partners and the private sector. In addition, EDDI's cutting-edge approaches and innovative response to education needs served as a platform for conceptualizing the President's Africa Education Initiative.

Consistent with USAID's focus on reaching all learners, EDDI has helped countries mobilize the resources to educate girls and women. Fifteen thousand girls received scholarships, and approximately 10,000 more received mentoring and support through EDDI activities such as workshops, newsletters, and conferences. Primary- and secondary-level scholarships are not costly, but can significantly help promising children from underprivileged families receive an education. To help reach underserved populations, many of the scholarships have been reserved for girls whose families have been affected by HIV/AIDS; girls who are physically challenged; and those who, for various reasons, have dropped out of the education system and want to return to complete their education. These scholarships are designed to ensure that the recipients are able to complete at least one full cycle of education (junior and senior secondary) for longer-term impact.

Higher Education, Workforce, and Youth

A significant thrust of USAID's University Linkages program is the adoption of community service as a core mission of higher education institutions. Many U.S. universities were founded on the principle of academe's responsibility to contribute to social and economic well-being. With USAID support, a growing number of U.S. institutions are extending this principle to communities in developing countries through partnerships with local higher education institutions. These joint efforts help demonstrate that higher education can play a role in community development by applying knowledge and scholarship to address community problems. Some partners among developing-country universities and other institutions of higher education have adopted a formal institutional policy for working in communities and are demonstrating that they can play a more formidable role in their nations' development.

The *Universidad Veracruzana* (Mexico), in partnership with *Maricopa Community College,* is addressing major health and economic issues in the Mexican State of Veracruz. The *University of Malawi's Bunda College of Agriculture,* linking with *Lincoln University of Missouri,* is promoting the active involvement of community members in research aimed at improving child survival. The partnership is examining the effects of increased consumption of goat milk and meat, as well as soybean flour, on childhood nutrition in rural Malawi. The program created a local health and nutrition infrastructure in a community adjacent to the College. *Oregon State University* and three higher education institutions in South Africa *(University of Fort Hare, Fort Cox College of Agriculture and Forestry, and the University of Natal-Pietermaritzburg)* are strengthening their capacities in afro-forestry and nursery production. This partnership resulted in a decision by the three South African institutions to adopt the American "Land Grant Model" and to transition from a campus-centric to a more community-focused orientation.

USAID has noted a growing connection between increased higher education involvement in community development and local community involvement in schools and education reforms, typically the purview of national education ministries. To build on this correlation, USAID/Senegal has started a new education program whose defining feature is its emphasis on the role of local governments in delivering education. The program is a collaborative effort of USAID/Washington's Education and Democracy and Governance Offices working with their Senegalese counterparts in the public and private sectors. Similarly, within the USAID/Senegal mission, there is strong collaboration between the Democracy and Governance and Health teams on the issue of health financing and coordination of technical assistance and other inputs at the local governmental level.

USAID's higher education and workforce development program also coordinates the Agency's contributions to UNESCO's World Conference on Higher Education and Education for All to increase access to education and decrease gender imbalances in educational attainment. USAID-funded activities, such as curriculum development, distance learning, and Internet-based collaboration in developing countries, have led to higher-quality degree programs, as well as better-trained teachers for primary and secondary schools. For example, university partnerships with *Moi University* in Kenya and *Universidad Peruana Cayetan Heredia* in Peru increased their education, health, and research capacity and strategies to prevent the spread of HIV/AIDS. Seven higher education partnerships operating in the West Bank and Gaza have upgraded curricula and used appropriate information technology to conduct seminars on:

- Strengthening fiscal policy analysis
- Modeling water quality of aquifers
- Mapping aquifer water supply
- Developing geographic information systems
- Using remote sensing
- Reviewing commercial law
- Protecting intellectual property rights

Training

USAID training programs have improved the work performance of trainees, who in turn have helped improve the effectiveness of their developing-country organizations and institutions. For instance, Armenian participants from the Armenia Bank Supervision Study Tour have already had significant impact on their country. These training participants used their new knowledge of banking supervision to write proposals for new banking regulations, four of which were accepted by the Board of Armenia's Central Bank. The Bank's acceptance of the new regulations prompted the National Assembly of Armenia to revise and pass legislation to support new supervision practices.

After participating in the USAID-funded Civic Education Study Tour, the director of Lyceum #17 in Atyrau, Kazakhstan, presented his training experience in Ukraine at the City Department of National Education to heads of secondary school curriculum departments. Although civic education is now a mandatory subject in Atyrau's secondary schools, it was taught for only one hour per week in combination with another subject. Each school has four hours per week that it may allocate at its discretion; as a result of this training participant's efforts, his school and nine others began using some of their additional curriculum hours to teach civic education as a separate subject.

USAID-supported training also develops international leaders. For example, South African Basu Sangqu, a USAID Economics Program Mandela Economic Scholar, who received his M.A. degree at Vanderbilt University in 1999, has been appointed as South African Ambassador to the African Union. When Sangqu returned from his training, he became an intern in the Office of the Presidency, working with the Economic Advisor to the President. He then moved to the Department of Foreign Affairs and worked on trade and investment issues. At the African Union (AU), Sangqu will work on NEPAD, the Economic Commission for Africa, and African Union management issues, improving the ability of AU institutions to function effectively.

In the private sector in Macedonia, USAID funded training to help managers of the most prominent marketing and advertising agencies improve the quality of the services they provide to their clients, thereby increasing revenue and employment creation. In their individual action plans, all the training participants stated they would establish an Association of Marketing Agencies, which they had tried to do several times. The trainee delegation's visit to the Phoenix Ad Club helped them create a real vision of how such an association should operate. The Promotional Foundation Assembly of the Association took place October 9, 2002, in Skopje. The association is working to provide education and training for its members, to standardize methods of operations, to establish ethics norms, and to help its members improve their services.

Strategic Objectives That Did Not Meet Targets

No education SOs reported in FY 2002 failed to meet their targets.

Future Plans

Education Data. A fundamental issue in every aspect of program design, performance, and reporting is the paucity of reliable and timely national education data. USAID's Office of Education plans to collect a range of data for several years for future use as a rolling average in place of annual data. To assist in this effort, USAID is forming an *Education Data Center,* which will undertake such data-related work as program evaluations, cross-national outcome and longitudinal impact studies, and research to determine critical education programs that are essential to social and economic development.

A major difficulty that USAID and our partners in developing countries face is the ability to discuss issues related to education data. In developing countries, it is difficult to keep statistical personnel trained and their skills current. In addition, the Agency and our host-government counterparts must improve the use of education data for evidence-based decision making. In part, the Education Data Center will address these needs by developing web-based resources (e.g., training, communities-of-practice, and journals) to link USAID mission personnel, the global education data community, and national decision makers across jurisdictions.

Selecting appropriate education indicators to collect and measure the impact of USAID programs is another factor in performance management and reporting. As data collection improves in quality and timeliness, USAID can begin to increase the use of indicators that are commonly accepted in the education community, such as the measurement of adult literacy. The Education Data Center will work with UNESCO, the World Bank, Education Testing Service, and others to develop, test, and implement a uniform process for cross-national comparability of adult literacy measures.

In addition, USAID supports household and other surveys to assess education needs, and if these are conducted on a periodic basis—as advocated by USAID—they can also be used to evaluate results. For example, USAID's "EdData" survey is linked to the Demographic and Health Survey (DHS) household survey used worldwide. These surveys shed light on many ancillary factors useful to educational planning. For example, in Malawi, the DHS provided evidence that even with free primary education, there was a surprisingly high mean per pupil *household expenditure* on primary schooling, as well as revealing data from parents on children's private attitudes toward school. A DHS survey in Zambia brought forth new data on the physical condition (height and weight) of students and the possible impact on school performance.

Local commitment to education is a crucial factor in achieving success. USAID has a draft *"Government Commitment Screen"* that will be pilot-tested and refined for use over the next year in dialogue with developing-country representatives (as well as with donor community partners). The screening instrument will identify government commitment to education reform and the Education for All framework and will be used to guide the Agency's education interventions.

Strategic Goal 3: The World's Environment Protected for Long-Term Sustainability

> *Environmental quality is the foundation of long-term economic growth and food security.*

Overview

Protecting and better managing the environment on a global scale benefits everyone—Americans and people around the world. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development and food security. Although some aspects of global environmental quality are improving, other declines continue. For example, as noted below, the area of lands now being protected by national governments (national parks, managed natural reserves, etc.) has increased in most regions. But improper land use, the loss of tropical forests and precious biological diversity, and soil erosion all continue—as have disasters such as floods, forest fires, and drought. World population continues to rise, and migration toward cities, often by those most lacking resources and skills, continues unabated. These trends continue to increase demands for scarce natural resources, efficient energy use, and basic municipal services.

In response to these challenges, USAID helps countries to manage economic growth and development activities in a sustainable manner through introducing improved management practices, encouraging more efficient use of resources such as water and energy, and providing enhanced protection to threatened habitats and ecosystems.

Benefits to the American People

Today our national security is increasingly linked to the stability of countries far from our borders. In places where livelihoods are most often closely tied to the land, water, and forests, conflicts arise over access to these natural resources and the wealth and power they represent. The USAID's environment programs help reduce the potential for conflict by encouraging equitable access to natural resources and the benefits those resources provide.

On the economic front, growing numbers of American businesses, from producers of "green technologies" to large sectors of the U.S. tourism industry to food processors, all profit from sound environmental management in developing countries. USAID helps these countries strengthen their environmental protection and natural resource management capacities while linking the benefits of these programs to the U.S. economy. The United States has some of the best technology and most extensive experience in applying environmental law and management in the world. Thus, private-sector partnerships to reduce pollution and manage waste treatment are an important component of USAID's urban environmental program.

What USAID Is Doing to Protect the Global Environment

USAID helps countries and regions achieve environmental quality through programs that align with the following Agency-level objectives:

- Sustainable management of natural resources
- Conservation of biological diversity
- Environmentally sound and efficient energy use
- Sustainable urbanization
- Reductions in the threat of global climate change

The Agency's programs and approaches vary by environmental challenge and regional priority. For example, USAID programs in the Latin America and Caribbean and Africa regions emphasize biological diversity and natural resource management. Both these regions contain threatened forests that, in many cases, are the last refuge for endangered species. Urban environmental problems such as clean water, sanitation, and air pollution are of particular concern in these areas as well. In the Asia and Near East regions, urban environmental problems such as clean water, sanitation, and air pollution are of particular concern. In the Europe and Eurasia region, programs concentrate on policy issues and strengthening environmental standards. Supporting the adoption of cleaner, more efficient technologies for energy production is an integral part of these policy-related efforts, as is supporting industrialized urban applications of environmental practices, especially in the private sector.

Table 14: Performance Indicator: Percentage of Environment SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	22%	22%	15%	23%
Met	69%	67%	72%	51%
Not Met	5%	3%	8%	3%
Not Required to Report	4%	8%	6%	23%
Number of SOs	54	54	53	74

Source: USAID missions, *Annual Reports*. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Program Costs

In FY 2002, USAID incurred net costs of $512.2 million in programs to protect the global environment.

Tracking Performance in the Environment Sector

For the Environment Goal, USAID tracks the performance of operating unit strategic objectives and the performance of a context indicator related to natural resource management.

Strategic Objective Performance

USAID's FY 2002 target for protecting the global environment sector was for at least 85 percent of operating unit strategic objectives under the environment goal to meet or exceed their targets for the year, with no more than 10 percent failing to meet targets. The remaining 5 percent account for SOs that are not required to report because they are less than one year old.

Agency-wide in FY 2002, 74 operating unit strategic objectives focused on protecting the environment. Of these, 55 strategic objectives met or exceeded their targets, 2 did not meet targets, and 17 were not required to report. In other words, 74 percent of SOs met or exceeded their targets. Table 14 compares these data with performance in prior years.

Other Results Data

Context Indicator: Hectares of Land Under Improved Management

In addition to monitoring strategic objective performance, USAID tracks the growing number of hectares of land under improved environmental management. Habitat is considered to be under improved management when any of a number of specified activities—such as a complete site assessment, development of site plan or action plan, ongoing monitoring or evaluation, etc.—is in place. Table 15 demonstrates the dramatic changes occurring in natural resources management because of USAID-supported activities. The data, which indicate areas of terrestrial or aquatic habitat under improved management in hectares, reflect only countries with significant USAID-supported natural resources management programs. The planned total for FY 2003 is significantly higher because of the inclusion of several hundred million hectares being brought under improved management through the

Program Performance

Table 15: Performance Indicator for Natural Resources Management: Hectares Under Improved Management

Year	FY 2001	FY 2002	FY 2003
Planned	54,705,000	66,457,474	367,401,842
Actual	62,540,000	67,874,766	Being tabulated
Met or Exceeded?	Exceeded	Exceeded	–

Sources: USAID program and operating unit-level data provided by institutional contractors; USAID, Global Center for the Environment, 2003, *Annual Reports*.

Note: Data reflect only countries with significant USAID natural resource management programs.

Indicator: Area of habitat (terrestrial and aquatic) under improved management.

Unit of Measure: Hectare (ha).

Data Quality: Contractors and partners are now routinely using standardized methods to "score" hectares under improved management regimes, but subjectivity is still a factor.

establishment of multiple new Marine Protected Areas in Indonesia.

Forest Crimes

USAID promotes sustainable logging ventures to protect forests around the world.

More than 1.6 billion people around the world depend on forests for their livelihood, closely linking forest conservation and economic development. Illegal logging destroys forest ecosystems, robs national governments and local communities of needed revenues, underprices legally harvested forest products on the world market, finances regional conflict, and acts as a disincentive to sustainable forest management. At least one-half of all logging activities in regions such as the Amazon Basin and Central Africa are estimated to be illegal. The World Bank estimates that illegal logging results in annual losses of $10 billion to $15 billion to developing countries.

In 2003, USAID put greater focus on forest conservation and governance with a global perspective, working with private partners and international bodies to save forests and forest-dependent peoples and species. The Agency also helped to ensure legal, sustainable sources of timber and other forest products. For example, President George W. Bush's Initiative Against Illegal Logging is a comprehensive strategy to address this critical challenge and reinforces the U.S. leadership role in combating the problem. The new initiative focuses on assisting developing countries in their efforts to combat illegal logging and in fighting corruption in the forest sector. The initiative is addressing problems of illegal logging from the Congo Basin to the Amazon Basin, Central America, and South and Southeast Asia.

USAID supports the President's Initiative through activities that address four key priorities:

- ***Good Governance.*** USAID is helping to strengthen the rule of law, forest governance, and policy reform at national and local levels in the Congo and Amazon Basins and in Asia. A new program in Peru is strengthening the government's organizational and institutional capacity in forest supervision and control, including training to improve law enforcement in the forest sector.
- ***Community-Based Actions.*** USAID is strengthening communities and local authorities in forest governance and fostering incentives for sound management to prevent and stop illegal logging in the Amazon Basin, Bangladesh,

Sustainable Forest Products Global Alliance

To encourage responsible forestry practices and reduce illegal trade in forest products, USAID, businesses, non-governmental organizations, and government agencies have joined forces under the Sustainable Forest Products Global Alliance. By linking producers of legal forest products in the developing world with buyers in the developed world, the Global Alliance aims to strengthen the market for responsibly produced forest products and thereby weaken the market's acceptance of illegally harvested wood.

The Global Alliance is a public-private partnership that unites USAID; corporations such as The Home Depot; non-governmental organizations Metafore, World Wildlife Fund, and Forest Trends; and the USDA Forest Service. In forming this alliance, USAID is pooling the expertise and resources of industry and environmental organizations to address critical forest management issues through the marketplace. The Global Alliance recognizes that in today's global economy, government donors like USAID cannot work in isolation from other contributors. This innovative approach enables producers to benefit economically from improved forest management while offering consumers the opportunity to purchase responsibly harvested forest products.

and the Philippines. Earlier work in the Philippines resulted in recognition of community management rights to forest resources. In 2003, USAID began a new phase that promotes better environmental governance, including greater transparency and accountability, by assisting local government units to plan and implement forest land use plans. Key activities are occurring in the Autonomous Region of Muslim Mindanao, a priority region in the fight to combat terrorism.

- ***Technology Transfer.*** USAID is transferring technologies for monitoring forest cover and logging operations in the Congo and Amazon Basins. As a component of the Congo Basin Forest Partnership (CBFP), we are assisting partners in the Basin to use satellite images and aerial-videography to monitor forests and ensure that harvest activities remain within concession limits. The National Aeronautics and Space Administration (NASA), the U.S. Forest Service, NGOs, and university partners are all providing technical expertise to partners in the Congo Basin countries. In cooperation with the U.S. Forest Service, World Wildlife Fund, and other partners, USAID is also assisting governments and NGO partners in Bolivia, Brazil, Peru, and Guatemala to reduce illegal logging and trafficking in mahogany, a species protected under the Convention on Trade in Endangered Species.
- ***Harnessing Market Forces.*** USAID is promoting good business practices of sustainable forest management and independent, voluntary certification of legal wood products for markets (see box on Sustainable Forest Products Global Alliance).

Debt-for-Nature Swaps

USAID has expanded efforts to achieve sustainable development and natural resource conservation, while reducing developing-country debt. Based on the 1998 Tropical Forest Conservation Act (TFCA), the U.S. Government and international

NGOs finance agreements with developing countries to swap these countries' international debt for their commitment to protect tropical forests. The TFCA contributes to the conservation of biodiversity in tropical forest habitats, helps maintain productive forest reserves, contributes to watershed protection, and reduces debt burden in those countries most in need. In the first three years of the TFCA, all funds appropriate for the Act ($36 million) were obligated for debt agreements with Bangladesh, Belize, El Salvador, Peru, and the Philippines. In total, the TFCA has generated more than $60 million dollars for tropical forest conservation.

In FY 2003, U.S. Government financing of $5 million, combined with $1.16 million from The Nature Conservancy, were used to convert $10 million of Panama's debt into a fund that will support conservation projects in the Chagres River Basin, including the Chagres National Park. Over the next 14 years, the Government of Panama will make payments totaling $5.6 million to Fundación Natura, a Panamanian NGO that will provide grants to improve environmental management of the park and the larger Chagres River Basin. Furthermore, the Government of Panama will contribute $5 million to an endowment that will continue to invest in the region.

In Panama and around the world, USAID works in partnership with local and national governments to protect tropical forests and river basins.

The areas protected through this agreement are important for the economic, social, and environment health of Panama. Much of Panama's revenue comes from the Panama Canal, which uses 52 million gallons of fresh water for each ship passage. The Chagres River provides most of this water and is the main source of fresh water for more than a million inhabitants and diverse businesses in Panama City, Colón, and points in between. The funds generated through the Panama debt-for-nature swap will bolster supervision and oversight efforts in the 320,000-acre park, ensuring the preservation of lands that are legally protected, but lack sufficient resources for the enforcement of existing regulations. The funds will also support community development projects, including environmental education and sustainable use activities such as ecotourism and compatible agriculture, thereby helping to abate current threats to the forests, land, and water that are essential for economic and environmental stability in Panama.

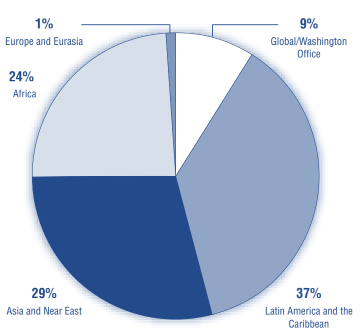
Biodiversity and Protected Area Management

Human activities are driving species to extinction through conversion of natural habitats to agricultural land, as well as through logging and mining, exploitation of plant and animal resources, pollution, and climate change. Today, biodiversity is disappearing more rapidly than at any time since the extinction of the dinosaurs 65 million years ago. Extinction rates are currently 100 to 1,000 times what would occur naturally, with an estimated 10,000–25,000 species lost each year. The United States has taken a lead role in preventing biodiversity loss and is one of the largest bilateral donors toward biodiversity conservation around the world.

For the past two decades, USAID has helped developing countries maintain biologically diverse habitats and environmental services. Programs address protected area management support, community-based natural resources management, enterprise-based conservation initiatives, environmental education and communication, and policy development and reform. Through empowering local governments and communities to better manage natural resources, USAID promotes more effective democracies and just societies. Intact ecosystems also provide clean water and food and contribute to human and economic well-being.

Current USAID spending on biodiversity is approximately $110 million. Figure N indicates the distribution of biodiversity investments across the USAID regions:

Figure N: USAID Regional Biodiversity Investments – FY 2003



USAID has biodiversity programs in more than 45 countries, and there are more than 30 USAID missions with special objectives that include biodiversity conservation activities in terrestrial, coastal, and marine areas. By working with national and international partners, USAID promotes participation, transparency, and cooperation among stakeholders. Programs also encourage the devolution of authority to local natural resource users, including recognition of indigenous people's rights to manage their traditional lands. Significant FY 2003 programs include:

Global Conservation Program (GCP). USAID manages the $45 million GCP in partnership with six other leading conservation organizations. GCP combines conservation with social and economic development in a wide range of ecosystems, including forests, grassland/savannah, marine, riparian, and wetland ecosystems. USAID-supported programs include enterprise-based conservation, protected area management, community-based natural resources management, environmentally sound tourism, institutional capacity building, participatory monitoring and evaluation, conservation education and public awareness, policy initiatives, and innovative conservation financing. In its first phase, GCP supported 17 large-scale conservation activities and 9 transboundary initiatives. In FY 2003, GCP added 8 new sites targeting marine and coastal conservation to 9 continuing programs that address other global conservation priorities.

Middle Eastern Regional Cooperation. USAID supports research activities with a biodiversity focus in the Middle East, including (1) a research and monitoring program to improve management of coral reef ecosystems in the Red Sea Marine Peace Park, a joint undertaking by the governments of Jordan, the United States, and Israel; (2) migratory birds scientific and educational activities among Israelis, Palestinians, and Jordanians that seek to promote scientific research, as well as peaceful dialogue and cooperation among these groups; (3) an assessment of species diversity in the southern Arava Rift Valley in Israel and Jordan to identify conservation goals in the region; and (4) monitoring and evaluation of watersheds in the Middle East region to protect and improve natural resources and the socioeconomic status of inhabitants.

Africa Region

The Central African Regional Program for the Environment (CARPE) is a long-term USAID initiative to address biodiversity loss and deforestation in the Congo Basin, one of the least-developed regions of the world. The Congo Basin holds massive expanses of closed canopy tropical forest, second in area only to the Amazon Basin. However, unsustainable timber exploitation, shifting cultivation, urban expansion, and other human pressures pose increasing threats to this globally significant forest resource. At the current rate of deforestation, these forests could be decimated in the next 50 years. Loss of forest cover on this scale poses serious risks to the earth's biodiversity, as well as carbon dioxide emission into the atmosphere.

In FY 2002, USAID increased annual funding for conservation in the Congo Basin from $3 million to $15 million with the launch of the Congo Basin Forest Partnership, involving 29 governmental and international organizations. The Congo Basin Forest Partnership seeks to promote economic development, alleviate poverty, combat illegal logging, enhance antipoaching laws, improve local governance, and conserve natural resources. USAID will help achieve these goals by supporting a network of national parks and protected areas, well-managed forestry concessions, and creation of economic opportunities for communities that depend upon the forest and wildlife resources of the Congo Basin. Project countries include Cameroon, the Central African Republic, the Democratic Republic of the Congo, Equatorial Guinea, Gabon, and the Republic of Congo. The U.S. Government plans to invest up to $53 million dollars in the Partnership through 2005, including a $36 million increase for CARPE, the primary mechanism for U.S. implementation of Partnership initiatives.

Asia and Near East Region

The Bird's Head Global Development Alliance combines the expertise and resources of USAID/Indonesia and British Petroleum (BP), which is developing a large natural gas project in the region, to promote conservation of the peninsula's unique biodiversity and ensure the development of sustainable environmental practices for the region. Largely rural and barely developed, the Bird's Head peninsula of Papua, Indonesia, is home to one of the highest concentrations of terrestrial and marine biodiversity in the world. The peninsula is also the location of natural resources of enormous value, including timber, minerals, oil, and gas. These resources are increasingly being exploited, with little benefit going to the region. In response, the three-year program is working to strengthen new and existing civil society organizations to advocate for environmentally sound development, monitor local government operations, improve management practices, and build local capacities to conduct participatory medium-term investment planning. Major implementers of the program are local governments and NGOs, with technical assistance from the USAID. The Agency's FY 2003 support for the Alliance is expected to approximate the FY 2002 obligation of $3,000,000.

Europe and Eurasia Region

Russia has a total forested area of approximately 764 million hectares, 78 percent of which is located in the Russian Far East and Siberia. This represents more than 22 percent of the world's forested area and one-seventh of the Earth's carbon pool and hence bears immense significance for global climate change. Globally important plants and animals are found in these forests, but illegal logging and unsustainable forest management threaten their habitats. USAID's Forestry Resources and Technologies (FOREST) Project (2000–2005) is working to conserve biodiversity and reduce the threat of global climate change. The project is developing a comprehensive approach to address forest use and management challenges. Components include forest fire prevention, forest health and pest management, nontimber forest products and secondary wood processing, forest policy and legal reform, applied forestry research, and a grant/loan program.

Latin America and Caribbean (LAC) Region

The Parks in Peril (PiP) program—a partnership among USAID, The Nature Conservancy, local NGOs, and local governments—is one of the Agency's most successful and important conservation activities. Parks in Peril is an emergency effort to safeguard the most threatened ecosystems in the Latin America and Caribbean Region, including cloud forests, coral reefs, tropical forests, and savannahs. Program strategy focuses on strengthening partner organizations and building capacity to achieve site conservation results. PiP has helped consolidate the tools, infrastructure, staff, institutional and technical capacity, and financing necessary to protect and manage protected areas of globally important biological diversity. Since 1990, the partnership has demonstrated many lessons about successful multicountry and multipartner collaborations and has dramatically improved the conservation status of 37 critically threatened Latin American and Caribbean national parks and reserves.

Parks in Peril continues to be a leader in developing sustainable financing mechanisms for protected areas. It is at the forefront of funding policy initiatives such as water-use fees, conservation easements, private lands conservation, valuation of ecosystem services, mining mitigation, and carbon sequestration. During FY 2003, the LAC Bureau in Washington provided approximately \$3.5 million, while the rest originated from USAID missions in the region. PiP has also leveraged about \$70 million in non-USAID funds for park management.

Sustainable Management of Natural Resources

Through support to the Consultative Group for International Agricultural Research (CGIAR), USAID is helping to develop alternative technologies that contribute to sustainable natural resource management. For example, through participatory research with farmers in Mindanao in the Philippines, the International Center for Agroforestry (ICRAF), a CGIAR member, developed natural vegetative strips as a soil conservation technology for upland landscapes to reduce erosion and protect soil fertility. In two years, the natural vegetation was nearly as efficient in reducing erosion as conventional tree-based contour strips. Farmers then began planting perennial crops and trees on the contour strips. From 1998 to 2002, the number of farmers adopting this farmer innovation expanded from 250 to 3,000. In FY 2003, approximately 500 additional farmers adopted the natural vegetative strip technology. The program has evolved into the Landcare movement, facilitated by ICRAF, which focuses on how to scale up successful innovations and technologies. Landcare helps farmers' groups obtain resources, form associations, and negotiate with other stakeholders, thus empowering users of natural resources to manage these resources.

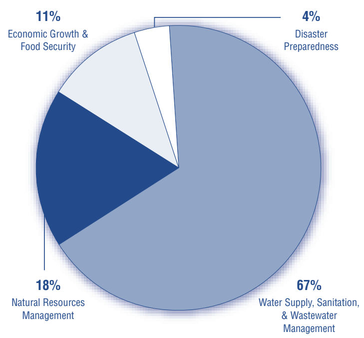
Water Security

Water—clean, plentiful, and accessible water—is the basis of human health and commerce; yet increasingly, people worldwide are competing for limited water supplies needed to sustain livelihoods and economic productivity. Because they are unable to compete effectively, moreover, the poor are disproportionately affected by the problems of water scarcity, overabundance, and contamination.

USAID projects provide potable water that reduce child mortality worldwide.

In FY 2003, USAID obligated more than $460 million to water security. USAID funding for water programs supported four broad activity areas: (1) Water Supply, Sanitation, and Wastewater Management; (2) Natural Resources Management; (3) Economic Growth and Food Security; and (4) Disaster Preparedness. The largest activity area was Water Supply, Sanitation, and Wastewater Management ($310 million), representing 67 percent of all obligations, followed by Natural Resources Management ($84 million), Economic Growth and Food Security ($48 million), and Disaster Preparedness ($17 million): Illustrative projects and activities include:

Figure O: FY 2003 USAID Water Obligations by Broad Activity Areas



Africa Region

In Ghana, Mali, and Niger, USAID is a partner in the West Africa Water Initiative, a new alliance of 12 international organizations announced at the World Summit for Sustainable Development in 2002. More than 400,000 people will benefit from improved access to water supply and sanitation and better water management through the initiative. USAID has provided approximately $4 million in FYs 2002–2003, complementing more than $36 million in resources from other partners. The partnership will invest in small-scale potable water supply and sanitation, hygiene, and sound water management for food production and economic development in poor rural and periurban communities.

Europe and Eurasia Region

In the five Central Asian Republics, USAID launched activities in the water sector totaling more than $9 million in 2003. In an area of Uzbekistan hit hard by the Aral Sea disaster, a USAID project will bring water to more than 500,000 people in the region through new wells, purifying equipment, and delivery systems.

In Afghanistan, USAID obligated $6 million to rehabilitate irrigation canals and rural wells throughout the country. The effort will help local populations move toward self-sufficiency in income generation and food production. Activities are under way in two provinces to repair irrigation infrastructure; strengthen the capacity of government agencies, farmers, and non-governmental organizations (NGOs) to manage their water resources; and provide technical assistance to government planners and policy makers.

Asia and Near East Region

In Jordan, USAID is supporting a $20 million water supply improvement program during FY 2003. USAID's water program includes assistance to the city of Amman to develop new water supply and distribution systems, which will improve household access to clean water for 580,000 residents.

In Bangladesh, USAID plans to invest $7 million to improve disaster preparedness in flood-prone communities through targeted response mechanisms and mitigation measures. Disaster contingency plans focus on the capacity of water infrastructure systems to withstand flood events, in order to ensure access to potable water during extreme disaster conditions. USAID's flood-proofing program benefited nearly 152,200 people in 225 villages in 2002 by reducing property damage and increasing access to potable water during floods.

Latin America and Caribbean Region

Improvements in water supply and sanitation complement the effectiveness of other development assistance programs. In Peru, Bolivia, and Colombia, USAID provision of water supply, sanitation, and sourcewater protection activities, totaling more than $13 million, are key elements of community development activities linked to drug eradication efforts in highland communities.

In Jamaica, USAID will invest $2 million in integrated water and coastal resources management activities aimed at reducing contamination from agricultural runoff and nutrient-rich sewage that flow from informal settlements in the watershed and along rivers. The project has resulted in the strengthened capacity of Jamaica's National Water Commission to create public partnerships for wastewater treatment and involve the tourism industry in Environmental Management Systems.

Biosafety

In 2003, USAID launched the Program for Biosafety Systems (PBS), a new project under the Agency's Collaborative Agricultural Biotechnology (CABIO) Initiative. The project promotes biotechnology development and delivery to address biosafety within a sustainable development strategy. It promotes linkages between biosafety policy and issues such as technology development, agricultural and food systems, and economic development. Research focuses on the relationship between biotech crops and organisms (i.e., fish, microbes) and the potential gene flow with wild relatives, particularly in centers of diversity. PBS objectives include:

- Developing new models for biosafety regulation that are amenable to developing-country needs and consistent with international obligations under various agreements
- Building host-government capacity to implement science-based regulations
- Engaging host-country research and government institutions in public outreach on biotechnology
- Conducting collaborative policy research to examine the economic, food security, and trade implications of policy options
- Supporting competitive research and capacity building to examine potential impacts of agricultural biotechnology products on biodiversity and to

develop strategies to manage potential risks to the environment

Invasive Species

USAID is addressing the threat that invasive alien species (IAS) pose to development worldwide. IAS refers to plant, animal, and other species taken from their native environments and introduced into new places—either by intention or accident. These species establish successful populations in the new environment, displacing and often outcompeting native species. The movement of organisms has occurred for centuries, but today's increasingly international circulation of goods and people has accelerated the process, making IAS one of the greatest contributors to global biodiversity loss. As harmful as IAS are to natural systems, they can be equally damaging to human economic, social, and health systems. A 1999 study estimated that the cost of IAS-related environmental damage, productivity losses, and control measures totaled more than $130 billion per year in the United States alone.

IAS can have severe impacts on sustainable development by jeopardizing ecosystems that provide communities with food and water. Yet, ironically, international assistance activities have sometimes served as vehicles for species invasion. With the participation of the Global Invasive Species Programme (GISP), a USAID-sponsored project examined this phenomenon in aquatic environments of Southeast Asia. The project is documenting occurrences of IAS related to international assistance, accompanied by cost/benefit analyses of the introductions, particularly with regard to food and water security. The report's recommendations will serve as a catalyst for action in the development community.

Because of their geographic isolation, many islands have developed plants, animals, and other organisms uniquely adapted to the ecological conditions found there. For this reason, IAS are especially detrimental to island ecosystems and peoples and are a priority for IAS-mitigation efforts. USAID has supported assessments of IAS on islands, focusing on both socioeconomic and ecological impacts. Carried out with the participation of GISP, the USAID-funded studies will help the governments of island states to control IAS and limit their impacts on human populations and will guide future USAID activities on islands.

Energy

Energy is fundamental to daily life. Whether it brings light to our classrooms, refrigeration for our food and medicine, pumps to irrigate our crops, or electricity to run our commercial and industrial enterprises, energy provides the means for economic growth and social and political development.

USAID's energy activities contribute greatly to America's energy and economic security, while protecting the global environment and fostering more private-sector investment and economic growth. Energy security relies on the diversification of energy sources and suppliers, increased trade and interdependence among nations, and open and competitive markets. As a primary energy importer, the United States is seeking to diversify its fuel sources; furthermore, many developing countries have the potential to become energy suppliers. But first, these countries must establish free market economies and legal and regulatory environments that protect investments before American businesses will pursue these opportunities.

Improved governance of the energy sector dramatically improves developing countries' ability to attract foreign direct investment (FDI) and stimulate broad economic development to benefit all elements of society. Energy-sector governance through policy, regulatory, and market development interventions are central to the provision of clean, reliable, and affordable energy services. In FY 2003, USAID worked with developing-country officials, industries, and NGOs "to get the rules right" for the delivery of energy services by both the private and public sectors. The Agency also supported institutional and individual capacity building to ensure an enabling policy environment for energy production and delivery. Because the public's informed participation in the energy economy—beyond only being consumers of energy—helps increase that economy's efficiency and the equity of its impact, USAID supported activities to build public understanding and participation in decision making on energy issues.

At the same time, USAID is helping to build a hospitable commercial environment for U.S. and local businesses by promoting efficient, reliable, and cost-effective energy subsectors that are appropriate in emerging market economies. These energy subsectors are critical for sustainable economic growth, environmental protection, and social welfare in developing countries. Selected USAID activities and results are presented below:

Southern Africa

USAID is focusing on creating and expanding transnational markets in electricity, tapping market resources for new private capital for private power renovation and modernization, and promoting policy and tariff reforms. The work benefits approximately 150 million people in the region. An estimated $3 billion was saved after the 12 countries involved in the Southern Africa Power Pool finalized arrangements to share existing electricity-generating facilities to reduce reserve margins. The World Bank is investing $138 million to expand on this initiative.

Albania

USAID is also helping to privatize state-dominated economies. USAID is assisting the Government of Albania (GoA) to prepare the energy sector for private-sector investment and is supporting reform of the Albanian national electric utility. In less than three months, the utility has shown significant efficiency in its operations, billing, collection, and system planning. Technical power losses have fallen from 20 percent to 11.5 percent and collections are up 35 percent as a result of USAID's cooperation with the utility's management. Because of USAID assistance to the Albanian Ministry of Industry and Energy, the GoA passed a new law permitting independent power producers. This hallmark legislation opens the way for private-sector-led energy development, management, and operation in Albania.

In addition, USAID is at the forefront of U.S. Government efforts to increase access to clean and efficient energy through the Clean Energy Initiative (CEI), one of President Bush's Initiatives launched at the World Summit on Sustainable Development in August 2002. USAID is the lead U.S. Government agency managing the Global Village Energy Partnership, a key component of the CEI that will increase access to modern and affordable energy services in areas that are not served or are underserved by current energy delivery systems.

Table 16: Global Climate Change Indicators as Outlined in the Performance Monitoring Plan

Indicator	1998 Actual	1999 Target	1999 Actual	2000 Target	2000 Actual	2001 Target	2001 Actual	2002 Target	2002 Actual
Area where USAID has intervened to protect carbon stocks	**55.4 million** hectares (ha)	**57 million** ha	**57.4 million** ha	**58 million** ha	**66 million** ha	**59.5 million** ha	**93 million** ha	**61 million** ha	**119 million** ha
Emissions of CO_2 equivalents avoided because of USAID intervention	**2.85 million** metric tons of carbon dioxide equivalent	**2.9 million** metric tons of carbon dioxide equivalent	**3.88 million** metric tons of carbon dioxide equivalent	**2.9 million** metric tons of carbon dioxide equivalent	**3.0 million** metric tons of carbon dioxide equivalent	**2.95 million** metric tons of carbon dioxide equivalent	**5.8 million** metric tons of carbon dioxide equivalent	**2.95 million** metric tons of carbon dioxide equivalent	**3.8 million** metric tons of carbon dioxide equivalent
Institutions strengthened in support of UNFCCC	**466 capacity**–building activities	**400 capacity**–building activities	**952 capacity**–building activities	**350 capacity**–building activities	**1,734 capacity**–building activities	**300 capacity**–building activities	**2,552 capacity**–building activities	**300 capacity**–building activities	**4,820 capacity**–building activities

Global Climate Change

The goal of USAID's Climate Change Program is to promote sustainable development by minimizing greenhouse gas emissions and increasing resilience to climate change. Through bilateral field missions, regional programs, and central offices, USAID provides technical leadership in more than 40 countries to decrease emissions of greenhouse gases and to maintain or increase carbon stocks. The program has also encouraged and strengthened developing and transition country participation in the UN Framework Convention on Climate Change (UNFCCC).

Since 1998, when the Agency began tracking performance of its climate change program, USAID has consistently met annual targets set in the Performance Monitoring Plan (as illustrated in Table 16). Note: USAID reported this information in greater detail in a separate annual report to the Office of Management and Budget, "Federal Climate Change Expenditures: Report to Congress, August 2003," found on the Internet at *http://www.whitehouse.gov/omb/legislative/index.html).*

Illustrative Example of a Strategic Objective That Did Not Meet Its Target

USAID's strategic objective, *"A More Economically Sustainable and Environmentally Sound Energy Sector in Georgia,"* did not meet its expectations. The Agency's objectives have been two-fold: (1) to create a business climate that will attract private-sector participation and ownership, with consequent improvements in the management of resources and provision of services, and (2) to improve energy-sector efficiency in economic terms, with subsequent increases in capital and operating resources available to energy-sector companies. Unfortunately, this SO has not met expectations because of problems beyond the control of USAID.

The energy sector in Georgia continued to be plagued by extremely low collection of revenues and poor cash-flow management, and this has adversely affected efforts to privatize the sector. Efforts to address the poor financial discipline focused on the start-up and effective operations of the management contract for the Wholesale Electricity Market, awarded to the Spanish electricity company IBERDROLA. After more than a year of operations, IBERDROLA has been unable to restrict power supply to nonpaying direct customers.

To further improve cash collection in the Wholesale Electricity Market, USAID continues to condition part of its disbursements under the Georgia Winter Heat Assistance Program (GWHAP). USAID's support to GWHAP required cash payments by the largest industrial wholesale customers. Compliance proved to be initially very high, with cash collections having increased substantially during the period in which the conditionality was enforced. However, payment discipline was not sustainable, and collections returned to prior low levels. The IBERDROLA team has identified a large portion of transactions that bypass the market mechanisms and occur as less transparent tax offsets and barter arrangements.

In response, USAID recently applied additional conditionality to the program to ensure improved effectiveness and performance of the two management contracts (IBERDROLA and ESBI) prior to disbursement of funds under the Georgian Energy Security Initiative, a follow-on project.

Major changes in the sector are occurring following the sale of the U.S. company AES's distribution and generation assets to the Russian state company RAOUES. USAID is reviewing its involvement and is working with other donors on a joint action plan for sector financial improvements. In this regard, USAID is supporting an interim management contractor at the United Distribution Company that is trying to impose payments discipline outside Tblisi.

Strategic Goal 4: World Population Stabilized and Human Health Protected

Overview

For the past 40 years, USAID's health programs have made major contributions to improving the health of millions of people in developing and transitional countries. In recent decades, these contributions have significantly improved global health indicators such as increased total fertility rate and child survival. Success has been uneven, however, and substantial challenges remain. In some countries, the cumulative impacts of HIV/AIDS and other epidemics may even reverse development gains.

Under the new Department of State and USAID Strategic Plan for FYs 2004–2009, this performance goal is stated as "Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis."

Today, in cooperation with our partners and other donors, USAID is concentrating on the following critical issues:

- HIV/AIDS, malaria, tuberculosis, and other infectious diseases constitute an enormous public health challenge. At the end of 2002, there were 42 million people living with HIV/AIDS worldwide—3.2 million of whom were children. The epidemic has hit Africa the hardest, but India, Russia, China, and other countries in Asia and Latin America are confronting rising infection rates.
- More than 10 million children under age 5 die each year in the developing world, most of them

from preventable causes. Infectious childhood diseases, including respiratory and diarrheal diseases, malaria, measles, and other vaccine-preventable diseases, remain common in poor countries, where they are much more likely to be life-threatening than in developed countries. In addition, more than half of all child deaths are associated with acute or chronic malnutrition. Most can be averted with simple interventions for which USAID's child health programs provide support and transfer expertise to local health programs.

- The World Health Organization estimates that more than 500,000 women die each year from childbirth and pregnancy-related causes. Women in developing nations are 40 times more likely to die in childbirth than women in developed countries. Poor maternal health and inadequate maternity care contribute to 3.9 million stillbirths, 3 million neonatal deaths, and 16 million low-birth-weight babies annually. Improving the health of women and mothers is crucial for child survival and for improving the lives of children, families, and communities. USAID's programs to reduce maternal and infant mortality use highly effective evidence-based interventions that are adapted for specific settings and cultures.

Benefits to the American Public

Poor health and the lack of basic health and social services in developing countries can be profoundly destabilizing. In some countries, the spread of HIV/AIDS and other infectious diseases threaten to erase decades of development progress. Societies where large numbers of parents and extended family members have died or become incapacitated are greatly handicapped in providing support and guidance to children and youth. Such societies are at increased risk for social and political breakdown.

In addition to Americans having great concern for the sick and dying, the health status of people overseas has important implications for Americans. In a world of increased travel, immigration, and commerce, all countries are more vulnerable to infectious diseases, which do not recognize national borders. At the same time, the widespread inappropriate use of antimicrobial drugs (antibiotics and other drugs used to treat infections) triggers new disease strains resistant to conventional therapy. Safeguarding the health of the American public depends on the prevention and control of infectious diseases worldwide and the rational use and management of antimicrobial drugs in all countries.

What USAID Is Doing in Global Health and Population

Five Agency-level objectives delineate measurable outcomes that supported the Agency's global health goal during FY 2003:

- Reduce HIV transmission and the impact of the HIV/AIDS pandemic
- Reduce the threat of infectious diseases of major public health importance
- Improve infant and child health and nutrition and reduce infant and child mortality
- Reduce death and adverse health outcomes to women as a result of pregnancy and childbirth
- Reduce unintended and mistimed pregnancies

To achieve these objectives, USAID focuses on improving the quality, availability, and use of key services in the following program areas:

- **HIV/AIDS:** HIV/AIDS programs address prevention, care, and treatment of those living with the disease, as well as strengthening of host-government health policies, including social services for orphans.
- **Other infectious diseases of major public health importance:** Programs target malaria, tuberculosis, other diseases with significant impacts in developing countries, and antimicrobial drug resistance.
- **Child health and nutrition:** Interventions target the major childhood killers, including malnutrition, diarrheal disease, acute respiratory infections, and vaccine-preventable diseases. USAID programs continue an aggressive effort to eliminate vitamin A and other micronutrient deficiencies.
- **Maternal health and nutrition:** Activities aim to reduce maternal deaths and adverse outcomes associated with pregnancy and childbirth. USAID programs accomplish these aims by improving nutrition, health education, and access to both routine and emergency obstetric and newborn services.
- **Family planning and reproductive health:** Voluntary family-planning programs help couples avoid unintended pregnancies. This reduces maternal and child illness and mortality and helps parents provide for their children. These programs also aim to prevent and treat sexually transmitted diseases.

Program Costs

In FY 2002, USAID incurred net costs of $1.5 billion in health programming worldwide.

HIV/AIDS

Introduction

Status of the HIV/AIDS Pandemic. About 95 percent of people who have HIV/AIDS live in developing countries where poverty, inadequate health care, and lack of basic infrastructure contribute to the spread of the disease. Since HIV was first recognized in 1981, UNAIDS reports that more than 60 million people have become infected. At the end of 2002, the number of AIDS deaths had reached about 20 million, while the number of people living with HIV/AIDS worldwide was about 43 million. Nine out of 10 people infected with HIV are adults (92 percent), but there are also 3.2 million children under age 15 living with AIDS. In 2002, 3.1 million adults and children died of AIDS, while 5 million new HIV infections occurred—800,000 of them among children. By the end of 2001, 13.4 million children under age 15 had lost their mother, father, or both parents to AIDS and are considered orphaned. Without significant intervention, the number of AIDS orphans is expected to reach 25 million by 2010.

USAID's Expanding Response. Since 1999, USAID has dramatically increased the resources it dedicates to fighting the HIV/AIDS pandemic. These resources reached $795 million in FY 2003. The Agency anticipates a dramatic increase in funds to address the pandemic through the President's Emergency Plan for AIDS Relief, which was announced in FY 2003 and pledges $15 billion over the next five years. USAID and the U.S. Department of Health and Human Services (DHHS) will work with the newly appointed State Department coordinator to implement the Emergency Plan, as well as the President's International Mother and Child HIV Prevention Initiative.

The Presidential Emergency Plan for AIDS Relief targets that are to be met by FY 2008 include:

- A 40 percent reduction in mother-to-child transmission
- 7 million new infections prevented
- 10 million people receiving care and support, including orphans and vulnerable children
- 2 million people on treatment

USAID has increased its number of "priority" countries from 23 to 25,[18] while continuing to provide HIV/AIDS assistance to another 30 countries. The key components of the Agency's growing HIV/AIDS program are:

- **Prevention:** Expanding behavior change programs in support of a comprehensive approach to the three key **"ABC"** primary prevention goals of **A**bstinence or delayed sexual activity, **B**eing faithful/reducing the number of sexual partners, and **C**ondom use, especially for those engaging in high-risk sexual behavior.
- **Care and support:** Reducing stigma; increasing palliative care, including treatment of opportunistic infections, tuberculosis screening, and home-based care; increasing voluntary counseling and testing services; and increasing food, nutrition, and psychosocial support for people living with HIV/AIDS and their families.
- **Treatment:** Increasing access and clinical management for antiretroviral therapy, including commodities, logistics, and drug policy.
- **Orphans and vulnerable children:** Meeting the needs of affected children, including medical care, psychological/emotional support and counseling, and material support such as food, shelter, clothing, school fees, and other school-related expenses.
- **Prevention of mother-to-child transmission:** Treating and caring for HIV-infected pregnant women to reduce transmission of HIV to infants through the President's International Mother and Child HIV Prevention Initiative. The Initiative focuses on two areas: increasing the availability of preventive care (including drug treatment) and building health care delivery systems to reach as many women as possible with the care they need.
- **Faith-based and community organizations:** Engaging faith-based organizations (FBOs) in the mobilization of community resources to support HIV/AIDS prevention and care services.
- **Monitoring the HIV/AIDS epidemic:** Improving surveillance systems for measuring HIV seroprevalence, AIDS case reporting, program performance, and behavior change.

Program Performance

USAID measures its performance against the HIV/AIDS pandemic through a combination of Agency-specific indicators and broader indicators used by the international community. The following text and data tables provide information and data on Agency performance.

[18] USAID's 25 priority countries are Ethiopia, Ghana, Kenya, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe in Africa; Cambodia, India, Indonesia, and Nepal in Asia; Russia and Ukraine in Europe and Eurasia; and Brazil, the Dominican Republic, Guyana, Haiti, and Honduras in Latin America and the Caribbean.

Strategic Objective Performance

In FY 2002, USAID's target for HIV/AIDS programs was for at least 85 percent of strategic objectives to meet or exceed their targets for FY 2002, with no more than 10 percent of objectives not met, and the remaining 5 percent accounting for new SOs that are not required to report.

Table 17: Reduce HIV/AIDS
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	13%	19%	28%	16%
Met	81%	71%	63%	45%
Not Met	0%	5%	9%	6%
Not Required to Report	6%	5%	0%	32%
Number of SOs	16	21	32	31

Source: USAID missions, *Annual Reports*. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

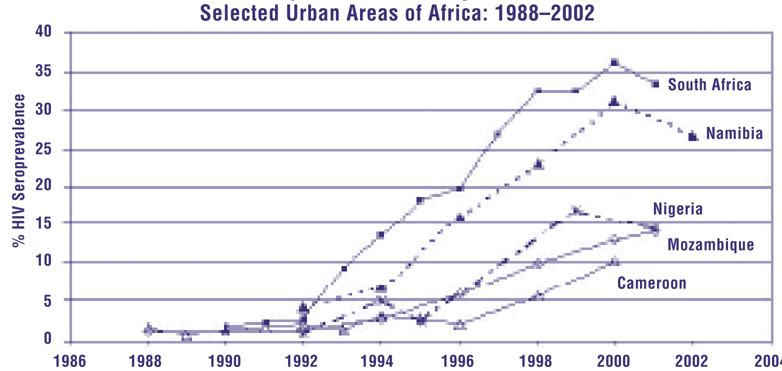
Agency-wide in FY 2002, 31 operating unit strategic objectives focused on HIV/AIDS. Of these, 19 met or exceeded their targets, 2 SOs failed to meet targets, and 10 were not required to report. Sixty-one percent of SOs met or exceeded their targets.

Monitoring the HIV/AIDS Epidemic. As noted above, developing surveillance systems to track the spread of the pandemic is itself a key programming effort in the fight against HIV/AIDS, and USAID is a global leader in monitoring the disease. With its partners, USAID has supported the development of surveillance systems, AIDS case reporting, and program coverage indicators.

USAID's support of global monitoring and evaluation efforts has fostered a strong understanding of the state of the pandemic, including the difference between generalized epidemics, concentrated epidemics, and countries with low-prevalence epidemics. This global system provides crucial information to decision makers to ensure that resources are strategically placed and appropriately used.

For example, Figure P, Figure Q, and Figure R present trends for sub-Saharan Africa:

Figure P: Countries with Increasing Epidemics
HIV Seroprevalence for Pregnant Women
Selected Urban Areas of Africa: 1988–2002

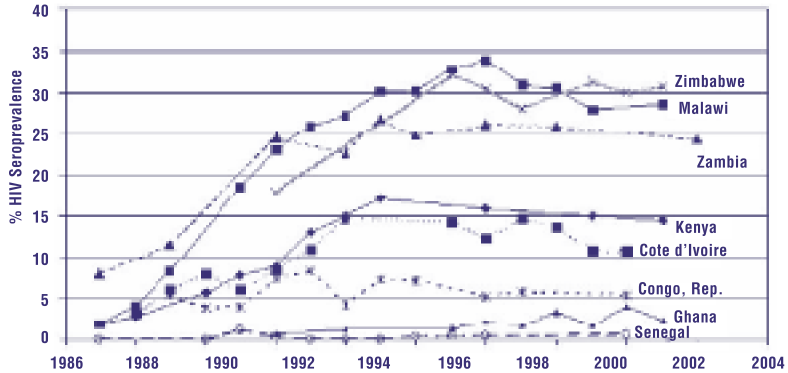


Note: Includes infection from HIV-1 and HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2003.

HIV Prevention Through Behavior Change. Primary prevention lowers HIV prevalence in generalized epidemics and keeps prevalence from rising in areas where HIV rates are currently low. Without aggressive prevention efforts, the number of infected persons will continue to

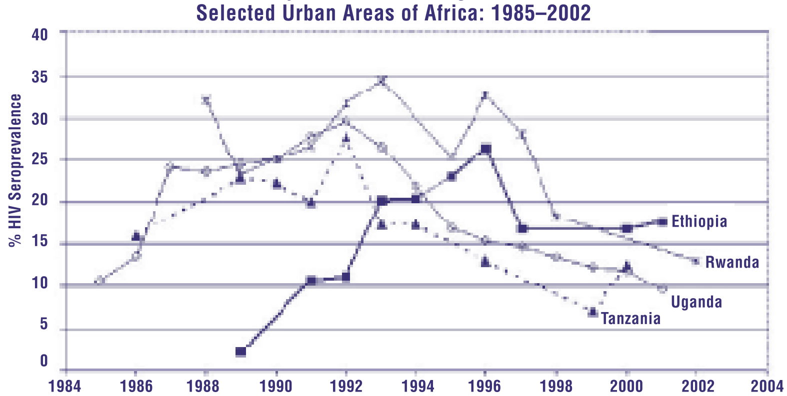
Program Performance

Figure Q: Countries with Stable Epidemics HIV Seroprevalence for Pregnant Women Selected Urban Areas of Africa: 1985–2002



Note: Includes infection from HIV-1 and HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2003.

Figure R: Countries with Declining Epidemics HIV Seroprevalence for Pregnant Women Selected Urban Areas of Africa: 1985–2002



Note: Includes infection from HIV-1 and HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2003.

grow, threatening the long-term sustainability of new and innovative treatment interventions.

A USAID-supported ABC study[19] has examined how changes in sexual behaviors may have affected HIV prevalence. In both Uganda and Zambia, the study examined changes in behavior and prevalence. Uganda has been widely hailed for its decline in HIV prevalence. Behavioral data from Uganda show a decline in the number of single men with two or more partners from 54 to 33 percent between the late 1980s and the mid-1990s. The epidemic in Zambia is declining among 15- to 19-year-olds. Behavioral data indicate a decline during the 1990s in the percentage of unmarried young women reporting sex within the past year from 39 to 26 percent. The percentage of unmarried men in Zambia reporting sex within the past year dropped sharply from 63 to 24 percent in the latter half of the decade. Uganda, Zambia, and Zimbabwe all saw substantial increases in reported condom use with nonregular partners during the latter part of the 1990s.

USAID seeks to improve links between epidemiological and behavioral surveillance systems (“second generation” surveillance) to assess and track the epidemic over time. To monitor progress in prevention programs, USAID tracks behavior change data from national population-based surveys. Three key indicators are age at first sexual experience, number of people reporting more than one partner during the past year, and number of people reporting condom use at last risky sexual encounter. For the last

[19] HIV and Fertility Trends: A Comparative Analysis of Six Countries; Phase I of the ABC Study. Measure Evaluation/USAID, August 2003 (ABC = Abstinence, Being Faithful, Condom Use).

indicator, reported condom use at last sexual relations with a nonregular partner ranges from 14 to 70 percent for males and 9 to 59 percent for females in the 25 USAID priority countries.

Condom sales and distribution are another indication of prevention efforts. USAID distributed 685 million condoms throughout the developing world in FY 2002 through its AIDSMark project, compared with 562 million during FY 2001.

Prevention of Mother-to-Child Transmission (PMTCT). USAID supports successful PMTCT projects in 27 countries. A USAID-funded project in Ukraine, for example, had a rapid and dramatic 75 percent decrease in HIV-positive babies born in the hospital to HIV-positive women in 2002.[20] Overall, 185,000 women received antiretroviral (ARV) treatment to prevent mother-to-child transmission in USAID-assisted countries.

In Jamaica, USAID assistance to prevent mother-to-child transmission of HIV has been expanded from the original four parishes to all 14 parishes across Jamaica. As a result, the Government of Jamaica plans to test 80 percent of pregnant mothers by December of 2003. In FY 2003, the National Program for the Control of HIV/AIDS in the Dominican Republic incorporated 69 public hospitals into the mother-to-child vertical transmission program, up from 16 hospitals in FY 2002.

In response to the President's PMTCT Initiative, USAID, DHHS, the Department of State, and the Office of Management and Budget are working together to scale up U.S. assistance in the 14 countries most affected by HIV. Baseline assessments, initial program proposals, obligation budgets, and implementation plans have been completed for all 14 Presidential Initiative countries.

On July 21, 2003, U.S. Ambassador to Haiti Dean Curran, USAID Administrator Andrew S. Natsios, and DHHS Deputy Secretary Claude Allen launched a PMTCT initiative in Haiti. As a key component of the Haiti program, USAID is supporting a joint initiative of the Ministry of Health and GHESKIO (the Haitian Study Group on Opportunistic Infections and Kaposi's sarcoma) to establish a national network of voluntary counseling and testing (VCT) and PMTCT centers in all reference hospitals and designated NGO sites in each health district. The PMTCT initiative will bring new services to 70 clinics and hospitals throughout Haiti and ensure new levels of care and treatment for rural regions, as well as most cities and towns. Haiti's targets include testing 850,000 pregnant women over the next five years and providing ARV treatment for approximately 25,000 women who are HIV-positive. Thousands of children will be born virus-free as a result.

Care and Support for People with HIV Infection or Affected by HIV/AIDS. USAID funds care and support activities, including stigma reduction; voluntary counseling and testing; and palliative care, home-based care, and community-based care. Table 18 provides indicators chosen by the Agency to track the prevention and care efforts of USAID and its international and host-country partners. USAID is developing data collection and survey systems to

[20] AIHA's Regional Model Project for Prevention of MTCT-HIV/AIDS in Odessa, Ukraine, Project Description, February 2003.

Program Performance

**Table 18:
Program Coverage Indicators
for Selected Prevention and Care Services in 2002[a]**

	2002 # of Women Who Received ARV Therapy for PMTCT	2002 # of HIV+ People Who Received Home-Based Care[b]	2002 # of People Who Received ARV Therapy	2002 # of Orphans and Vulnerable Children Who Received Care and Support
Presidential Initiative Countries[c]	118,598	109,741	33,632	233,129
Other Priority Countries[d]	66,866	44,435	127,584	230,329
Total	**185,464**	**154,176**	**161,216**	**463,458**

[a] Coverage indicator totals include efforts reported by USAID missions, international partners, and host countries.

[b] Includes USAID-funded projects only.

[c] The Presidential Initiative countries are Botswana, Cote D'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia.

[d] Other priority countries are Ghana, Malawi, Senegal, Zimbabwe, Cambodia, India, Indonesia, Nepal, Brazil, Dominican Republic, Honduras, Russia, and Ukraine.

collect data on these common indicators across USAID country programs. However, because data and surveillance systems are weak in many of these countries affected by the pandemic, USAID has not yet established firm baselines and targets.

- **Stigma reduction.** At present, fewer than 5 percent of people living in the countries targeted by the President's Initiative know their HIV status.[21] HIV/AIDS-related stigma and discrimination are barriers to participation in VCT; disclosure of HIV status; and seeking care, treatment, and support. Involving members of the community in care and support programs increases local ownership and can help others accept people living with HIV/AIDS in their midst. Providing quality counseling and appropriate linkages, referrals, and prevention and care services enhances the opportunities for people living with HIV/AIDS to have access to care, treatment, and support. USAID supports stigma reduction social marketing campaigns in Ethiopia, Ghana, Haiti, Namibia, Nigeria, South Africa, and Guyana in order to address stigma while increasing demand for quality health services. In Ghana, the Stop AIDS, Love Life program is one of the world's first national campaigns to focus on stigma and discrimination and involve faith-based organizations as partners from beginning to end.
- **Voluntary counseling and testing (VCT).** HIV prevention and care are inextricably linked components of the war against HIV/AIDS. VCT serves as the gateway to care. Counselors work one-on-one with clients to help them assess their risk for HIV and engage them in a discussion of realistic ways to reduce their risk. Studies in both the United States and the developing world have demonstrated that VCT can lead to changes in high-risk sexual behavior among both HIV-positive and HIV-negative persons.
  In Kenya, USAID is supporting the government's ambitious plan to expand VCT throughout the country. Overcoming enormous challenges, 55 sites have been established in less than two years in three priority regions

[21] The 14 Presidential Initiative countries contain the majority of the world's HIV/AIDS cases.

with the highest HIV prevalence rates. The Kenya program uses two models of service provision: stand-alone sites and sites that are integrated into public health facilities such as large hospitals, health centers, and rural dispensaries. Using a newly developed VCT curriculum, 127 newly certified counselors are now working at these sites. Counselors have learned to administer and read rapid same-day HIV tests, so that clients and counselors can discuss test results before clients leave the facility. Between January 2001 and September 2002, 36,000 Kenyans sought services from these sites, a reflection of the program's early success.

- **Palliative care and home- and community-based programs.** Home-based care allows AIDS patients to remain in the community. This fosters better understanding of HIV/AIDS within families and communities. Home-based palliative care is particularly important in countries with severe shortages of hospital beds, countries that cannot afford drug treatment, and in areas where poor nutrition is common.

  In Cambodia, USAID supports 34 home care teams to provide palliative care, counseling, education, and support to patients and family members in the 16 provinces hardest hit by the epidemic. Close ties between home-based care programs and health facilities are also critical in areas where ARV therapy is introduced, because hospitals rely on these programs to follow up patients and enhance their adherence to, and continuation of, treatment. Overall, 154,000 people living with HIV/AIDS received home-based care services in USAID-assisted HIV/AIDS Presidential Initiative and other priority countries in FY 2002.

Antiretroviral Therapy for People Living with HIV/AIDS. USAID is expanding its efforts to introduce ARV drug therapies in developing countries and to develop new models of care and treatment. The Agency has an existing infrastructure for commodities and logistics and a strong history in HIV/AIDS policy support that will hasten the rapid scale-up of ARV treatments. In FY 2002, 161,000 people received ARV therapy in USAID-assisted countries. In FY 2003, USAID launched pilot programs for delivering ARV therapy in Ghana, Kenya, and Rwanda. USAID will apply the experience gained from these pilots to achieve the targets of the President's Emergency Plan for AIDS Relief.

Orphans and Vulnerable Children. USAID is a global leader in programs to support orphans and other children made vulnerable by HIV/AIDS and currently funds 99 activities in 21 countries. These activities focus on strengthening families' and communities' ability to provide care and support, linking families and communities with government social services, helping children and adolescents continue their education, helping families preserve their livelihood, and supporting policy development and research.

For example, the SCOPE project in Zambia strengthened the capacity of organizations and communities providing support to more than 137,000 orphans and vulnerable children through activities such as building HIV/AIDS awareness and providing household economic support, education, and psychosocial support. In Namibia's "Schooled for Success Project," 7,600 orphans and vulnerable children received psychosocial support, 3,375 received school uniforms, and 129 children who were out of school returned. In Cambodia, 2,446 vulnerable children received direct services, 11,164 young people received program services, and 12 new NGO and community-based organizations mobilized services for vulnerable children. Overall, 463,000 orphans and vulnerable children received care and support services in USAID-assisted HIV/AIDS Presidential Initiative and other priority countries in FY 2002.

Working with Faith- and Community-Based Organizations. While people of faith around the world hold differing views on how best to prevent HIV infection, all believe in compassionate care for the sick. As USAID expands its work in care and support for people living with HIV and AIDS, faith- and community-based organizations are essential partners.

In Ghana, USAID is supporting the new “Reach Out, Show Compassion” campaign with Muslim and Christian leaders to reduce stigma and foster support and compassion for those living with and affected by HIV/AIDS. In Ethiopia, nine faith-based organizations provided home-based care to more than 800 beneficiaries, counseling to more than 3,600 persons, support to 550 children affected by HIV/AIDS, and food aid to 40,000 people living with HIV/AIDS in FY 2002. USAID also introduced the new Communities Organized in Response to the HIV/AIDS Epidemic (CORE) initiative to channel resources and technical assistance to faith- and community-based organizations. USAID had awarded funds to 45 grassroots organizations from 29 countries as of June 2002.

Challenges and Constraints

As Table 18 shows, most USAID missions are meeting their objectives and targets directed towards HIV/AIDS. However, a few SOs did not achieve their targets in FY 2002. Mexico, for example, is one of 31 “Basic” countries under USAID’s strategy for an Expanded Response to HIV/AIDS. USAID technical assistance works directly with the principal actors in selected states to focus and strengthen the response to HIV/AIDS through public-private–sector collaboration, policy dialogue, strategic planning, and institutional strengthening of non-governmental organizations (NGOs).

In FY 2002, this SO in Mexico did not meet its planned targets for the first time ever. SO performance was assessed based on the indicator “number of target states with ongoing public-private collaborations.” The SO targets were considered “not met” because public-private collaborations were achieved in six states instead of the target of seven states. The process of building sustainable, multisectoral involvement in each of the target states has proved more intensive and costly than anticipated at the start of the strategy. The continuing need for technical assistance and strengthening activities in the states with existing public-private collaborations, as well as political barriers and conflict in the remaining states, slowed the formation of new multisectoral citizens groups (MCGs). Almost all target states have initiated the process, however, and additional states not originally included in the target group have asked to participate. In spite of the fact that the SO target was not met, the activity is achieving results and making steady progress. USAID/Mexico is also exploring the possibility of utilizing a public-private alliance in the area of behavior change communication and condom social marketing in order to leverage additional funding to meet the targets for the SO.

However, in order to reach the targets in HIV/AIDS prevention, care, and treatment in the 14 Presidential Initiative countries, USAID must address the following important challenges:

- Timely disbursement of significantly increased U.S. financial resources
- Substantial increases in host-country human resource capacity
- Major strengthening of host-country infrastructure and systems, especially management of critical pharmaceuticals
- Overt and direct action by host-country leaders at all levels to address stigma and remove this barrier to prevention, care, and treatment
- Major mobilization of community-based, faith-based, and other public and private partnerships to scale up programs rapidly and meet the needs of millions

Fortunately, the U.S. commitment and leadership evoked by the President and the Congress is forging a broad USG response at unprecedented levels. This greatly increased commitment and corresponding increase in funding will enable USAID to expand efforts with our U.S. Government partners and build upon our experience, past successes, and research to help millions of people.

Infectious Diseases

Introduction

USAID's strategy for reducing the threat of infectious diseases of major public health importance focuses on four areas—malaria, tuberculosis, antimicrobial resistance, and disease surveillance.

Malaria exacts a high burden on the people of the developing world, especially Africa. Up to 900 million cases of malaria occur each year, and there are as many as 2.7 million deaths, most of them among African children. The economic burden of malaria on Africa has been calculated at an annual $11 billion loss in gross domestic product.

The tuberculosis (TB) picture is equally serious. Of the 2 million to 3 million TB deaths that occur each year worldwide, 98 percent occur in developing countries, and 80 percent of new cases occur in just 22 high-burden countries. TB is also a critical factor in the fight against HIV/AIDS because one-third of those who develop AIDS die from TB.

Treatment of malaria and TB (and other diseases) relies principally on specific drugs that are becoming less effective because of antimicrobial resistance (AMR) that results from poor drug practices. The AMR problem must be addressed before it becomes insurmountable. As demonstrated in last year's international response to severe acute respiratory syndrome (SARS), functional surveillance systems are critical for controlling infectious diseases. In many developing countries, surveillance remains an area requiring considerable attention and investment.

Performance

In the past year, USAID made much progress against infectious diseases. The FY 2003 Performance Plan identified two performance targets:

- At least 90 percent of the strategic objectives in this area will meet or exceed their targets for the year.
- At least one-third of the strategic objectives will achieve a significant result in FY 2003. USAID met this target.

Program Performance

Examples of our significant results are outlined below.

Strategic Objective Performance

Agency-wide in FY 2002, 10 operating unit strategic objectives focused on reducing the threat of infectious diseases. Of these, 9 met or exceeded their target, and 1 SO failed to meet its target. Ninety percent of SOs met or exceeded their targets.

Table 19: Reduce Infectious Diseases Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	13%	17%	20%	0%
Met	75%	83%	60%	90%
Not Met	0%	0%	20%	10%
Not Required to Report	13%	0%	0%	0%
Number of SOs	8	6	10	10

Source: USAID missions, *Annual Reports*. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Malaria. USAID was successful in providing people at risk of malaria with effective treatment and prevention measures. USAID's malaria strategy aligns with the following targets of the global Roll Back Malaria (RBM) initiative:

- At least 60 percent of all pregnant women who are at risk of malaria will have access to presumptive treatment.
- At least 60 percent of those suffering from malaria will receive appropriate cost-effective treatment within 24 hours of the onset of symptoms.
- At least 60 percent of those at risk of malaria will benefit from protective measures such as insecticide-treated mosquito nets.

Each year, 22 million pregnant women in Africa are at risk of malaria. Placental malaria infection increases the risk of low birth weight and other adverse birth outcomes. USAID is promoting the practice of intermittent preventive treatment (IPT) as part of regular antenatal care to significantly reduce the risk of anemia to both newborns and mothers. In the past year, IPT programs have been launched or strengthened in 10 countries, laying the groundwork for delivery of services to more than 6 million women attending antenatal services.

Effective Malaria Treatment

Growing resistance to antimalarial drugs is challenging malaria control. New drugs exist, but are significantly more costly than current therapies. With USAID support, an Institute of Medicine panel is developing guidance for the Roll Back Malaria partnership about the most efficient means of financing these newer, more effective treatments. USAID is also supporting operations research to study issues affecting the introduction of combination drug therapies in Africa.

Proper use of insecticide-treated bednets (ITNs) can reduce overall child mortality by up to 30 percent and significantly reduce morbidity in children and pregnant women. To dramatically expand access to ITNs, USAID supports an innovative public-private partnership called NetMark, which is marketing thousands of ITNs throughout Africa. In the past year, NetMark helped eliminate taxes and tariffs on ITNs in Mali, Senegal, and Zambia, paving the way for greater access to affordable nets.

Recognition of symptoms and prompt, effective treatment are critical to saving the lives of children infected with malaria. USAID support has helped lay the groundwork for effective, appropriate policies in 8 countries, with policy changes having already occurred in another 14 countries. In the Democratic Republic of the Congo (DRC), for example, an outdated treatment policy (along with poor diagnostic capacity and environmental degradation) was contributing to more severe malaria infections. USAID support focused on improving the capacity of the national program to develop and disseminate effective treatment and clinical management policies. With USAID's help, the DRC has developed a national malaria policy, and new treatment guidelines have been distributed. In response to reports of high chloroquine resistance, a new drug policy has replaced chloroquine with sulfadoxine/pyrimethamine.

Tuberculosis. Two context indicators form the backbone of both the USAID and the global TB strategy:

- Increase treatment success rate to 85 percent at the national/subnational level.
- Increase case detection rates to 70 percent.

USAID has joined with the global community in adopting the Directly Observed Treatment, Short Course (DOTS) strategy as the most effective approach to achieving these targets. USAID is supporting activities in 36 countries, including many high-burden countries, to expand and strengthen DOTS programs. In 31 of these countries, USAID has contributed to significant progress in improving DOTS programs and toward reaching these targets; programs are just being launched in the other five countries.

In India, the USAID-supported model DOTS program in Thiruvallur district of Tamil Nadu (population 2.7 million) has raised the case detection rate from 29 percent in FY 1999 to 92 percent in FY 2002. This is well above international norms for case detection rates. In the same district, cure rates following DOTS have risen from 61 percent in FY 1999 to 90 percent in FY 2002. In FY 2002, USAID efforts focused on extending and strengthening DOTS through public-private partnerships, resulting in 39 new institutions throughout the country. This represents a 40 percent increase in health institutions offering TB/DOTS services.

One way to improve tuberculosis case detection is to expand the number of partners working in TB and in national TB programs. In FY 2003, USAID made great strides in this direction by broadening the mandate of our PVO Child Survival and Health Grants Program to include TB. We awarded three new grants that included TB elements, expanding the reach of national TB programs and the number of partners active in TB control.

Antimicrobial Resistance (AMR). AMR threatens to reverse health gains by reducing the effectiveness of affordable treatment for acute respiratory infections, diarrheal disease, TB, malaria, sexually transmitted infections, and HIV/AIDS. USAID's programs are designed to preserve the effectiveness of currently available and affordable drugs in developing countries by decreasing the unnecessary use of antimicrobial drugs, improving the use of drugs when they are needed, and ensuring the regular supply and quality of essential drugs.

USAID's advocacy and technical assistance have helped ensure that Global Fund proposals reflect the importance of containing antimicrobial resistance and of assessing the capacity of health systems to manage pharmaceuticals. USAID brought together representatives of the Fund, the World Bank's Multi-Country HIV/AIDS Program (MAP), and the U.S. Government to initiate dialogue and collaboration as they begin to provide greatly increased amounts of pharmaceuticals to countries that lack the capacity to manage and use them appropriately, a situation with serious implications for containing drug resistance.

At the country level, strengthening the capacity of Drug and Therapeutics Committees (DTCs) is an effective means of helping developing-country hospitals improve their drug selection procedures, treatment guidelines, and drug use practices. These improvements often translate into cost savings while also helping to contain antimicrobial resistance. In FY 2002, 10 USAID-supported DTC training courses reached more than 320 participants from 48 countries, with participants returning home to facilitate national courses and lead additional efforts to strengthen or establish new DTCs. So far, returning participants have conducted 18 courses in 7 countries, drawing participants from 13 nations, and 42 DTCs have been created or restructured. Course participants from Eritrea have started a national program to introduce DTCs throughout their country. Other results have included improved processes for drug selection and formulary management, with an emphasis on rational use and cost

Global TB Drug Facility

An initiative of the global Stop TB Partnership, the Global Drug Facility (GDF) seeks to improve access to high-quality anti-TB drugs and aims to provide free drugs for 10 million people by 2005. The GDF provides drug grants to countries to support DOTS expansion and offers a direct procurement mechanism for countries and NGOs. USAID is providing financial support to the GDF, as well as technical assistance for improved pharmaceutical management. Because of USAID assistance, critical drug management issues are now receiving appropriate attention. USAID programs trained 300 program managers from 25 countries in various aspects of TB drug management and procurement. These programs are also helping Stop TB partners amend their training curricula to include increased coverage of drug management issues. Because of the GDF and USAID assistance, average international prices for a full course of TB treatment have declined by 30 percent (to about $10); drugs have been ordered for 23 countries and delivered to 12; and drugs have been committed for more than 1.6 million patients.

savings. Participants from Malaysia and South Africa have used drug selection tools to cost out essential medicines within their hospital settings, eliminate nonessential expenditures, and reduce costs.

In collaboration with the USAID-supported U.S. Pharmacopeia Drug Quality and Information Program, Russia's Smolensk State Medical Academy put an entire antimicrobial textbook on its website to increase the access of Russian-speaking health care professionals to the latest information on rational antimicrobial therapy. From July to December 2002, the textbook received more than 45,000 hits, demonstrating the increased demand for authoritative information on selecting, prescribing, and monitoring the use of antimicrobial drugs in Russian-speaking countries.

Challenges and Constraints

Host-country policies are key to the effective treatment and control of infectious diseases, and bringing about appropriate policy change is often a major challenge. Governments must adopt and implement policies on frontline medications and on such issues as taxes and tariffs on bednets. While there has been some success in both these policy areas in some countries, in others, national policies constrain effective programming. In Tajikistan, for example, malaria assumed epidemic proportions after control measures lapsed following independence because of civil war, the deterioration of the economy and the health system, and the rise of uncontrolled malaria in bordering Afghanistan. A study to determine the efficacy of the cheapest antimalarial medication found that 51 percent of cases in survey sites were resistant. Unfortunately, the Ministry of Health has rejected the study results and forbidden further surveys to determine the best second-line drug to use. USAID has initiated public awareness campaigns to increase people's knowledge about disease prevention. People with malaria symptoms are making safer decisions about care, with 81 percent taking a blood test to determine their best medicine for treatment. This figure exceeds the 80 percent target and represents a 28 percent increase over last year.

USAID's ability to help countries build effective disease surveillance systems and institute practices to reduce the spread of antimicrobial resistance is restricted by limited funding for these programs. While strong Congressional support has increased resources for TB and malaria in recent years, resources for these activities have remained constant or declined, inhibiting the kind of progress necessary against infectious diseases that threaten not only the developing world but also the United States.

Child Survival

Introduction

In FY 2003, USAID maintained its long-standing leadership role in the effort to improve the nutrition, health, and survival of children in the developing world. The need is great: as reported in the medical journal *The Lancet,* of the approximately 10 million infants and children who die each year, more than 6 million could be saved by a small number of preventive and treatment interventions.[22]

USAID's approach to child survival focuses on helping countries deliver

[22] Gareth Jones, Richard W. Steketee, Robert E. Black, Zulfiqar A. Bhutta, Saul S. Morris, and the Bellagio Child Survival Study Group, "How many child deaths can we prevent this year?" *The Lancet* 2003; 362: pp. 65–71.

the health interventions that prevent or treat the five primary causes of childhood illness and death—diarrheal disease, respiratory infections (especially pneumonia), malnutrition, malaria, and vaccine-preventable diseases. These interventions include breast-feeding and improved feeding of young children, environmental programs to reduce diarrheal illness and respiratory infections, treatment of diarrhea with oral rehydration therapy (ORT), treatment of pneumonia with inexpensive antibiotics, delivery of vitamin A and other essential micronutrients, and immunization of mothers and children. USAID is also increasingly confronting the challenges of perinatal and newborn illness and mortality, which are now responsible for almost half of infant mortality.

USAID helps develop and implement these key interventions by combining the Agency's global leadership with direct support to developing countries. Globally and at the country level, USAID invests in applied and operations research and in technology development to provide new and improved interventions and ways to deliver them. In FY 2003, USAID supported research showing that oral zinc supplementation for children with acute diarrhea reduces illness and the risk of life-threatening dehydration (as well as reducing treatment with inappropriate drugs).

USAID also exercises global leadership through partnerships with international agencies, including the Polio Eradication Initiative, the Global Alliance for Vaccines and Immunization, and global initiatives for vitamin A supplementation and fortification in developing countries.

Through programs developed with host-country governments and local partners, USAID field missions support delivery of key interventions; build capacity; help develop technically sound policies and program approaches; and increase families' and communities' knowledge of, demand for, and use of the interventions that keep children healthy and alive.

Strategic Objective Performance

In FY 2002, 31 operating units identified child survival as a primary component of their health programming, nearly doubling the previous year (see table below). Sixty-eight percent of these operating units met or exceeded their performance targets, down from 100 percent in FY 2001. The percentage reduction is primarily a result of the large increase in the number of operating units adding new child mortality objectives to their programming. However, 2 of the 21 programs required to report were assessed as falling short of targets in FY 2002, an increase from FYs 2000 and 2001.

Table 20: Reduce Child Mortality Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	22%	13%	19%	16%
Met	70%	80%	81%	52%
Not Met	4%	0%	0%	6%
Not Required to Report	4%	7%	0%	26%
Number of SOs	27	15	16	31

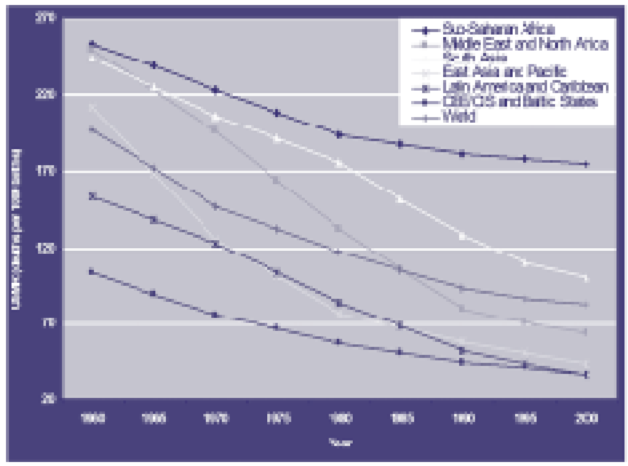
Source: USAID missions, *Annual Reports.*

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Program Performance

The United States is committed to the Millennium Development Goal of reducing mortality among children under age 5 to one-third of its 1990 level by the year 2015. Although USAID's resources and programs alone are insufficient to reach this goal, the Agency makes substantial contributions in programs and leadership. Reviews of global progress in reducing under-five mortality demonstrate several important facts (illustrated in Figure S). First, progress continued during the 1990s and through 2002, reaching an estimated global level of 81 deaths of children under age 5 per 1,000 children born alive in 2002, down from 94 in 1990. Progress in USAID-assisted countries (which received more than $320 million in USAID child survival assistance in FY 2003) clearly contributed to this trend. Since 1989, for example, the number of USAID-assisted countries with under-five mortality rates below 50 per 1,000 live births has tripled.

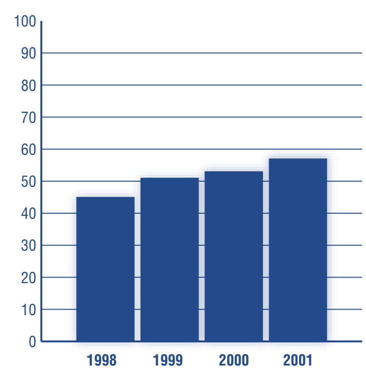
Figure S: Under-Five Mortality Rates, by Region, 1960–2000



However, many countries—especially the poorest countries with the weakest health systems—have not made such progress. In sub-Saharan Africa, USAID-assisted countries that receive more than $1 million for child survival programs still have under-five mortality rates above 150. With such a lack of progress in many poor countries, combined with slower progress in other countries as attention has turned from children's health to other health concerns, the world is not on track to achieve the child survival Millennium Development Goal. Nonetheless, the good progress of some relatively poor USAID-assisted countries, including Nepal, India, Madagascar, and Zambia, documented by Demographic and Health Surveys since 2000, shows that effective programming approaches combined with national and local commitment can improve child survival.

USAID joined with the governments of Canada and Uganda in FY 2003 to convene senior health officials from multilateral and bilateral agencies to revitalize global child survival efforts. This meeting led to the creation of a high-level interagency working group dedicated to increasing attention, coordination, and resources for child survival efforts in high-mortality countries.

Figure T: Average DTP3 Coverage for 12 USAID-Assisted Countries in the "Boost Immunization" Initiative, 1998–2001



Immunization. In FY 2003, USAID made major contributions to increasing child immunizations in developing countries with existing and new vaccines. USAID managed the $58 million contribution of the United States to the Global Alliance for Vaccines and Immunization (GAVI). GAVI includes representatives of national governments from developed and developing countries, multilateral organizations like UNICEF and WHO, private foundations, NGOs, and the vaccine industry. The goals of GAVI and its financing mechanism, the Vaccine Fund, are to increase access to routine immunization services, expand the use of new vaccines important for children's health, accelerate research on vaccines most needed by children in developing countries, and promote the financial sustainability of immunization in those countries. In FY 2003, USAID served on the governing board of GAVI, represented bilateral donors on the GAVI Working Group, served as cochair of the Financing Task Force, and played key roles on the task forces for advocacy and for implementation. USAID also provided experts from U.S. partners to support the development of effective immunization approaches and assist in countries' analyses of options for financing their child immunization programs. USAID-supported immunization experts have participated in the reviews of all rounds of country proposals submitted to GAVI. Of these proposals, GAVI has approved 68 countries to receive $1.03 billion for immunization. Beyond GAVI, USAID joined WHO and UNICEF in developing and implementing a strategy for accelerating reduction of mortality from measles (which still causes almost 800,000 deaths among children under age 5 annually) and in developing the "Reaching Every District" approach aimed at assuring more equitable immunization coverage.

In individual countries, USAID helped strengthen immunization programs and increase immunization coverage. USAID-supported programs aimed at reducing the number of children who "drop out" before receiving all immunizations raised the proportion of Senegalese children receiving their full series of DPT shots from 44 percent in 2001 to 65 percent in 2002 and reduced the dropout rate in USAID-assisted districts in Nepal from between 32 and 42 percent in 2001 to between 12 and 25 percent in 2002.

To enhance program effectiveness and achieve increased immunization coverage in difficult settings, USAID continued its "Boost Immunization" initiative in FY 2003. In 20 countries, USAID is working through partnerships with individual USAID field missions, country governments, and local partners to expand routine immunization services in countries where immunizations have lagged. In 12 "Boost" countries with available data—including the Democratic Republic of Congo, Uganda, Mozambique, and Ethiopia—aggregate population-weighted DPT3 coverage rose by almost one-fourth over 1998 baselines, from 46 to 57 percent (Figure T). This increase represents more than 1.4 million additional children immunized each year in these countries.

Control of Diarrhea and Pneumonia. Use of oral rehydration therapy is the cornerstone of USAID's response to the high mortality caused by dehydration from diarrheal illness among young children. Demographic and Health Surveys indicate that in USAID-assisted countries, three of four children with diarrheal illness receive ORT. In FY 2003, USAID worked with global and country partners to increase the impact of diarrheal disease control programs. This work included support for developing an improved formulation of oral rehydration salts (ORS) that reduces the duration and severity of illness and thus reduces the need for treatment beyond ORT. In FY 2003, UNICEF and WHO developed joint program guidance recommending this new ORS formulation. USAID also helped apply the recent finding that zinc supplementation reduces severity and duration of diarrheal illness. Working with WHO, the International Centre for Diarrheal Disease Research in Bangladesh, the government of Bangladesh, and private-sector partners, USAID supported commercial production and marketing of a zinc supplement as a treatment for diarrhea. In FYs 2004 and 2005, the effectiveness of the supplement and its ability to replace useless and sometimes harmful medicines will be evaluated.

Pneumonia continues to be responsible for almost 2 million deaths of children under age 5 each year. Providing simple antibiotic treatment for children with pneumonia has not made as much progress as oral rehydration therapy for diarrhea. In FY 2002, a USAID-supported global review of programs to treat pneumonia concluded that community health workers trained in simple diagnosis and treatment can effectively treat pneumonia in children who do not have access to formal health care. This conclusion took into account USAID program experience in Nepal (where trained female community volunteers in more than 20 districts are treating more than 125,000 cases of child pneumonia each year with high levels of success) and Honduras.

In FY 2003, as part of an effort to begin implementing this approach in other countries, USAID and UNICEF partnered with the government of Senegal to adapt training materials, supervisors' guides, monitoring tools, and program elements from Nepal. With the support of the USAID mission and UNICEF field office in Dakar, Senegalese government officials, and USAID-supported technical experts, a community-based pneumonia treatment activity was launched. In its first three months in start-up districts, this activity provided diagnosis and treatment to more than 1,000 children with respiratory illness. In FY 2004, USAID and UNICEF plan to expand this activity to at least two more West African countries.

Nutrition. After supporting much of the research demonstrating the impact of vitamin A on reduced child mortality in developing countries, USAID has been at the forefront of establishing vitamin A programs. Vitamin A supplementation programs in many countries have achieved high coverage through links to national immunization days (NIDs) for polio eradication. With polio eradication approaching and many countries phasing out NIDs, USAID and partner agencies are urging governments to establish other approaches to maintain high vitamin A coverage. Because vitamin A has been well accepted by families, countries such as Zambia, Morocco, Senegal, and Ghana have established "Child Health Weeks" that use vitamin A supplementation as the core of a package of child health services, including immunizations and education on prevention and treatment of diarrhea and malaria. Other countries have initiated national campaigns to distribute vitamin A. In the Democratic Republic of the Congo—where large parts of the country are isolated, posing difficult logistical challenges—the first "National Vitamin A Day" achieved 57 percent coverage of young children.

A number of countries where USAID played a lead role in establishing vitamin A supplementation have integrated this intervention into their national health programs and budgets. For example, Indonesia, Bangladesh, the Philippines, Nepal, and Nicaragua now conduct national vitamin A programs with little or no USAID assistance, achieving coverage ranging from 72 percent in Indonesia to 96 percent in Nepal.

In FY 2003, USAID also expanded efforts to promote breast-feeding, the most important source of nutrition and protection from disease for newborns and infants up to 6 months of age. Countries reporting increased prevalence of exclusive breast-feeding through 6 months of age in USAID program areas include Madagascar (from 46 to 71 percent between 2000 and the end of 2001), Benin (from 19 to 60 percent between 1996 and 2002), Honduras (from 23 to 61 percent between 1998 and 2002), and Nigeria (from 10 to 26 percent between 2000 and 2002).

Breast-feeding practices are threatened by concern and confusion regarding HIV transmission, especially in southern and eastern African countries. However, evidence indicates that for young infants of HIV-positive mothers, exclusive breast-feeding may be more protective against HIV transmission than mixed feeding of breast milk and other foods or liquids. For these reasons, in FY 2003, USAID supported activities to promote exclusive breast-feeding in areas of high HIV prevalence and to implement breast-feeding promotion in programs aimed at preventing mother-to-child HIV transmission. In Zambia, these activities resulted in measurable increases in initiation of breast-feeding within one hour of birth (from 59 to 83 percent) and in exclusive breast-feeding of infants under age 6 months (from 57 to 69 percent). Mixed feeding of infants under 6 months old also declined in USAID program areas.

Challenges and Constraints

USAID's child survival program benefits from the continued support of American citizens and U.S.-based NGOs and PVOs. Improving the health and nutrition of children is the public's first priority for foreign assistance. Congress continues to support the program, providing steady funding for USAID activities, as well as new funds for initiatives such as GAVI. Child survival efforts also benefit from partnerships with organizations like UNICEF, NGOs, and developing-country governments and communities and from USAID participation in global initiatives such as GAVI, the Global Alliance for Improved Nutrition, the Polio Eradication Initiative, and others.

However, progress in child survival faces three critical constraints:

- **Inadequate resources:** The world has the necessary interventions for achieving further substantial improvements in child health and survival. The major constraint to getting these interventions to more children is inadequate national and international resources.
- **Limited capacity:** At the national level, a key constraint is the limited capacity of health systems and health care providers to deliver services to more children. This constraint will grow as substantial new resources for HIV/AIDS and other programs are directed to systems with already limited capacity.
- **Lack of equity:** Numerous analyses have shown that while child survival and health indicators have improved in many countries, the very poorest children tend not to benefit from these improvements.

USAID is responding to these challenges by helping to lead an interagency effort involving UNICEF, WHO, the World Bank, and other donors to revitalize international commitments to child survival. A key focus of this partnership will be the development of coordinated strategies for improving child health and nutrition while linking them to the policies and investment plans of the countries themselves and their donor partners. USAID is increasing its emphasis on community and family-focused program approaches, including expanded partnerships with NGOs and faith-based organizations, to promote approaches that will be sure to reach the neediest families.

One example of a Child Survival SO that did not meet its target is in Mozambique. Mozambique's social and health indicators remain among the worst in the world mostly because of the impact of 15 years of central planning and 20 years of civil conflict, which ended in 1992. Life expectancy is under 46 years, HIV prevalence is high (13 percent of the adult population), the infant mortality rate is 129/1,000 live births, and malnutrition rates are among the most severe in Africa. Currently, USAID activities cover 33 districts in six provinces, targeting 900,000 women of reproductive age in two provinces and 600,000 children under five years of age in six provinces. Data indicate that performance of USAID's child survival and family-planning activities have exceeded expectations over the past five years. However, despite tremendous progress in program implementation and outputs, no data are available for most established indicators for FY 2002; therefore, the self-assessment of "did not meet" targets was applied.

Maternal Health

Introduction

USAID maternal health programs contribute to the Millennium Development Goal of a reduction in the maternal mortality ratio by three-quarters between 1990 and 2015. The Agency's strategy for improving maternal survival and health is intrinsically related to improving birth outcomes for newborns because maternal health, nutrition, and care during pregnancy and at birth profoundly affect fetal and newborn health. Because approximately 50 percent of births in developing countries still occur at home without skilled birth attendants, USAID supports community education and mobilization to reach the poor and most vulnerable. USAID programs focus on preparation of families for birth, antenatal and postpartum care, safe delivery, and treatment of obstetric and newborn complications. USAID programs support proven interventions, including iron-folate supplementation, tetanus toxoid immunization, syphilis and malaria control, prevention of mother-to-child transmission of HIV, skilled birth attendance, breast-feeding, and birth spacing. Safe Motherhood programs include community interventions, policy development to support essential workforce and health system improvements, delivery of lifesaving obstetric services, and research to improve the evidence base for cost-effective programs.

Strategic Objective Performance

In contrast to Global Health's other strategic objectives, nearly 40 percent of all USAID maternal health funds and activities are managed through central or regional programs. While mission programs in maternal health tend to be small, they draw on expert technical assistance from Global Health and work in close conjunction with activities under the other Global Health strategic objectives. From FY 2001 to FY 2002, the number of operating units identifying this as their primary strategic objective increased from 10 to 14 (see Table 21). In FY 2002, 9 (64 percent) of the 14 operating units met their targets under this objective, and none was assessed as not meeting its target. The percentage reduction of met or exceeded strategic objectives is a result of the number of new operating units who have added this objective to their programming and are not required to report until FY 2003. For FY 2002, five operating units were not required to report for this objective, compared with one the year before.

Table 21: Reduce Maternal Mortality Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	0%	17%	20%	0%
Met	60%	75%	70%	64%
Not Met	0%	0%	0%	0%
Not Required to Report	40%	8%	10%	36%
Number of SOs	5	15	10	14

Source: USAID missions, *Annual Reports.*

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Program Performance

Data on reduced maternal mortality in several countries with significant USAID family-planning and maternal health programs are encouraging. Between 1993 and 2000 in Egypt, for example, the maternal mortality ratio declined dramatically: from 174 to 84 maternal deaths per 100,000 live births. Contributing factors included improved quality of obstetric care, increased access to family planning, and education of women and their families about seeking prompt medical care for pregnancy complications. Improvements in maternal survival in the past decade have also been documented in Morocco, Honduras, Bangladesh, and Guatemala.

In southern Africa, however, the HIV/AIDS pandemic and limited assistance to health programs contributed to an 80 percent increase in the recorded maternal mortality ratio in Malawi and a 146 percent increase in Zimbabwe between 1989 and 1997. The World Health Organization's recently published global estimate of maternal mortality for 2000 is 529,000 deaths. This estimate is essentially the same order of magnitude—between 500,000 and 600,000 deaths annually—as the 1990 and 1995 estimates, albeit for a somewhat larger world population.

Over the past decade, USAID has seen a slow but steady increase—on average about 1 percentage point per year—in skilled attendance at birth in countries where we have invested in population, health, and nutrition programs. Between FY 2000 and FY 2003, skilled attendance increased globally from 49.2 percent to 52.2 percent, meeting USAID's targets. This global increase comprised significant gains in individual countries, such as Egypt, Indonesia, Morocco, Bolivia, El Salvador, Benin, and Eritrea, offset by stagnation across most of sub-Saharan Africa.

Performance results from Guatemala and India illustrate these gains:

- In Guatemala, a country profoundly affected by war and cultural inequities, USAID support for maternal health and family-planning programs contributed to a 30 percent decrease in the maternal mortality ratio between 1989 and 2000. Key to this success was the development of a partner relationship between traditional birth attendants, who are often at a woman's side during home birth, and doctors and nurses, who attend only 42 percent of all births in the country. This relationship has encouraged traditional attendants to refer women to obstetric care facilities if life-threatening complications occur during home deliveries. In addition, implementation of Performance Quality Improvement at 154 health services in USAID's 8 health areas improved quality of care 320 percent, on average. Providers received training in lifesaving skills and in providing woman-friendly, culturally appropriate care to improve quality and equity. The American Perinatology Center has designated the maternity ward in one of these services a model for Latin America.

- In rural parts of Uttar Pradesh, India, home births, maternal anemia, and infant and maternal mortality are very high. Technical assistance to a local NGO has mobilized communities to prepare for births and trained adults in home-based lifesaving skills, resulting in measurable improvements in health practices. Breaking with centuries of tradition, more than two-thirds of women now breast-feed their infants within an hour after birth. In one year, tetanus toxoid immunizations of pregnant women increased from 37 to 75 percent, while use of iron tablets increased from 1 to 36 percent. Use of modern family planning after childbirth has also increased from 14 to 61 percent. These gains were achieved through new approaches that used community health workers and volunteers in an innovative process of negotiation—instead of didactic teaching—that engages adult learners in evaluating their choices and deciding which new behaviors are practical and valuable to them.

Challenges and Constraints

Reducing maternal mortality requires a constellation of interventions dependent on functioning health systems, which are not cheaply or quickly improved. Judicious use of resources, partnering with others to maximize effects, and targeting research efforts to find more cost-effective approaches are among the strategies for meeting this challenge.

The biggest challenge in maternal health is reducing maternal mortality and disability in sub-Saharan Africa amidst economic decline, political instability, and the HIV/AIDS pandemic. In sub-Saharan Africa, AIDS has led to the diminished health and nutrition status of pregnant women, a dwindling labor force, and a diversion of talent away from fields such as maternal health to HIV/AIDS. Apart from the repercussions of the AIDS epidemic, significant migration of skilled nurses and midwives to the United States is also exacerbating personnel shortages. Thus, workforce development has become fundamental to improving health systems.

USAID programs have characteristically targeted the most vulnerable populations, including geographically and culturally isolated populations. This results in greater challenges that require innovative, well-funded, and sustained approaches. In FY 2002, all SOs for maternal health met targets, exceeded targets, or were not required to report.

Family Planning and Reproductive Health

Introduction

For more than 35 years, USAID has been a world leader in supporting voluntary family-planning programs in developing countries. By enabling women and couples to have the number of children they want and helping them space their children two or more years apart, family planning improves both maternal and child health. In settings where HIV/AIDS is prevalent, family planning helps reduce mother-to-child HIV transmission.

Family planning has also been demonstrated to reduce the incidence of abortion, further reducing maternal mortality. In Romania, abortion was the primary method of fertility regulation before 1990, while contraception was forbidden. With improved access to family planning in the 1990s, use of modern contraceptives by married women more than doubled from 14 to 30 percent. At the same time, abortions declined from 152 to 104 per 1,000 married women.

Family-planning programs have helped slow world population growth. They have contributed to a decrease in the average number of children per family in developing countries (excluding China) from more than 6 in the 1960s to the current level of 3.5. In FY 2003, roughly 40 percent of married women in these countries were using modern contraceptives. Nonetheless, millions of women who desire to space or limit births still lack access to family-planning services.

USAID's efforts to reduce unintended pregnancies utilize a number of approaches:

- Improving the quality of family-planning services by training health professionals, upgrading family-planning facilities, and strengthening information, management, and procurement systems
- Integrating family planning with maternal and child health services
- Disseminating family-planning information widely through mass media information, education, and communication activities
- Improving the policy environment for family planning and fostering increased funding for family-planning programs by other organizations
- Improving the supply of contraceptives, especially for poor and underserved rural populations, through social marketing and other strategies
- Developing new contraceptive products and service delivery approaches, including engaging the private sector and non-governmental organizations

Program Performance

USAID uses a combination of data to track performance in family-planning and reproductive health programs, including performance of operating unit strategic objectives against targets, other performance indicators, and context indicators, as described below.

Agency-wide in FY 2002, USAID's target for reducing unintended or mistimed pregnancies was for at least 90 percent of reported strategic objectives in this area to meet or exceed their targets for the year, with no more than 10 percent failing to meet targets. In FY 2002, 12 operating unit strategic objectives focused on family planning. This reduction is a feature of the assessment system and does not represent a reduction in the number of countries where USAID family-planning programs are active. Of these 12 SOs, 11 met or exceeded targets and 1 did not meet its targets. Table 22 provides these data in comparison to recent years.

Other Results Data

Context Indicator: Total Fertility Rate

Globally, fertility rates are falling. Table 23 shows total fertility rate (TFR) trends for 36 USAID-assisted countries that have been surveyed twice in the past 12 years.

Context Indicator: Contraceptive Prevalence Rate

The contraceptive prevalence rate (CPR) is a widely used performance measure that correlates well with the total fertility rate. Table 24 shows trends in CPR over the past 12 years in 36 USAID-assisted countries.

Context Indicator: Birth Spacing

USAID family-planning programs promote healthy birth spacing. Infant and child mortality are reduced when births occur two or more years apart. Table 25 displays trends in the percentage of births spaced at least two years apart for USAID-assisted countries having recent survey data.

Table 22: Reducing Unintended and Mistimed Pregnancies Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	30%	42%	25%	34%
Met	70%	53%	63%	58%
Not Met	0%	5%	6%	8%
Not Required to Report	0%	0%	6%	0%
Number of SOs	27	19	16	12

Source: USAID missions, *Annual Reports.*

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Table 23: Context Indicator for Reduction in Unintended and Mistimed Pregnancies: Total Fertility Rate in USAID-Assisted Countries

Number of Countries (36 reporting)					
Rate	1990	1993	1996	1999	2002
Less than 3	3	4	5	7	7
3 to 3.9	8	8	9	7	12
4 to 4.9	7	7	9	12	7
5 or more	18	17	13	10	10
Average Rate (unweighted)	5.0	4.7	4.5	4.3	4.1

Source: Demographic and Health Surveys, Centers for Disease Control and Prevention, U.S. Bureau of the Census International Database.

Data Quality: See Appendix B.

Table 24: Context Indicator: Contraceptive Prevalence Rate*

Number of Countries (36 reporting)					
Percentage	1990	1993	1996	1999	2002
50% or more	2	3	5	10	12
35%–49%	8	9	11	6	8
15%–34%	10	9	6	10	9
Less than 15%	16	15	14	10	7
Average Percentage (unweighted)	21.4	24.6	28.1	32.5	37.6

***Note:** This figure is for Married Women Ages 15–49 Using Modern Methods of Contraception.

Source: Demographic and Health Surveys, Centers for Disease Control and Prevention, U.S. Bureau of the Census International Database.

Data Quality: See Appendix B.

Context Indicator: First Births to Mothers Less Than Age 18

A mother and her child both face greater health and survival risks when the mother is very young. Table 26 shows trends in the percentage of births to women under age 18 for USAID-supported countries with recent surveys.

Country examples of performance results follow:

Table 25: Context Indicator: Percentage of Births Spaced Two Years or More Apart

Number of Countries (26 reporting)					
Percentage	1990	1993	1996	1999	2002
80% or more	6	7	9	9	12
75%–79%	4	3	4	5	5
70%–74%	9	12	8	7	5
Less than 70%	7	4	5	5	4
Average Percentage (unweighted)	73.5	74.5	75.4	76.4	77.6

Source: Demographic and Health Surveys.

Data Quality: See Appendix B.

Table 26: Context Indicator: Percentage of First Births to Mothers Under Age 18

Number of Countries (26 reporting)					
Percentage	1990	1993	2000	2001	2002
20% or more	13	12	9	8	8
15%–19%	3	5	8	8	5
10%–14%	5	3	4	4	6
Less than 10%	5	6	5	6	7
Average Percentage (unweighted)	19.5	18.8	18.2	17.5	16.5

Source: Demographic and Health Surveys.

Data Quality: See Appendix B.

- Between FY 1994 and FY 1999, USAID supported improved access to family-planning information and services for more than 4 million women in Russia. Survey data show that contraceptive use increased and abortion rates steadily declined in areas with expanded services, while remaining relatively constant in control sites. National data indicate that abortion rates in Russia declined significantly between 1990 and 2000, from 88 to 40 per 1,000 women of reproductive age. Since 1999, USAID has pursued a broader program that includes high-quality family-centered maternity care and family-planning counseling services for postabortion and postpartum women.
- USAID's family-planning and reproductive health program in Malawi focuses on training, service provision, logistics, management, and the diagnosis and treatment of sexually transmitted infections. From 1992 to 2000, contraceptive use by married women more than tripled, from 7 to 26 percent. This enabled women to better space their births. Over this same period, the percentage of women having their first birth before age 18 declined from 29 to 24 percent. The percentage of births spaced at least two years apart increased from 79 to 83 percent. These changes resulted in a decline in the total fertility rate from 6.7 to 6.3 births per woman.
- The demand for effective natural methods of family planning is

evident in the Philippines. Survey data reveal that 24 percent of married women practice some form of periodic abstinence, but only 26 percent of these women knew even approximately when pregnancy was likely to occur during the menstrual cycle. The “Standard Days Method” provides a technique for employing periodic abstinence more effectively. In the parts of the Philippines where it has been introduced, it has achieved high levels of acceptability and effectiveness—95 percent effective when correctly used and 88 percent effective in typical use. Plans are under way to include this method of choice in widely available government programs.

- In Nicaragua, fertility rates fell from 4.6 in 1993 to 3.2 in 2001 because of the acceptance of modern contraception by 67.8 percent of women. Since USAID purchases 75 percent of contraceptives used in Nicaragua, much of this achievement can be attributed directly to USAID assistance.

Challenges and Constraints

USAID’s family-planning and reproductive health program has achieved success in all regions of the developing world, including such low-resource settings as Bangladesh, Kenya, and Haiti. But past high fertility in many parts of the developing world has resulted in vast numbers of people now entering reproductive age. This poses a challenge to expand services, especially those designed to assist adolescents, whose needs include delay of marriage and childbearing. A further challenge exists in countries with high HIV/AIDS prevalence, where family-planning programs can play an important role in preventing mother-to-child transmission of HIV infection. Expanding services in a sustainable fashion means increasing cost-recovery approaches and engaging the private sector to deliver services, while also addressing the needs of the poorest and hardest-to-reach population groups, usually through large government programs.

USAID’s family-planning assistance in India is focused on the state of Uttar Pradesh (UP), with a population of 166 million and one of a number of states with high levels of need. The Innovations in Family Planning Services (IFPS) project focuses its activities on this state, plus two newly created adjacent states, while the complementary Program for the Advancement of Commercial Technology/Child and Reproductive Health (PACT/CRH) project addresses urban areas throughout north India.

The goal in this program is to reduce the high unmet need for family planning. Among reproductive-age, married women in this state, 28 percent are using family planning, but an additional 25 percent either desire to space their next birth or to have no more children and yet are not using any method of family planning. Despite not meeting two of three performance goals, substantial progress has been made over the past year. Social marketing efforts have led to a 28 percent increase in rural condom sales and an 18 percent increase in Oral Rehydration Salts (ORS) packets over previous year’s sales. Moreover, coverage of sufficient quantities of iron and folic acid supplements for pregnant women increased to nearly 35 percent, compared with fewer than 20 percent in 2001. Finally, USAID-funded technical assistance has facilitated state-of-the-art health and population policy development in the two newly created states.

In response to the challenges of FY 2002, USAID and its implementing partners have charted plans that will result in increased and intensified coverage of NGO activities. Expanded social marketing efforts are planned, including in health services. USAID-funded activities in the public sector are being expanded, because the public sector accounts for nearly two-thirds of use of modern contraception (sterilization) in UP. In October and November 2002, USAID conducted a major review of the IFPS project and has begun acting on the recommendations to reconsider and reorient current technical assistance arrangements and to work with the State Innovations in Family Planning Services Agency (SIFPSA) to improve its processes to scale up and document its technically sound innovations and to leverage other donor resources.

Strategic Goal 5: Democracy and Good Governance Strengthened

Overview

Recent years have seen a dramatic escalation in the severity and global reach of terrorism. Such attacks are typically planned in, and implemented by people from, countries lacking functional governments or basic democratic freedoms: failed states provide sanctuary for criminal and terrorist elements. Autocratic states that do not provide outlets for political expression provide breeding grounds for those willing to resort to violence. Mounting terrorism that stems from these political environments underscores the importance of strengthening democracy and good governance around the world. In areas where there are fragile democracies, USAID emphasizes strengthening democracy so that these countries do not destabilize and become failing states. Such programs emphasize rule of law, anticorruption, and institutional strengthening.

USAID is in the forefront of foreign assistance efforts to promote more effective, accountable, and legitimate democratic governance. The Agency formed the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) as part of its 2001–2002 reorganization to consolidate USAID programs aimed at preventing state failure or recovering from it. USAID's programs in governance and democracy emphasize the rule of law, elections and political processes, civil society, good governance, and the mitigation and management of conflict, in order to strengthen the fundamental democratic institutions and political environment critical to a sustainable democratic system.

Benefits to the American Public

September 11, 2001, marked a seminal shift in the way the United States defines national interests and priorities. We have an overriding interest for the United States to live in a world where there are stable states capable of resolving problems peacefully without resorting to terrorism or violent conflict.

Good governance is the cornerstone of stability and development. Conversely, failed states often lead to increased immigration and refugee flows, violent conflicts, economic crisis, the spread of disease, and the rise of criminal and terrorist elements. Both natural and man-made disasters are more debilitating in countries that lack good governance. For example, wars or the self-destructive policies of authoritarian and dictatorial regimes lead to famine and other man-made disasters, which are much less likely to occur in well-functioning democracies. Accordingly, the 2002 National Security Strategy identified the growing number of weak states as a central challenge of the 21st century.

By assisting the growth of good governance and democracy in developing and transitional countries, the United States contributes to international peace, stability, and economic prosperity. Moreover, stable societies that experience economic growth and provide opportunities for their citizens will enhance our own security and our economic well-being through trade and investment opportunities. Smaller investments now in democratic development are likely to be far less expensive than larger-scale interventions required by state failure and its results.

Program Costs

In FY 2002, USAID incurred net costs of $690.9 million in democracy and governance programs.

How USAID Strengthens Democracy and Good Governance

Democratization is a difficult, long-term process fraught with many pitfalls. Many countries have little history of democratic culture or institutions. Too often, citizens experiencing democracy for the first time have wildly unrealistic expectations of what democracy can provide and how much work is actually required of them as democratic citizens. Rapid opening of the political arena can be destabilizing when nascent institutions are unable to meet basic demands. In many new democracies and transitional settings, basic democratic institutions such as parliaments, courts, and election commissions are often weak, corrupt, or unskilled in providing the services expected by a free society. At the same time, when large populations lack the skills or opportunities to effectively participate in a newly open system, their frustrations can lead to dangerous marginalization and nostalgia for authoritarian leadership and previously failed systems.

USAID and its partners have learned a great deal in the past decade of democracy programming and are applying these lessons in programs worldwide. It is understood, for example, that fragile democracies fail because of poor economic performance, stalled economic reforms, inequality, endemic corruption, dysfunctional rule of law, exploitation of ethnic and religious differences, and violence. And increasingly, failed democracies and economies result in civil war and conflict. A significant percentage of countries where USAID is now working—from Afghanistan and Kosovo to Timor-Leste (formerly East Timor) and Eritrea—have experienced civil conflict over the past five years.

In this challenging environment and in order to prevent future conflict and the risk of state failure, USAID works to strengthen good governance and democratization through five Agency-level objectives to:

- Strengthen the rule of law and respect for human rights
- Promote more transparent and accountable government institutions
- Support credible and competitive political processes
- Promote the development of a constructive civil society that is politically active
- Mitigate conflict

Measuring Democracy and Governance Performance

USAID measures progress in our democracy programs by tracking operating unit SO performance and through the use of a context indicator—the Freedom House "Freedom in the World" survey—to measure the overall progress of democracy in USAID-assisted countries. Freedom House measures freedom by assessing countries along two broad categories (political rights and civil liberties) and is a widely accepted indicator of a country's democratic progress or lack thereof. Table 27 provides scores on the Freedom House Index for USAID-assisted countries where the Agency funds democracy SOs at a level of $1 million or more (using FY 2000 as a base year).

Table 27: Context Indicator: Freedom House Index Scores in USAID-Assisted Countries Countries with at Least $1 Million in FY 2000 in Any DG Agency SO (2.1–2.4)
(Total number of reporting countries = 64, including Kosovo and West Bank/Gaza.)

	Number of Countries				
Percentage	1995	1999	2000	2001	2002
Free	16	20	21	22	24
Partly Free	30	31	28	28	25
Not Free	16	13	15	14	15
Data Not Available	2	0	0	0	0

Note: Data reflect only countries with significant USAID democracy programs, plus the seven Eastern European countries that graduated from USAID assistance in the 1990s. This table uses FY 2000 as a base year.

Source: Freedom House, *Freedom in the World 2003*, and http://www.freedomhouse.org/research/freeworld/FHSCORES.xls for previous-year Annual Freedom in the World Country Scores.

Data Quality: See Appendix B.

Over the past three decades, freedom and democracy have spread globally at an unprecedented rate, and USAID's democracy and governance programs have contributed to this historic momentum. Recent notable examples include transitions to democracy in Serbia and Indonesia and significant elections in Peru, Senegal, Ghana, and Kenya. Despite this progress, however, the global picture is not clear. While the number of "free" countries increased from 16 in 1995 to 24 in 2002, the number of countries classified as "not free" by Freedom House has remained roughly constant. Moreover, the years 1999–2001 demonstrate that backsliding is a real possibility. Given this context, USAID continued its efforts to strengthen good governance and democratization while incorporating a new focus on conflict prevention and mitigation.

The following sections describe the performance of operating unit strategic objectives aligned with Agency-level democracy and governance strategic objectives.

Democracy and Governance Agency-Level Objective 1: Rule of Law and Respect for Human Rights Strengthened

An effective and equitable justice system, respect for the rule of law, and protection of human rights are essential underpinnings of a democratic society. A recent study of USAID achievements in the rule-of-law area over the past 15 years, based on a combination of field and desk studies of nearly 30 countries, revealed that USAID is widely considered to be a pioneer and leader among donor agencies. USAID was the first donor agency to provide rule-of-law assistance explicitly for the purpose of promoting democratic governance, and it is frequently the first to take on the challenges of promoting the rule of law in highly sensitive political contexts.

USAID helps establish effective legal systems through programs aimed at reforming the legal code, establishing an impartial judicial system, and reducing corruption. A well-developed system of justice helps guarantee the protection of basic civil rights while providing the legal framework for political, social, and economic

Table 28: Performance Indicator: Percentage of Rule-of-Law SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	15%	11%	17%	11%
Met	75%	74%	63%	64%
Not Met	5%	10%	8%	0%
Not Required to Report	5%	5%	12%	25%
Number of SOs	20	19	24	28

Source: USAID missions, *Annual Reports.*

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

progress. USAID activities strengthen justice-sector institutions, codify human rights, and increase citizens' access to justice.

The Agency supports such diverse activities as training judges and lawyers in improved legal procedures; helping to introduce new practices, such as alternative dispute resolution, into national judicial systems and legal curricula; and streamlining the courts' administrative and management systems. With regard to human rights, USAID funds the training and capacity building of human rights organizations, as well as protection for human rights workers.

USAID has a general target for strengthening the rule of law and respect for human rights, which is that at least 85 percent of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10 percent not met and 5 percent not required to report performance because they are less than one year old.

Agency-wide in FY 2002, 28 operating unit strategic objectives focused on the rule of law and human rights. Of these, 21 met or exceeded their targets and 7 were not required to report. No strategic objectives failed to meet their targets, representing a trend improvement from FY 2000 and FY 2001.

Strategic Objectives That Met Targets

Honduras: Criminal Procedures Code and New Supreme Court

USAID's program to strengthen the Rule of Law and Respect for Human Rights in Honduras achieved two major successes, including the commencement of trials under the new Criminal Procedure Code and the selection of a new Supreme Court under a modified and depoliticized nominating procedure. These watershed events were possible because of the determination of reformers and despite last-minute resistance from groups who benefited from the old system.

USAID remained the primary donor supporting legal reform and the introduction of a new Criminal Procedure Code from the mid-1990s, when this work began. The new code has introduced an oral, adversarial criminal process, replacing the former written, inquisitorial system. This was a radical change that required intensive training and modification of almost every aspect of the criminal justice system. Since the new code went into effect, almost the entire judicial sector has embraced the reform with enthusiasm and is pushing forward with implementation.

During FY 2002, USAID concentrated its resources on pilot courts in Tegucigalpa and San Pedro Sula, which together account for more than 50 percent of the criminal caseload in the country. The first oral trials under the new Code occurred in Tegucigalpa on June 6, 2002, and in San Pedro Sula on June 18, 2002. These two pilot courts conducted an impressive combined total of more than 25 oral trials, and approximately 130 oral trials occurred around the country. In addition, more than 2,000 initial and preliminary hearings were held around the country. The majority of trials have involved prosecution of street crimes, including homicides, rapes, drug possession, and trafficking, and the trials resulted in an appropriate mix of convictions and acquittals. These cases were resolved with relative efficiency, in contrast to the former system in which cases languished for years. Because Honduras is a high-crime country, this more efficient criminal justice system will increase citizen security and improve public perceptions of justice and law enforcement.

Bulgaria: Improved Judicial System That Better Supports Democratic Processes and Market Reforms

As in economic growth and other development sectors, foreign assistance achieves the greatest success when host governments are actively committed to reforms that widely benefit their citizens. Harnessing the Government of Bulgaria's political will to improve the judicial system, USAID continued to support a comprehensive judicial reform program there in three key areas: policy reform, court administration/case management reform, and judicial training.

In the policy reform arena, USAID initiated efforts to improve the systematic measurement of judicial reform in order to build transparency into the judicial system and gain buy-in from legal professionals whose support is vital to reform efforts. Two expert panels, one composed of judges and one of attorneys and legal NGOs, undertook the baseline evaluation. Their panel discussions focused on the three main areas of judicial performance: independence, efficiency, and transparency—the areas where USAID directs its rule-of-law program resources in Bulgaria. These USAID-supported performance management efforts resulted in the release of the 2002 Judicial Performance Index, which surveyed the Bulgarian judicial system and enhanced public understanding of their country's judiciary, while helping to create more popular demand for reform.

USAID support also proved vital in drafting Bulgaria's first Action Plan for implementing its new National Judicial Reform Strategy, which the European Union (EU) endorsed as the road map for the judicial reform components of Bulgaria's accession to the EU. In addition, USAID's Judicial Development Project provided assistance for drafting and adopting key amendments to the Judicial Systems Act, which corrected many of the weaknesses identified in the judicial system evaluations and the Action Plan. These amendments establish the basis for further constitutional, legislative, and regulatory changes. Public awareness of judicial reform efforts increased further through USAID support for a pilot press office project in eight courts.

The USAID program also fostered strategic alliances and provided assistance to strengthen the capacity of key judicial bodies such as the Supreme Judicial Council, charged with administering the judiciary. In addition, Bulgaria introduced a new case management system, and 29 courts were surveyed as potential candidates for a new courts-in-partnership initiative.

With USAID assistance, the Magistrate's Training Center provided training to new and sitting judges, as well as to court officials. In 2002, 100 percent of newly appointed judges and 47 percent of sitting judges received training at the Center. The Center added new courses on such topics as organizing the court administrative system, professional ethics, analyzing new amendments to EU and international law, codes of criminal and civil procedures, and commercial law, while increasing the number of classroom hours for participating judges. In accordance with the mission's sustainability targets, 35 judges received training in professional training and adult learning techniques in order to diffuse impact more widely through the legal profession.

Nigeria: Transition to Democratic Civilian Governance Sustained

USAID made important progress moving Nigeria's democratic transition forward. A standard of legislative activism in relation to the executive was established that is unusual for new democracies. At the same time, eight state assemblies participating in USAID's legislative strengthening program surpassed the targeted number of key bills to be passed in the reporting period, while the National Assembly missed its target by only one.

USAID civil society programs leveraged major increases in political participation, exceeding the target for positive advocacy outcomes for assisted civil society groups. Important progress was made in mitigating ethnic, religious, communal, and political conflicts, with 15 conflict mitigation teams put in place in volatile areas of the country. Significant gains were made in the judicial sector as well, with federal budget allocations exceeding targeted levels for both the federal judiciary and the three pilot states participating in the program.

Georgia: Legal Initiatives to Strengthen Democratic Processes and Market

USAID supported the Republic of Georgia's efforts to establish the legal foundation for democratic governance and a stable market economy. USAID rule-of-law activities in Georgia focused on legal aid services, judicial reform, legal education and ethics, freedom of information, and women's legal rights. In FY 2002, the confluence of several years of targeted judicial reforms such as judicial qualification exams, coupled with legal aid services, led to mutually reinforcing results. Georgians are now more apt to utilize the courts for legal remedies because of increased access to legal services, and they view judges in the regions as less biased. USAID programs also simplified procedures for the Constitutional Court and brought licensing regimes into compliance with the Administrative Code.

USAID-supported Georgian NGOs opened six regional offices to provide consultations and pro bono litigation services for indigent populations. The number of cases more than doubled from the previous year. More people used courts to settle disputes, especially in the regions, and citizens actively sought this free legal aid. The number of consultations that legal advocacy NGOs provided increased significantly, from 856 in 2001 to 13,973 in 2002.

Georgia was the first country in Eurasia to adopt a comprehensive General Administrative Code, including a Freedom of Information (FOI) Section. USAID assistance focused on the provisions of the Code that deal with freedom of information and the transparency of public agency meetings. Advocacy organizations, the media, and informed courts all played a role in this effort. Citizens used FOI to demand access to town hall meetings and local budget information, and they used this increased access to lobby more effectively for their interests. A reformed judiciary now decides cases according to the new Administrative Code. Agencies and local governments are now compelled to disclose information they once sought to withhold, and they are required to open meetings to the public they previously sought to close. As a result, targeted cities are operating more efficiently, citizens can better articulate and press for their concerns, and local governments are responding.

Also in FY 2002, USAID supported the biannual judicial qualification exams conducted by Georgia's Council of Justice. Nearly 90 percent of sitting judges have passed the exams. Twenty-five percent of qualified judges have completed ethics training supported by USAID. The Judges of Georgia, a private judges' association, continued to grow and extended its services to judges in the regions. Although reforms are jeopardized by continued inadequate salaries, the recent democracy assessment noted that, in Georgia's regions, the public perceived judges to be less corrupt and more likely to render unbiased verdicts.

Strategic Objectives That Did Not Meet Targets

All reporting units met or exceeded their targets for rule of law/human rights.

Democracy and Governance Agency-Level Objective 2: Credible and Competitive Political Processes Encouraged

Although important elements of democracy can develop before competitive elections are held, a country cannot be fully democratic until its citizens can freely choose their representatives. A representative democracy encompasses free and fair competition, accountability, and transparency in all its political processes. USAID is working to reform the political process by strengthening democratic culture among governments, citizens, and civil society organizations. In FY 2002, typical approaches to improve political processes included:

- Training to strengthen political parties as organizations for governing and electoral functions
- Citizens' efforts to advocate for reforms, such as improved electoral codes
- Establishing autonomous electoral commissions
- Supporting domestic and international election-monitoring programs
- Local- and national-level voter awareness and education programs that introduce democratic concepts and voting practices
- Providing technical assistance and training to independent media to encourage unbiased reporting on electoral issues and processes

USAID's Agency-wide target for tracking progress in democratic elections is that at least 85 percent of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10 percent not met. The remaining 5 percent are not required to report because they are less than one year old.

Agency-wide in FY 2002, 16 USAID operating units strategic objectives had a primary focus on political processes. Eleven of the 16 met or exceeded targets. Two reported a failure to meet targets, and three were not required to report. Overall, the percentage of strategic objectives involved in political process objectives meeting their targets increased from 50 percent in FY 1999 to 69 percent in FY 2002 (see Table 29); 13 percent were considered not met in FY 2002, a decline from FY 2001.

Strategic Objectives That Met Targets

Timor-Leste: Encourage Credible and Competitive Political Processes

USAID assisted Timor-Leste's first presidential elections in April 2002 with effective domestic and international election monitoring. Voter turnout was more than 86 percent, and the election was widely regarded as having "clearly met international standards for freeness and fairness," according to international observers. USAID-supported training programs for political parties enhanced their ability to help the two presidential candidates develop campaign messages, reach out to their constituents, and monitor the elections through party agents. Domestic election observer groups received training and mobilized throughout the country. Timorese party agents and election observers were present at most of the 282 polling centers on election. USAID-funded international long-term observers were deployed to monitor the preelectoral environment, meeting with political parties, non-governmental organizations, domestic observers, and voters in 12 districts.

Table 29: Performance Indicator: Percentage of Democratic Political Process SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	30%	0%	0%	13%
Met	50%	66%	78%	56%
Not Met	20%	17%	0%	13%
Not Required to Report	0%	17%	22%	19%
Number of SOs	10	6	9	16

Source: USAID operating units, Annual Reports. Because of rounding, some columns do not add up to 100%.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

On election day, 15 short-term observers visited 60 polling centers in 11 districts. In collaboration with UNDP, USAID produced an election observer's manual, setting the stage for effective citizen oversight of, and engagement in, future elections. USAID helped the Women's Caucus register and support women to engage in politics, and a USAID-sponsored nationwide survey of citizens' understanding of the democratic process was conducted to guide training and inform other election-related and voter education efforts. A USAID partner maintained a website, *www.easttimorelections.org,* providing comprehensive information on the elections and posting electoral observation reports.

Timor-Leste's media provided professional and objective coverage of the elections, as a result of intensive USAID training for journalists and an election watch radio program, which covered topics such as the presidential electoral law and the balance of power among the president, government, and legislature. A weekly radio show "A New President for a New Nation" and community discussion groups on the role of the President as defined by the Constitution played key roles in raising public awareness and understanding of the elections. The radio shows covered such issues as presidential powers, the platforms of the presidential candidates, the role of foreign and local election observers, the Independent Electoral Commission and the electoral procedure, the presidential debate, refugees and the election, women's issues, the role of the first lady, and the president's first official duties. In partnership with the National Research Center at the National University of East Timor, USAID funded the only complete presidential debate during the campaign.

Kosovo: Accountable and Transparent Governance

In FY 2002, USAID's program contributed substantially to the long, difficult, and unfinished process of building accountable and transparent governance in Kosovo under United Nations administration. USAID developed and piloted improved court administrative systems, provided training for judges and lawyers, and improved access to laws and regulations. By strengthening the sustainability of independent media and helping them to expand coverage to 90 percent of the population, USAID increased access to information, thereby contributing to a more informed citizenry. Engaging citizens in the planning and decision-making processes raised their awareness of their own responsibility for holding themselves and their leaders accountable. USAID fostered the participation, without fear or threats, of 2 million Kosovars on November 17, 2001, in the first free and fair election of a 120-member Assembly. USAID played a key role in the success of this election, the acceptance of the results, and the formation of Kosovo's first provincial Assembly.

Bangladesh: Strengthened Democratic Institutions

In preparation for the October 2001 parliamentary elections, USAID supported civil society watchdog and voter education activities, local poll watchers, international observers, and UN coordination. More than 150,000 domestic observers were deployed, and 630,000 manuals were printed, distributed, and used in training more than 450,000 political party poll watchers. The election was the freest, most transparent, and least violent in Bangladesh's history, and leaders of the main political parties made important public commitments for strengthening democracy.

Also in FY 2002:

- The Agency supported an NGO that secured the release of 74 women and children and provided information that led to the arrest of 108 traffickers.
- USAID activities, such as the study of corruption in education, attracted press attention and helped to establish six local civil society watchdog groups.
- USAID established a center for women in the garment industry and implemented training programs on human rights, health, and labor issues.

Strategic Objective That Did Not Meet Targets

Sri Lanka: Peace, Good Governance, and Respect for Citizens' Rights

This unsuccessful strategic objective was designed after a democracy and governance assessment conducted in May 2001. Because of significant changes on the political landscape, particularly the election of a new government at the end of 2001 and the signing of a cease-fire agreement in February 2002, USAID conducted a series of reassessments to serve as the basis of a new five-year strategy. Findings and recommendations from these reports are expected by the second quarter of FY 2003 and may result in a revision to this strategic objective. Once the new strategy is in place, the mission intends to issue a new Request for Applications by mid-2003.

Sri Lanka faces numerous changes in the country's primary constitutional and democratic structures. The peace negotiations between the Government and the Liberation Tigers of Tamil Eelam will provide new, possibly unpredictable, challenges for this Democracy and Governance strategic objective. A fundamental difficulty is the designation of the Liberation Tigers of Tamil Eelam as a foreign terrorist organization. Until this is revised, USG prohibitions will require that development assistance under this strategic objective be phased into the north and east.

While no activities were implemented under this strategic objective in FY 2002, it is anticipated that further support to the Peace Secretariat and a grant to a local non-governmental organization to strengthen the courts in the north and east will be among the new activities funded in FY 2003, in addition to the award resulting from the Request for Applications.

Democracy and Governance Agency-Level Objective 3: Promote the Development of Politically Active Civil Society

Civil society exists when citizens are able to freely establish associations that help them address mutual concerns. From parent-teacher associations to faith-based groups, civil society has flourished in the United States for centuries. In some developing countries, however, citizens have only recently gained the right to form associations.

Civil society organizations play two important roles in development. First, they help meet their members' needs—they educate members about new professional practices, share agricultural inputs, or provide health care and other services. Second, civil society organizations are important constituencies for reform, by holding governments and public institutions accountable to citizens. USAID supports a wide range of civil society organizations, including women's organizations, business and labor federations, environmental groups, and human rights monitoring organizations. In all regions, USAID is promoting the development of politically active civil society through the following approaches:

- Increasing citizen participation in political and social decision making by strengthening venues for public participation through non-governmental organizations, labor unions, political parties, and the media
- Strengthening legal systems that promote and support civil society
- Supporting the development of responsive, transparent, and accountable civil society organizations

USAID provides grants, training, and other capacity-building assistance for groups involved in government reform advocacy, conflict prevention and resolution, religious tolerance, human rights, and media support and monitoring. In conflict areas, USAID is also supporting economic development efforts aimed at encouraging local residents to opt for peace and reconciliation.

In FY 2002, USAID's target for tracking progress in the growth of democratic civil society was for at least 85 percent of strategic objectives in this area to meet or exceed their targets, with no more than 10 percent not met. The remaining 5 percent are less than one year old and are not required to report.

Agency-wide in FY 2002, USAID operating units had 44 strategic objectives with a primary focus on civil society. Thirty-two of the 44 met or exceeded targets, while 5 did not meet their targets, and 7 were not required to report. Table 30 compares FY 2002 performance with that of prior years. The decreasing trend in objectives that were not met continues in FY 2002. However, while the percentage of operating units reporting they met or exceeded targets on civil society strategic objectives was less than the desired goal of 85 percent, performance in FY 2002 improved by 6 percentage points over FY 2001.

Strategic Objectives That Met Targets

Indonesia: Democratic Reforms Sustained and Deepened in Indonesia

The events of September 11 intensified the dialogue on democracy and the role of religion in Indonesia. Amidst this environment, USAID achieved notable progress and a range of achievements through grants, training, and other capacity-building assistance to nearly 200 non-governmental organizations involved in transparent and participatory governance, conflict prevention and resolution, religious tolerance, human rights, media support and monitoring, and anticorruption activities.

USAID expanded a program working with more than 20 major religious and secular organizations, including Indonesia's two largest Muslim organizations, with a combined membership of 50 million, to help shape a more open and informed debate. One activity, with the support of 300 intellectuals and religious leaders, promoted tolerant Islamic values and human rights principles through the distribution of more than 45,000 leaflets each Friday after prayers throughout Indonesia. A formal civic education course introduced human rights, gender equity, pluralism, and religious tolerance to students in 46 faith-based and secular schools. Muslim women's organizations received assistance to strengthen their capacity to promote messages of peace, particularly among less-educated groups. Public discussions on "Islam and Democracy" were extended to public affairs television and radio programs.

Through its Office of Transition Initiatives, USAID achieved a notable success with its efforts to support the drafting and passage of the Papua Special Autonomy Bill. The Agency supported the development of the original draft bill and provided a quantitative needs analysis for the Province. USAID's support ensured the passage of the bill, and Papua's annual budget allocation from the

Table 30: Performance Indicator: Percentage of Civil Society SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	16%	16%	3%	5%
Met	61%	58%	64%	68%
Not Met	16%	13%	12%	11%
Not Required to Report	7%	13%	21%	16%
Number of SOs	43	38	42	44

Source: USAID operating units, *Annual Reports*.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Government of Indonesia increased by approximately 100 percent to 7 trillion rupiah (about $700 million).

Guinea: Improved Local and National Governance Through Active Citizen Participation

USAID achieved notable successes in developing a more politically active civil society that fosters transparent budget management and the delivery of public services to local communities. The key achievement was a high-level conflict prevention activity that led to unprecedented presidential action taken on identified key sources of conflict. USAID sponsored this high-level activity, grounded in two previous studies on potential sources of conflict, in response to the destabilizing influence of the border war with Liberia and Sierra Leone.

Strategic Objectives That Did Not Meet Targets

Morocco: Legal Reforms and Training

USAID encouraged active involvement of Morocco's government and civil society in support of citizen rights. The strategic objective met four of its seven targets in FY 2002. Aspects of the legal literacy training program for women, a complex and collaborative effort, counted among USAID's key achievements in Morocco for the year, although the program was not completed on schedule.

Similarly, the Code of Ethics project moved more slowly than expected. A ministerial working group, headed by the Prime Minister, developed a draft code and circulated it among international ethics experts. However, the government did not complete the final version because of party politics in the run-up to the elections in September 2002.

A third target, the advocacy training of trainers for NGO staff, implemented by a Moroccan NGO, was also delayed because of a change in the project coordinator.

Democracy and Governance Agency-Level Objective 4: More Transparent and Accountable Government Institutions Encouraged

Citizens lose confidence in governments that are not accountable and that cannot deliver basic services. The degree to which a government functions effectively and transparently directly affects its ability to sustain democratic reform; therefore, USAID's democracy program focuses on improving government integrity, decentralizing appropriate government functions and decision making, promoting more effective policies, and strengthening legislatures to be more representative and responsive.

Corruption is one of the greatest threats to good governance. USAID uses a variety of anticorruption approaches, such as supporting civil society watchdog groups, assisting in the development of national anticorruption laws, and working with host-government counterparts to increase financial management skills. Anticorruption efforts reap multiple rewards because of their impact across many sectors. Efforts to encourage good governance enhance other USAID initiatives to alleviate poverty; improve economic growth, education, and health care; and protect the environment.

In all regions, USAID is promoting more transparent and accountable government institutions through approaches that include:

- Strengthened national legislatures and legislative reform
- Decentralization and local government reform

- Improved fiscal policies and fiscal management practices
- Modernized tax service
- Privatization in areas such as land ownership and the energy sector
- Anticorruption efforts and public administration reform programs
- Citizen participation in government
- Crime enforcement reform
- Free access to information

In FY 2002, USAID's Agency-wide target for tracking progress in strengthening government accountability and good governance was for at least 85 percent of strategic objectives in this area to meet or exceed their targets, with no more than 10 percent not meeting targets. The remaining 5 percent are not required to report because they are less than one year old.

Agency-wide in FY 2002, there were 50 operating unit strategic objectives with a primary focus on transparent and accountable government. Thirty-three of these met or exceeded targets, while 2 did not, and 15 were not required to report. As seen in Table 31, the percentage of USAID programs involved in governance objectives meeting or exceeding their targets decreased from 72 percent in FY 2001 to 66 percent in FY 2002, under the 85 percent goal. This change represents the difficult challenges of the good governance field.

Table 31: Performance Indicator: Percentage of Good Governance SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	17%	28%	13%	14%
Met	64%	53%	59%	52%
Not Met	8%	19%	16%	4%
Not Required to Report	11%	0%	12%	30%
Number of SOs	36	32	32	50

Source: USAID operating units, *Annual Reports*.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Strategic Objectives That Met Targets

Mexico: More Democratic Processes Adopted in Key Government Institutions in Mexico

USAID responded to opportunities opened up by the 2000 Mexican election, which marked a new era in Mexican democratic governance after 70 years of one-party rule. USAID's democracy program in Mexico met planned targets in 2002. With a major increase in funding, USAID initiated assistance for anticorruption, public administration reform programs, and citizen participation in all ministries and branches of government. USAID worked with local government and provided new credit mechanisms to increase private-sector participation in urban infrastructure and municipal service financing. USAID supported a Mexican initiative to gain passage of Mexico's first-ever civil service law. The result of this far-reaching reform will be the introduction of a merit-based system and will mark an end to government service based on political patronage.

To improve the rule of law, USAID implemented a new, more sustainable mediation project and new court management and association-building efforts. The first class of 36 judges graduated from the Criminal Justice Master's Program, setting a new standard for continuing judicial education in

Mexico. In addition, USAID coordinated the visit of U.S. Supreme Court Chief Justice William Rehnquist and Supreme Court Justice Stephen Breyer to meet with their counterparts on the Mexican Supreme Court, forging more productive working relationships with Mexican justice officials and paving the way for future technical assistance.

USAID also provided training and technical assistance to members of Congress, congressional support staff, and auditors at the federal and state levels. USAID's innovative electoral justice project sponsored local electoral observation and research on postelectoral conflict resolution that contributed to free and fair elections at the state and local levels.

South Africa: Democratic Consolidation Advanced

Overall, USAID's program to consolidate democracy in South Africa met its performance targets in FY 2002. Citizens of South Africa's historically disadvantaged communities, who under apartheid had no vote and little voice in their governance, are the principal beneficiaries of USAID activities aimed at democratic consolidation. Women and children especially benefit from crime- and violence-prevention activities, which target the reduction of domestic violence, child abuse, and juvenile crime.

USAID helped reduce the criminal case backlog with support for better case-processing systems, the introduction of temporary regional courts and specialized family courts, and technical assistance to 22 sexual-offenses courts. Prosecution of high-profile cases, such as corruption and improper conduct in the award of a major arms procurement contract, helped establish a high government standard for ethics. Other initiatives included the development of guidelines for prosecuting complex organized crime, improvements in the witness protection program, and policies on asset forfeiture and forensic accounting.

USAID local governance activities focused on the fifth and final component of the framework Property Rates Bill, which provides for the financial sustainability of the local government system. For the first time, historically disadvantaged citizens in the former townships and residents of wealthy communities alike would have their property values properly assessed. USAID also provided technical assistance to 21 municipalities for raising and managing revenue and improving service delivery, resulting in increases in tax payments. USAID assisted all provinces in completing the process of legally establishing new municipalities so that free and fair local elections could take place as scheduled.

To help civil society, USAID supported a new law that significantly increased tax exemptions for registered civil society organizations and tax deductions for charitable giving. USAID assisted such organizations to meet the legal requirements to qualify for the tax benefits and become eligible for government grants.

Strategic Objectives That Did Not Meet Targets

Madagascar: Improved Environment for Private Initiative

The breakdown in government authority and economic instability during FY 2002 had a negative impact on this SO. Two new activities suffered delays in getting agreements signed. Once signed, the programs were slow to start and suffered serious slowdowns during the height of the blockades as the country ground to a halt. Insecurity concerns in some provinces also created challenging work conditions for our partners.

Because of the eight-month crisis, the main indicator—the number of new firms created in 2002—stagnated and targets were not met. With the turnaround in political fortunes and election of the opposition candidate to the presidency, USAID activities are now working with the new government to regain lost ground and push the frontiers of economic opportunity outwards. The Economist Intelligence Unit predicts that Madagascar's will be one of the world's 12 fastest-growing economies in 2003.

Despite the prolonged crisis, USAID was able to reap some excellent results and make important contributions to Madagascar in several areas. Work with local observers through the Consortium for Election Observation was crucial to changing political winds. The Consortium proved itself to be a powerful voice immediately following the election. Its timely press statements clearly highlighted examples of fraud that had taken place. The Consortium's demands for an "open and transparent" vote count were a rallying cry that helped galvanize the political opposition and civil society.

Work on the issue of good governance continued to proceed, with the local chapter of Transparency International releasing Madagascar's first-ever national report on corruption. This report launched Madagascar onto the Transparency International Corruption Perception Index. In the international arena, the country finished 98th out of 102 countries, based on surveys conducted before the 2001 presidential election. The low ranking made banner headlines and served as a wake-up call to business and politicians about how "doing business" in Madagascar is viewed.

Work with Malagasy civil society also continued to produce results. NGOs joined forces with local communities and government ministries to pioneer a new style of forest management based on good governance principles and local ownership. This effort by all partners shows promise as an effective way to preserve Madagascar's biodiverse forests and rich heritage.

Democracy and Governance Agency-Level Objective 5: Conflict Mitigated

Conflict management and mitigation constitute a priority for USAID assistance; however, creating the capability to achieve a sustainable peace in fragile states is not easy. It requires international resolve, multidisciplinary approaches, and a long-term commitment and integrated planning within the U.S. Government and the donor community. The ability to prevent and mitigate conflict in a given country or region depends directly on USG diplomatic leadership. USAID will continue to partner closely with other USG agencies to ensure a coordinated, strategic approach to the political, social, and economic solutions to conflict.

In September 2002, USAID established its new Conflict Management and Mitigation (CMM) Office that supports missions, regional and pillar bureaus, and implementing partners. CMM provides conflict-related technical assistance, training, information dissemination, research and analysis, and donor coordination. To this end, CMM developed an analytical framework that can help USAID missions identify and prioritize the most important causes of conflict in their country. The framework discusses how existing programs, in areas from economic growth to democracy and governance, interact with underlying conflict dynamics and then illustrates how programs might shift in order to address these dynamics.

USAID's new Conflict Management and Mitigation program has the following priorities:

1. Supporting the development of more integrated, focused U.S. Government strategies. These strategies will result from conflict-vulnerability analyses and will address prevention, management, and reignition (during postconflict transition) of violent conflict. Because each conflict has unique vulnerabilities for violence, or opportunities for peaceful resolution, USAID strives to develop a deep, context-specific understanding of each conflict by developing analytical tools to better understand the drivers of conflict.
2. Expanding democratic governance programs that create institutions at all levels of society as mechanisms to prevent, mitigate, and resolve conflict before it escalates or to reconcile fractured societies in its aftermath. USAID is relying on the initiatives of U.S. and in-country civil society groups, including those that are faith-based or based at the local grassroots level, to develop local capacities for maintaining peace.
3. Providing the parties to the conflict with more opportunities, methods, and tools to acknowledge and act effectively on their responsibilities to resolve root-cause issues peacefully.

In FY 2002, USAID's target for mitigating conflict was for at least 85 percent of strategic objectives in this area to meet or exceed their targets, with no more than 10 percent of SOs not meeting targets. The remaining 5 percent are not required to report because they are less than one year old.

Agency-wide in FY 2002, 36 operating unit strategic objectives focused on mitigating conflict. Of these, 12 met or exceeded targets, 2 SOs failed to meet their targets, and 22 were new and did not report. No comparative data are available because this is the first year of required reporting on conflict mitigation performance.

Strategic Objectives That Met Targets

Kenya: Enhanced Capacity for Managing Conflict

The 2002 Kenyan elections marked an unprecedented period in the country's history—a peaceful transfer of power to the opposition after 24 years of single-party rule. Stability in Kenya is essential for stability in the Horn and Great Lakes region. The success of the elections can be attributed to a number of factors, including the growing community capacity to manage conflict and contribute to democratic processes.

USAID made important contributions to this process by providing nearly $1 million to Kenyan NGOs and other organizations to promote peace. USAID-funded activities enhanced their capacity to participate in peace and democracy programs, ranging from monitoring election-related violence to participation in the constitution process. Near the border of Ethiopia and Somalia, the Wajir Peace and Development Committee trained party agents on election monitoring. With USAID-funded effective Rapid Response Teams, which react to and mitigate conflict between pastoral groups, they traveled around the region to respond to brewing election instability.

Also with USAID support, the Africa Peace Forum organized a landmark preelection workshop, bringing together civil society, police, and media representatives for the first time. Another Kenyan NGO, Intermediate Technology Development Group, traveled throughout northern Kenya to educate illiterate communities, especially women and herders, on voting rights and to provide information on competing political parties and party platforms. As a result, violence was minimal in this highly volatile part of Kenya. Another Kenyan NGO, PeaceNet, disseminated print and broadcast appeals to promote peace and encourage citizens and leaders to play constructive roles in the transition process. These achievements represent the culmination of several years of systematic USAID effort that addressed the lack of institutionalized channels, regional platforms, communications methods, and intergovernmental institutions (such as courts and parliaments) that offer peaceful alternatives to managing conflicting interests.

Strategic Objectives That Did Not Meet Targets

Sudan: Enhanced Environment for Conflict Reduction

Activities under this objective did not perform as expected in 2002 because of the weak capacities of Sudanese counterpart institutions, U.S. Government internal processes that slowed implementation, and—ironically—greater-than-expected progress in the national peace process.

The program is currently being implemented in opposition-administered regions of Bahr el Ghazal, Upper Nile, Equatoria, Nuba Mountains, and Eastern Sudan. During the final year of implementation, the strategic objective did not meet targets, although over the course of the three-year strategy period, programs have been more or less on track and met overall expectations.

Specific achievements and challenges include grassroots peace-building initiatives led by Sudanese interfaith and civil society organizations that continued to help consolidate southern political reconciliation in many regions, but at a lower-than-expected pace and scale. Only two reconciliations, rather than the target of three, were achieved. However, few observers expected the rapidity with which the peace talks would move forward to deliver the Machakos Protocol of July 2002. The resultant shift in focus from grassroots peace capacity development to the political level has negatively affected the more integrated peace-building approach sought by the international community through the Integrated Planning for Peace process begun in 2001 and the representation of grassroots issues in the political negotiations.

Grassroots and political-level dialogue in Nuba Mountains, following the U.S.-brokered cease-fire in February 2002, helped local leaders to reaffirm the value of peace and broker an important integrated framework agreement (NMPACT) for the delivery of humanitarian aid and transition assistance. Important peace-building activities sponsored by USAID in 2002 did not always result in signed agreements. Of the five reconciliations achieved during the life of the strategic objective, three appeared to be sustained and enduring, while one was inconclusive. One new reconciliation was achieved in August 2002 under the auspices of the New Sudan Council of Churches.

At the same time, new conflicts increased the need for more efforts toward grassroots reconciliations. Fighting in eastern Equatoria unleashed a spiral of south-south violence across formerly stable southern areas, displacing thousands of people and raising ethnic tensions to an all-time high. In the same area, the unprecedented military cooperation between the Government of Uganda and the Government of Sudan to eliminate the Lords Resistance Army increased conflict, redisplacing additional thousands of people.

Local governance capacities to address local priorities continued to be increased, but did not expand as expected to target counties in 2002 for a variety of reasons. All 12 County Development Committees (CDCs) established through 2001 continued to increase capacities to work collaboratively in prioritizing local rehabilitation goals and in managing loan reflows from subprojects; however, the target of three new County Development Committees was not met. USAID sought to restrain the development of CDCs in new counties while the STAR Program Evaluation was being carried out, so that lessons learned could be applied in new areas. Unfortunately, the STAR Program Evaluation was delayed because of internal USG delays and while a new evaluation team was assembled.

In response to the STAR Evaluation, USAID made programming and budgetary adjustments, shifting program priorities and increasing funding to the SOAR Civil Society component to more strategically target women's empowerment as a result.

Strategic Goal 6: Lives Saved, Suffering Associated with Natural or Man-Made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished

Overview

USAID provides humanitarian assistance in response to two general types of disasters: natural disasters—such as earthquakes, volcanoes, or hurricanes—and man-made disasters that result from conflict, from civil war, and (in some cases) from improper natural resource use that leads to erosion and flooding. When disasters occur in developing and transitional countries, their impacts tend to be particularly severe: these countries have limited emergency response capacity, from early warning and public information/ telecommunications systems to trained disaster personnel, emergency health infrastructure, and social welfare services. Poor people in developing countries are particularly vulnerable to disasters. People living at—or below—the subsistence level have no reserve assets to ensure their survival in times of crisis, nor can they depend on the social "safety nets" available in most industrialized countries.

Benefits to the American Public

USAID's work in humanitarian assistance reflects the fundamental American values and ideals of helping those in need: saving lives, reducing suffering, protecting health, and advancing peaceful change. The United States has a long and generous tradition of providing assistance to the victims of disasters, especially women and children. In addition to America's long-standing generosity and compassion in times of need, there is a growing understanding of the role humanitarian assistance plays in furthering U.S. interests in peaceful transition and development. There is also direct economic benefit to the American public, as exemplified by the P.L. 480, Title II food aid program, which provides for the use of surplus U.S. food commodities.

What USAID Is Doing to Provide Humanitarian Assistance

The United States is the world's largest humanitarian donor. American values mandate offering assistance and international leadership to alleviate human suffering from disasters. As the U.S. Government agency charged with providing humanitarian relief on behalf of the American people, USAID provides both short- and long-term humanitarian assistance. The Agency is a leader among international donors in responding to man-made crises and natural disasters, whether with rapid provision of emergency food aid and other relief materials or with innovative and effective medium-term efforts.

USAID achieves its Humanitarian Assistance Goal through programs aligned with the Agency-level objective:

- Humanitarian relief provided

In FY 2002, USAID programs responded to the critical needs of people affected by disasters by providing life-saving assistance, including food, water, sanitation, shelter, and medicine. Coordinated by our Office of U.S. Foreign Disaster Assistance (OFDA), USAID deployed quick response teams that included experts from across the Agency who made rapid assessments of urgent needs and provided assistance to victims of humanitarian crises.

USAID used P.L. 480, Title II Food for Peace emergency food commodities and International Disaster Assistance funds to provide critical, quick response to disasters. In addition, USAID used Title II development (nonemergency) food aid to address the root causes of food insecurity and to restore stability and livelihoods after conflict, natural disasters, and economic crises, particularly where there have been disruptions in markets. Through a focus on sustainable improvements in household food security, Food for Peace Title II development programs helped mitigate the potential impacts of natural and man-made emergencies, by strengthening the resiliency and coping ability of households.

USAID's key humanitarian assistance approaches included:

- Providing immediate relief to victims of natural disasters such as earthquakes, hurricanes, floods, and drought by supplying food, water, health care, sanitation, temporary housing, and related materials
- Helping communities devastated by natural disasters and conflict rebuild by supporting projects in community infrastructure and services, as well as economic and agricultural reactivation, including the provision of employment and skills training
- Responding to the needs of specially disadvantaged groups such as children and orphans, displaced persons, the disabled, and exploited youth by providing basic and vocational education, psychological counseling, and physical rehabilitation, including prosthetics
- Developing local capacities in disaster planning and preparedness, including the

development of early warning systems

- Improving the lives of poor and hungry people by supporting integrated food security programs that address the underlying causes of poverty and malnutrition
- Providing diverse kinds of assistance in response to complex emergencies

In addition to responding to emergencies primarily through the Office of U.S. Foreign Disaster Assistance (OFDA) and the Office of Food for Peace, USAID also provides transition assistance. These efforts are vital to ensuring that critical needs are met over the intermediate term, that scarce resources are shared equitably and national reconciliation occurs, and that the instability that typically follows disasters does not lead to reignition of conflict or crisis.

USAID assists the transition from relief to sustainable development through the following approaches:

- Promoting citizen security by helping to reintegrate ex-combatants and by assisting internally displaced persons (IDPs) to move beyond subsistence and survival needs
- Building the foundations for democratic political processes by promoting the development of civil society, improving civilian and military relationships, helping marginalized populations participate in political decision making, promoting alternative voices in the media, empowering local efforts for reconciliation, and educating citizens about their human rights

As the number of crises worldwide continues to increase, USAID must be able to move quickly and effectively to meet transition opportunities and challenges. USAID is able to respond quickly to transition opportunities through its Office of Transition Initiatives (OTI), which works closely with local, national, international, and non-governmental partners. OTI carries out short-term, high-impact projects that increase momentum for peace, reconciliation, and reconstruction. Strategies are tailored to meet the unique needs of each transition situation. With its special programming flexibility, OTI puts staff on the ground swiftly to identify and act on what are often fleeting opportunities for systemic change. In FY 2002, OTI initiated programs in Afghanistan, Burundi, Democratic Republic of Congo (DRC), Macedonia, and Venezuela, continued programs in Timor-Leste, Indonesia, Peru, Serbia and Montenegro, and Zimbabwe and closed out programs in Kosovo, Nigeria, and Sierra Leone. OTI also conducted assessments in FY 2002 in Burundi, DRC, and Venezuela, which resulted in the initiation of new programs, and in Angola, Sri Lanka, and Sudan for new programs scheduled to come on line during FY 2003.

Program Costs

In FY 2002, USAID incurred net costs of $1.5 billion in humanitarian assistance programs.

Tracking Performance in Humanitarian Assistance

USAID uses numerous data to track performance for the humanitarian assistance goal: operating unit strategic objectives, timely response to emergencies, crude mortality rates and malnutrition, and data on the number of individuals assisted by USAID, as described below.

Strategic Objective Performance

USAID's FY 2002 performance target for all strategic objectives under the

Program Performance

humanitarian assistance goal was that at least 85 percent of operating unit strategic objectives in this area will meet or exceed their targets for the year, with no more than 10 percent not met. The remaining 5 percent account for new SOs not required to report.

In FY 2002, 22 strategic objectives Agency-wide related to humanitarian assistance. Of these, 16 met or exceeded targets, none failed to meet targets, and 6 were not required to report. Table 32 compares this performance with that of prior years. While this SO did not meet the total SO goal of 85 percent met or exceeded, all SOs that are required to report met or exceeded targets, a significant improvement from FY 2000 and FY 2001.

Table 32: Performance Indicator: Percentage of Humanitarian Assistance SOs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002
Exceeded	16%	7%	14%	9%
Met	74%	73%	64%	64%
Not Met	0%	7%	4%	0%
Not Required to Report	10%	13%	18%	27%
Number of SOs	30	30	28	22

Source: USAID operating units, *Annual Reports*.

Data Quality: Operating units are relied upon to produce accurate reports, which are reviewed in Washington. As required in ADS 203.3.5.2, all data reported for GPRA documents such as this Performance and Accountability Report must have had a data quality assessment sometime within the three years before submission.

Other Results Data

Performance Indicator: Timeliness of Emergency Response

USAID works to provide short- and long-term humanitarian assistance to meet the critical needs of people affected by disasters. In the short term, the Agency uses a 72-hour target to measure its rapid response to disasters. In FY 2003, USAID continued to meet this target: the Agency responded within the 72-hour time period to all 62 declared emergencies, as documented in U.S. Embassy cables from the affected countries. In FY 2002, USAID also met the timeliness target, responding to all 79 declared emergencies within three days.

Benchmark Indicators: Crude Mortality Rate and Under-Five Malnutrition

USAID; the Department of State's Bureau of Population, Refugees, and Migration (State/PRM); and the international humanitarian community have established two benchmark indicators for humanitarian assistance: crude mortality rates and malnutrition in children less than five years of age. Rates of mortality and malnutrition decrease when essential needs such as food, water, emergency medical care, and shelter are met. Because these indicators are useful for determining the extent to which the entire relief system is meeting the needs of populations, they are being monitored as a global effort of the global community of organizations that provide humanitarian assistance—including the United Nations and international organizations, universities, and PVO/NGO partners.

This year, as a first step toward establishing evidence-based data and trend analysis, State/PRM funded the development of the Conflict-Emergency Database (CE-DAT) at the Centre for Research on the Epidemiology of Disasters in Brussels, Belgium. This has enabled the establishment of preconflict baseline data for 89 mortality survey populations affected by conflicts in 26 countries. Once the methodology is more widely reviewed and established, the data will be incorporated into CE-DAT for monitoring trends and performance over time by comparing the evolving rates against a standard and a constant baseline rate. Nutrition data were available for about 67 percent of the selected conflict sites. The selected sites are primarily in the Africa region (75 percent) and countries with protracted complex emergencies, as well as more recent emergencies such as Afghanistan and Iraq, which have received significant USAID funds. The improved analysis made possible by CE-DAT will help guide policy and programming decisions in the future. In addition, a standardized methodology now under development will aid comparison across crisis situations and in monitoring trends.

Data on Beneficiaries

Tables 33 and 34 and the text below provide data and descriptive information on the beneficiaries whom USAID served through emergency response programs in FY 2003, including those individuals who received emergency food aid. USAID does not set targets for these indicators, because it is impossible to project the number of people who will be affected by disasters or conflict.

Table 33: Performance Indicator: Number of People Receiving Humanitarian Assistance From USAID OFDA in FY 2003

Office of U.S. Foreign Disaster Assistance (OFDA)	132,363,018 (including Iraq/Middle East)

Source: Number of affected persons monitored by OFDA.

Data Quality: Many individuals received assistance from both OFDA and the Office of Food for Peace (FFP), so these figures may represent double-counting in some situations. OFDA: This figure includes Iraq. Note that because of several Iraq implementers reaching overlapping beneficiary populations, the Iraq/Middle East total is inflated. Beneficiary totals must therefore be regarded as "instances of individuals receiving aid" rather than "total number of individuals receiving aid."

In addition to their impact on combatants, civil wars produce cross-border refugees and internally displaced persons (IDPs) who flee their homes in search of food and personal security. These situations are marked by widespread violence; collapse of central political authority and public services; the breakdown of markets and economic activity; food shortages leading to malnutrition, starvation, or death; as well as massive population dislocation. USAID has started to track the number of refugees and IDPs served by the Office of Food for Peace as indicated in Table 34.

Performance Summary

In FY 2002, OFDA responded to 63 declared disasters in 60 countries. These different disasters included 40 natural disasters, 21 complex emergencies, and 2 human-caused emergencies. As in FY 2001, the response to Afghanistan continued to be the largest program during FY 2002, with OFDA providing $114.4 million—a major share of the U.S. Government support of $531.4 million. More than 25 partners, including non-governmental organizations and international organizations, received OFDA grants that ranged from health, nutrition, agriculture, and sanitation to air transportation, logistics, and donor coordination. In addition to providing emergency relief commodities and services, USAID provided assistance for emergency preparedness and funded efforts to build disaster mitigation capacity at the community, national, and regional levels. Because the need for international emergency assistance is related to the limited capacity of many disaster-prone countries to respond to large-scale emergency events on their own, USAID provides training to local

Table 34: Performance Indicator: Number of Refugees and Internally Displaced Persons Assisted by USAID's Office of Food for Peace in FY 2002

Other	7,692,185
Internally Displaced Persons (IDPs)	3,522,131
Refugees	1,293,347

Note: "Other" includes resettled, residents, and all others, except IDPs and refugees. Not all programs report on the disaggregated categories.

Source: Office of Food for Peace database that has compiled information from World Food Program and PVO/NGO recipients of Title II emergency resources for FY 2002.

Data Quality: See Appendix B.

first responders, as well as support to disaster prevention and mitigation programs.

The Office of Food for Peace provides P.L. 480, Title II food commodities to people who are food-insecure and nutritionally vulnerable because of conflict or natural disasters. In FY 2002, USAID provided 1,146,000 metric tons of Title II emergency food aid from appropriated Title II resources and the Bill Emerson Humanitarian Trust. Total food aid was valued at $622 million. These emergency food resources met the critical food needs of more than 34 million people in 35 countries. In comparison with FY 2001, this represents a marked increased in both the quantity of emergency food aid resources provided and the number of countries served. Programs that reported improving or maintaining nutritional status of targeted groups have increased incrementally from the baseline of 37 percent in 1996 to 93 percent in 2002.

The Africa region continued to be the largest recipient of Title II emergency food aid. In FY 2002, Food for Peace programmed 61 percent of all emergency resources in Africa, totaling 702,370 metric tons worth $399 million. The food crisis in southern Africa threatened more than 15.3 million people in six countries (Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe) with potential famine. USAID began monitoring the food shortage in southern Africa in December 2001 and began providing food to the region in February 2002. In total, the U.S. Government provided more than $293 million in humanitarian assistance to the region in 2002, most of which—approximately 505,493 metric tons—was in the form of food aid. USAID was successful in averting famine and took additional actions to help slow the worsening situation in southern Africa, including stimulating commercial imports and engaging governments to take appropriate policy actions against chronic hunger.

In addition to using food aid in emergencies, USAID also provides food in longer-term development programs to help maintain food security and avert future emergencies. At the same time, the presence of Title II development multiyear programs in countries subject to recurring natural disasters or civil and economic crises provides a ready-made basis for rapid emergency responses. These programs reduce the vulnerability of target populations to shocks that increase food insecurity. For example, in Bangladesh, USAID supported a key intervention to raise homesteads above the historic 20-year flood level. During the severe floods of 1998, only 8.4 percent of participating households experienced inundation, compared with 26 percent of nonparticipant households. More than 75 percent of nonparticipating households reported some level of asset divestment, mostly to purchase food, compared with 62 percent of participating households, which were poorer households to begin with, in general.

Approximately $21 million in Title II development resources were programmed to respond to sudden-onset emergencies and other nonemergency humanitarian assistance activities, including support for vulnerable children and orphans affected by HIV/AIDS. The provision of food rations to children and their families has had dramatic impact, for example, in Kenya. Through one nutritious meal a day, children's concentration improves dramatically in school while bolstering their immune systems to fight off disease and infections. At the household level, beneficiary caregivers report that the provision of food rations has freed up income for other expenses, such as school supplies, fuel, and other household necessities. Households have been creative in using corn soy blend (CSB) and vitamin-A fortified oil to enhance their diets by incorporating these products into their regularly consumed dishes.

Strategic Objectives That Met Targets

Supporting Angola's Peace Process and Transformation

Relief supplies provided by USAID were critical in supporting the Angolan peace process after the signing of the memorandum of understanding that ended Angola's 27-year civil war on April 4, 2002. Throughout the peace process, USAID has been at the forefront of providing essential humanitarian commodities to affected populations throughout Angola. On September 5, 2002, U.S. Secretary of State Colin Powell, accompanied by USAID Administrator Andrew Natsios, visited Angola to address the Joint Commission for the Implementation of the Lusaka Peace Accords. During his remarks, Secretary Powell discussed U.S. efforts to assist Angola in laying a foundation for reconciliation through political integration and humanitarian assistance. Secretary Powell also highlighted the enormous challenges faced by millions of Angolans displaced or forced to become refugees and pledged the U.S. Government's commitment to facilitate their repatriation to their homelands.

USAID is assisting the return and resettlement of internally displaced persons, redeveloping the rural economy, strengthening civil society and democracy, promoting maternal and child health, and arresting the spread of HIV/AIDS. USAID is promoting the introduction of seeds for improved varieties of staple food crops, along with the dissemination of modern agriculture techniques, supporting the formulation of rural group enterprises to develop innovative agricultural marketing strategies. 51,874 farmers (39 percent of whom were women) from 330 farmer groups or associations received agricultural extension services in the areas of appropriate planting density, use of natural pesticides, compost making, and managing postharvest losses. Because of the training, farmers adopted modern agricultural technologies at a higher rate than in previous years. These technologies included better seeds, plants that naturally enrich the soil, and techniques for erosion control. As a result, farmers in Benguela province, for example, attained production increases of 30 percent for maize, 24 percent for beans, and 18 percent for sorghum. The increases in grain production, along with similar increases in vegetable production, enabled many farm families to sell excess produce to pay school fees for their children, purchase household goods, and, most important, provide for their own nutritional needs without receiving direct food-aid assistance.

For example, 720 producers in Benguela province sold their surplus production to purchase plows, pay for the construction of two small irrigation dams, and pay for land preparation on communal plots. With the construction of the two dams, villagers will now be able to produce vegetables year-round for their own household consumption and to sell for income. In another area of the province, 1,855 farmers were able to produce enough vegetables to both feed themselves and their families and sell on the local market for extra income (65 percent did this for the first time ever). Yet another 450 households (approximately 2,250 people) in Malange reached a sufficient level of food self-reliance that they were able to meet their own food needs for an average of six months. In addition, the introduction of small ruminants (animals such as goats and sheep) as a means to promote income-generating activities resulted in 240 female-headed households (over 1,200 people in all) in Kuito IDP camps becoming food self-reliant and no longer dependent on food aid.

Providing Economic and Social Opportunities for Vulnerable Groups, Particularly Internally Displaced Persons in Colombia

USAID has developed a $167 million, five-year program to help the internally displaced develop life skills necessary to be successful in their new environment and to help receptor communities absorb their new members. The program is national in scope and implements activities in 25 Colombian departments. This USAID-funded effort is designed to strengthen community infrastructure, improve educational opportunities for children, adequately address and overcome traumatic experience, meet health needs, offer vocational training, and promote micro- and small-business development. Where possible, programs help relocate IDP populations or return them to their original homes. During FY 2002, the program aided 268,279 people, exceeding the target by 63 percent. One of the most successful activities involved income generation. Several USAID programs train IDPs in basic business practices such as accounting, finance, and market studies. The program has had particular success in involving the private sector in IDP activities and established dozens of private-sector partnerships. These have led to the creation of successful micro- and small-businesses by IDPs, and the leveraging of $1.50 of private funds for every USAID dollar invested.

USAID also supports the Government of Colombia's efforts with ex-child combatants and other children vulnerable to recruitment by illegal armed groups. The program provides psychosocial assistance, education, and vocational training to integrate the children into mainstream Colombian society.

Averting Humanitarian Disaster in the Midst of Conflict in the West Bank and Gaza

The conflict in the West Bank and Gaza remains volatile and unpredictable. Already on the decline, the economic and health situation of the Palestinian population took a rapid turn for the worse in April 2002, after a series of incidents that included Palestinian bombings in Israel and Israeli military action in several West Bank cities and towns. Tens of thousands of Palestinians were cut off from food supplies, medical care, employment, and essential services, as closures became more permanent.

Because of the worsening humanitarian situation and growing needs, USAID provided more than $130 million for health, water, psychosocial interventions, and jobs/income programs. President Bush's June 24th speech articulated a political solution to the conflict—two states, Palestine and Israel, coexisting in peace and security. The speech also stated that peace requires new Palestinian leadership and major reform of Palestinian economic and political institutions. USAID, working closely with the State Department and other donor colleagues, expanded U.S. support for reform programs and played a significant policy dialogue role in encouraging reform efforts.

Despite adverse circumstances, USAID achieved a great deal during the reporting period and helped to avert a humanitarian crisis, in large part because of the endurance of the Palestinian health care system. USAID programmed approximately $35 million in FY 2002 toward urgent humanitarian health, food, and water activities to meet basic human needs in the West Bank and Gaza. USAID partners are actively providing psychological trauma support to children, while training parents and teachers in counseling skills and techniques. Medical supplies, equipment, and pharmaceuticals are being procured to fill commodity gaps within the health system. First response, emergency obstetrical, and advanced life support training are ongoing at the community level to ensure that health providers have the skills necessary to provide quality health services. USAID also supports health messages on television and radio to educate families who may be unable to leave their homes. Topics include diarrheal disease prevention, pregnancy risk factors, and advice for postnatal care.

The Agency also funded the provision of water pipes and equipment for municipalities to repair damages from the April incursions and to replace depleted municipal stocks. USAID is working with NGO partners to monitor water supplies in more than 200 villages. Funds are available for immediate interventions when the water supply is dangerously limited or where simple steps could greatly increase the safety of the water supply (e.g., supplying chlorine disinfection tablets or providing water in bottles or tanker trucks). Hundreds of destroyed rooftop water tanks have been replaced, renewing household water storage. USAID is also installing or repairing well pumps across the West Bank to increase water supplies, especially in rural areas and in villages most isolated by the closures.

USAID also provided support to the United Nations, the World Food Program (WFP), and the International Committee of the Red Cross (ICRC). With USAID support, WFP is providing emergency food assistance for the most vulnerable sectors of the population. The ICRC, under its appeal, provides vouchers for the most needy in urban areas to exchange for food and nonfood items from selected merchants. With WFP providing aid to approximately 540,000 nonrefugees and the UN Relief and Works Agency (UNRWA) providing services to 70 percent of the Gaza population and 30 percent of the West Bank population, their efforts contribute essential assistance to a large segment of the overall population.

USAID is also preventing the negative long-term effects of malnutrition. In FY 2002, a USAID-funded rapid nutritional assessment exposed alarming rates of malnutrition among Palestinian women and children. In Gaza, 13.3 percent of children aged 6-59 months are suffering from acute malnutrition, and 11.7 percent of the children in the West Bank and Gaza are suffering from chronic malnutrition. As a result of the findings, USAID increased food assistance contributions through WFP and the ICRC; facilitated the introduction of iron-fortified grain into the Palestinian markets; supplied iron supplementation for use by pregnant women; and arranged training for Palestinian health officials in early detection of, and proper treatment for, malnutrition and anemia.

The nutrition assessment also had significant impact on policy change and formulation among stakeholders and the donor community. For the first time ever, the Palestinian Authority Ministry of Health, with USAID's assistance, approved a National Nutrition Strategy, which will change how health care providers diagnose, care for, counsel, and treat macro- and micronutrient deficiencies and malnutrition among Palestinian women and children. Also, the UN, the largest humanitarian agency in the region, has changed a 50-year policy and is now providing only iron-fortified wheat flour under its regular and emergency food aid programs.

Strategic Objectives That Did Not Meet Targets

All strategic objectives met targets.

Global Development Alliance

Overview

Secretary of State Powell launched the Global Development Alliance (GDA) Initiative in May 2001 to harness the power of public-private partnerships for development. While USAID has long engaged in successful partnerships, GDA represents a more strategic approach to alliance building on a larger scale, in order to bring significant new resources, ideas, technologies, and partners together to address problems in countries where USAID works.

In FY 2003, USAID operating units worldwide continued to adopt GDA as the Agency's new business model and in the process achieved impressive results in new or strengthened alliances, as described below. GDA coordinated and facilitated public-private alliances between the Agency and diverse businesses, trade groups, foundations, universities, multilateral donors, faith-based organizations, indigenous groups, immigrant communities, and government agencies. The united resources were as diverse as the alliances themselves, including technology and intellectual property rights, market creation, best practices, policy influence, in-country networks, and expertise in development programs that ranged from international trade to biodiversity protection.

Despite the multiplicity of approaches, certain characteristics are common to each alliance: the belief that an alliance will be more effective than any stand-alone approach, joint definition of the problem and its solution, shared commitment of resources, and shared risks and rewards. In FY 2003, it became even clearer that the nature of public-private alliances is changing USAID's role and its approach to development—from implementer to catalyst. Alliances also denote a changing model for international development, as donor organizations, private companies, and others increasingly work in concert to accomplish more than can be accomplished individually.

Benefits to the American Public

USAID's efforts to build alliances attest to the efficacy and reach of government programs and taxpayer dollars. GDA creates a *platform*—public-private alliances—for citizens and private organizations to more effectively participate in international development and successfully operate in developing countries. Private organizations and corporations value USAID's extensive knowledge and technical expertise from more than 40 years of engagement in developing countries; GDA enables the private sector to access and leverage this knowledge. At the same time, GDA has encouraged USAID professionals to create new relationships with the private sector and others as partners in addressing development challenges. With GDA assistance, USAID is actively refocusing its own programming and U.S. corporate investment to meet the needs of people in developing countries and benefit the American public. This more effective use of U.S. foreign aid creates stability and opportunities for citizens in developing countries, while also increasing the security of U.S. citizens.

What USAID Is Doing with Alliances

The goal of the Global Development Alliance is to foster increased cooperation between USAID and traditional and new partners and to promote the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own.

The GDA Secretariat itself does not directly manage GDA programs; rather, the operating units design, negotiate, and implement alliances in support of strategic objectives. Although the Secretariat will continue to monitor alliance activities and seek opportunities to nurture and expand alliances, as appropriate, the responsibility for performance reporting rests with individual operating units.

As a tool to initiate practical experience in alliance building, the GDA Secretariat used an Incentive Fund ($20 million in FY 2002 and $30 million in FY 2003) to demonstrate the Agency's commitment to identifying new partners and developing new ways of working with traditional partners. The Secretariat also used the Fund to fill gaps in critical sectors not otherwise engaged in public-private alliances and to bridge related, but distinct, alliances across countries and/or regions where a broader alliance yielded significant added benefit. Field missions, regional bureaus, and central bureaus were heavily involved in proposal generation, vetting, resource allocation, alliance building, and implementation for GDA Secretariat-funded alliances in FY 2002 and FY 2003.

The Director of the GDA Secretariat was a finalist in the 2003 Service to America Medals program in the National Security and International Affairs category. The awards program is sponsored by the Atlantic Media Company, publisher of *Atlantic Monthly, National Journal,* and *Government Executive* magazines; and a nonprofit organization focused on revitalizing the Federal workforce, the Partnership for Public Service. Other corporate sponsors of the awards included DuPont, Siemens, Lockheed Martin, Microsoft, Monster, and Unisys.

Tracking Performance in Alliances

The performance indicators that measure Agency accomplishments under the Global Development Alliance are number, type, and value of public-private alliances established since the GDA initiative was launched. Table 36 breaks out these indicators by program sector. USAID did not set performance targets for GDA in FY 2002 and FY 2003.

To be counted under the GDA initiative, there must be a clear expectation that USAID resources will be at least matched one-to-one by all other partner resources combined, excluding other Federal resources. Partner resources can include additional funds, in-kind contributions, intellectual property, and human resources. Because the GDA Secretariat was created in January 2002, FY 2002 results will serve as the baseline for measuring performance.

As summarized in Table 35, in FY 2002, USAID established 84 new or significantly expanded alliances, with Agency funding equaling $222.7 million. These alliances leveraged approximately $1.021 billion from alliance partners. Sixteen of the 84 alliances in FY 2002 received $111 million in funding from the Global Health Bureau, resulting in a leverage of approximately $641 million in partner contributions. One example, the Global Alliance for Vaccines and Immunization (GAVI), leveraged approximately $149 million in partner contributions, with USAID providing $53 million in FY 2002. The alliance partners include the Bill & Melinda Gates Foundation; USAID; international institutions, including the World Bank, UNICEF, and the World Health Organization; the pharmaceutical industry; and other governments. Partners have initially focused their efforts on three major areas: moving resources to developing countries to increase immunization; augmenting the generous Gates Foundation commitment; and working with the vaccine industry to modernize the way vaccines are purchased for children in the world's poor countries. At the close of FY 2003, the alliance has expended $255 million, delivering more than 260 million doses of vaccine and reaching 30 million children.

The remaining 68 of the 84 alliances in FY 2002 totaled USAID funding of $111.2 million, which leveraged approximately $379.7 million in partner contributions. The largest number of new alliances occurred in Africa (36). The technical sector that received the largest amount of USAID funding was Health, followed by Environment (including energy); Agriculture; Economic Growth; Education; Democracy, Conflict, and Humanitarian Assistance; and Information Technology. These alliances leveraged non-Federal resources on at least a 1:1 basis. In FY 2002, every $1 from USAID

Table 35: FY 2002 Alliance Types

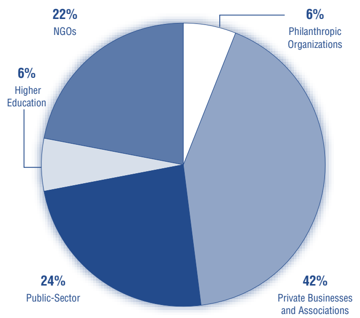
Sector	Total Partner Contribution ($000)*	Total USAID Contribution ($000)*	Number of Alliances
Agriculture	65,595	23,560	21
Conflict/Relief and Human. Asst.	33,286	12,063	1
Econ. Growth	47,430	16,836	10
Education	62,074	14,991	11
Environment/Energy	147,520	35,266	20
Health	642,846	113,065	17
IT	22,420	6,950	4
Total	**1,021,171**	**222,731**	**84**

*Partner contributions are based on initial estimates and may not reflect adjustments made during alliance design and negotiations. In some cases, partner contributions reflect only annual pledges to multiyear programs. Finally, not all mission-initiated or DCHA-funded public-private alliances are accounted for in this table; hence, the total value of private funding leveraged by USAID will be greater than is shown here.

leveraged an average of $4.58 in partner contributions.

FY 2002 USAID alliances included more than 400 partner organizations, with private businesses and associations being most numerous, followed by public-sector partners, non-governmental organizations, philanthropic organizations, and higher-education institutions. Figure U illustrates the mix of USAID's alliance partners in FY 2002:

Figure U: Alliance Partner Composition in FY 2002



In FY 2003, USAID was able to continue its success in developing public-private alliances by initiating or substantially increasing an estimated 140 alliances with USAID funds equaling approximately $272.8 million, leveraging an estimated $1.228 billion in partner contributions. Alliances that were substantially increased in FY 2003 were established in previous years, but received FY 2003 funding from USAID and succeeded in leveraging new partner resources.

The Development Credit Authority (DCA) and USAID field missions also supported public-private alliance building in the financial sector through their funding of 73 DCA activities, which resulted in a leveraged available credit of more than $477 million in FY 2002 and FY 2003 (as illustrated in Table 36). DCA activities provide an opportunity for USAID to partner with financial institutions and leverage the availability of financial capital.

Illustrative Examples

Public-private alliances have allowed USAID and its partners to adopt an approach that deepens the impact of joint interventions in the countries where USAID works. One such case is the alliance with Royal Ahold; USAID/Ghana; and operating partners AMEX, TechnoServe, and Michigan State University's Partnerships for Food Industry Development Program. This alliance seeks to increase exports from the developing world, using the procurement power and expertise of Royal Ahold (Ahold), the largest purchaser of food products in the world. Ahold and USAID are providing up to $4.6 million to work with operating partners to encourage small and medium-sized agricultural exporters to make changes around variety, phytosanitary standards, and many other critical aspects of developing products for sale globally. Ahold uses its expertise in food and personal products in partnership with USAID and its NGO and private-sector partners to find business lines that can be developed, including premium pineapples.

Women prepare pineapples for export.

Table 36: FY 2002 and FY 2003 DCA Project Totals

Total	USAID	USAID
Facility Amount	Guarantee Portion	Subsidy Amount
$477,616,000	**$201,808,000**	**$15,561,098**

Program Performance

Carpenter learns sustainable logging.

The Sustainable Forest Products Global Alliance works to increase both the demand and supply of legally sourced, certified timber by connecting producers of responsible forest products in developing countries to retailers across the United States. This alliance will increase incomes for local communities and decrease negative environmental impacts, while expanding the supply of certified products available to U.S. consumers. Partners in the nearly $8 million alliance include USAID, The Home Depot, Forest Trends, the World Wildlife Fund, Metafore, and the Department of Agriculture Forest Service. The Home Depot and USAID have worked together to change the way The Home Depot buys wood, guiding the company toward even more responsible forestry.

An outstanding example of using financial capital to address social problems is the *South Africa Housing Security Alliance,* in which GDA combined forces with the DCA program, joined with local insurance group Home Loan Guarantee Company and South African banks. Through a loan portfolio of $100 million, the Alliance ensures access to affordable housing to HIV/AIDS-stricken South Africans by covering

Alliance guarantees housing loans for the HIV/AIDS-infected.

the costs of borrowers who may default on their housing loan payments as a result of illness. By sharing the financial risk with local lenders, the Alliance enables housing lenders to increase their loan disbursements to borrowers. The Alliance also allows borrowers to participate in HIV/AIDS treatment and education programs at no cost. The Alliance also encourages the continued participation of major banks and alternative lenders in the lower-income housing finance market and will insure an estimated 50,000 households for persons with HIV/AIDS. The Alliance approach has allowed partners to share financial risks that would have been too large for a single party to bear on its own.

Off-grid renewable energy lights up Muslim Mindanao.

In FY 2002, USAID achieved particular success with the *Alliance for Mindanao Off-Grid Renewable Energy (AMORE),* a $9.5 million effort to provide solar-powered compact fluorescent lights and street lamps to 160 remote rural communities in the autonomous region of Muslim Mindanao in the southern Philippines, serving 5,000 homes. Partners include USAID, the Autonomous Region of Muslim Mindanao, the Mirant Philippines Corporation, and the Philippine Department of Energy. To date, the solar lighting and power installations have successfully been completed in 35 of the targeted 160 communities, directly benefiting 3,000 people. The solar-powered compact fluorescent lights installed by the Alliance and maintained by community development groups cost 70 percent less per month to operate than kerosene lamps. *AMORE's* efforts are helping to increase outdoor safety and significantly increase business and educational productivity by allowing work and study to extend into evening hours. Realizing the income-generating activities possible with the energy systems, communities are actively pursuing small business projects, such as mat making. The Alliance approach has been critical in developing sufficient resources to bring the electrification project to fruition.

Mainstreaming the New Business Model of Public-Private Alliances

To encourage further adoption of the GDA business model, public-private alliance language now appears in many USAID requests for grant applications. The GDA Secretariat demonstrated one method by issuing a worldwide request for grant applications that encouraged alliance partners to engage with USAID in innovative ways. The result was a marked increase in private-sector outreach by the Agency's field missions and traditional partners (universities, development consulting firms, and non-governmental organizations). In FY 2003, more than 350 alliance proposals responded to this open window for new ideas.

Also in FY 2003, GDA intensified its efforts to train USAID staff in the field and in Washington on the precepts of public-private alliances. GDA conducted seven overseas workshops, plus seven more at USAID/Washington. 437 participants, 215 in Washington and 222 in the field, attended these two-day workshops. GDA reached 72 participants through topical information sessions by targeting Agency legal, procurement, and technical specialists. GDA also facilitated the adoption of information on public-private alliance building in other Agency trainings and workshops, reaching an additional 2,252 participants.

The Secretariat also devoted increased resources to assist field missions with specific alliance issues, such as assessing the country environment in terms of the availability of private-sector resources, constructing alliances, managing relationships with alliance partners, conducting due diligence, and monitoring and reporting results. GDA also refined appropriate monitoring and evaluation systems and procedures to enable the Secretariat and the Agency as a whole to accurately report success in leveraging non-Federal resources, working with new partners that share common objectives, and significantly expanding the end results we can achieve through these inputs.

Constraints and Challenges

USAID's lack of discretionary funding has slowed the Agency's adoption of this new business model. Congressional earmarks and Agency sectoral- or activity-level targets limit USAID's flexibility in partnering with other organizations. In addition, the Agency's already stretched staff has had insufficient time to acquire and apply the new skills and practices required for successful alliance building: time to attend training, to review programs for possible alliance opportunities, to meet with and cultivate possible partners, and to conduct due diligence on potential new Agency partners.

Management Goal: Achieve USAID's Goals in the Most Efficient and Effective Manner

USAID's management goal provides the administrative foundation for the Agency's program results. To achieve significant development outcomes in USAID-assisted countries, our business processes and administrative systems employ best-practice approaches and technologies aligned with four key management objectives.

Objective 1: Accurate Financial Information Available for Agency Decisions

FY 2003 Results Summary

The USAID Inspector General (IG) rendered unqualified opinions on four of five of the Agency's FY 2002 financial statements. USAID's efforts to enhance system capabilities, close material weaknesses, and remedy open audit recommendations were significant contributors to the auditor's ability to render an overall unqualified (or "clean") audit opinion on the FY 2003 financial statements.

As part of a growing portfolio of financial management reports that are available to Agency staff, the Agency deployed *Crystal Enterprise,* a web-based reporting system on the USAID intranet. Finally, in June 2003, USAID completed a data sensitivity analysis of the financial system to establish a baseline of key sensitive data elements and recommend improvements to user awareness and security controls.

Performance Goal 1.1: USAID's Core Financial Management System Certified Compliant with Federal Requirements

Indicator 1.1.1: Integrated automated financial systems worldwide

FY 2003 Target

Plans finalized for worldwide deployment of core accounting system

FY 2003 Results

USAID and the Department of State both use Momentum financial management software and are in the process of upgrading and installing worldwide financial management systems and reengineering their fiscal operations. The Inspectors General (IGs) for USAID and the Department of State recommended that field deployment of Momentum be deferred until further analyses could be performed to determine the financial impact of merging USAID and State Momentum databases and configurations. A consultant was hired to analyze the collaboration options and completed the *U.S. Department of State and U.S. Agency for International Development Financial Systems Collaboration Study* on March 25, 2003. The study recommends that State and USAID "share and combine the technical infrastructure and use a single instance of the Momentum system code" to integrate budget, accounting, and financial management systems. Based on the findings of the study, USAID and State are planning to operate from the same Momentum application by October 2005.

Approval and funding has been received to start the Phoenix Mission Rollout project, initiated in July 2003. An initial planning meeting was held to obtain a common understanding of goals, establish core teams, begin team meetings and planning, and to discuss outstanding issues and tasks. Five core teams were established and subsequently held individual meetings and completed team charters. In addition, the overall project charter, project plan, and pilot schedule were completed. Individual documents were prepared detailing the business cases for the three projects: Phoenix Steady State, Phoenix Overseas Rollout, and the Joint Financial Management System (JFMS) with State.

Three pilot implementation sites were selected: Ghana, Egypt, and Peru, with a pilot implementation period established for summer 2004. Five overseas mission accounting staff from the pilot sites visited Washington in September to participate in Phoenix training and assist with functional requirements and workflow. The Rollout Technical team established a test lab, which will use a model to simulate overseas response times. The Rollout Project team has decided to use Momentum 3.7.4 (web-assisted) for Phoenix rollout.

Indicator 1.1.2: A fully operational, secure, and compliant core financial system installed with interfaces to major feeder systems

FY 2003 Target

Mission accounting system security certification completed at all (38) overseas accounting stations

FY 2003 Result

Because of the anticipated replacement of the Mission Accounting System (MACS) by the Phoenix worldwide rollout, this procedure was discontinued. In its place, the Agency rolled out MACS security monitoring into the overall Agency General Controls oversight and compliance, which includes monthly remote monitoring of the UNIX platforms that run the MACS system.

FY 2003 Target

Select priority enhancements to core financial system implemented (e.g., credit card processing, grantee advances, Agency-wide cash reconciliation system, core financial system upgrade, and application integration tools)

FY 2003 Results

Credit card processing. Development of USAID's credit card functionality was completed in June 2003. USAID will use the "Pay and Chase" collection method, which allows the Agency to pay the Citibank statement at the beginning of each month, enabling USAID to take advantage of discounts and avoid late fees. USAID will then reconcile charges throughout the month. The software was installed, and a pilot continues in one office.

Grantee advances. USAID completed modification of the Agency's Department of Health and Human Services (DHHS) interface, based on recommendations from the IG. DHHS services USAID Letter of Credit grants, and the interface is used to update the Phoenix system with financial information provided by DHHS. The updated DHHS interface was put into production in July 2003.

Agency-wide cash reconciliation system. The Agency has piloted with five missions a web-enabled database to collect mission financial data on cash transactions. The mission data are compared with U.S. Treasury data. The data analysis, along with other reconciling items, is sent back to the missions for review. The Agency is in the process of issuing procedures for using the web tool, reconciling the data, and preparing potential write-offs.

Core financial system upgrade. Upgrade to Momentum version 3.7.4, which included the Agency global reorganization, where 252,000 historical records were migrated into the new Agency organizational structure, was completed in May

2003. The reorganization program allows bureaus to perform document-level reorganization, as required.

Application integration tools. USAID has selected WebMethods as the integration tool to develop future interfaces, launch specific applications, and link selected applications and databases. On the Phoenix Overseas Deployment project, the Agency will use WebMethods to help solve telecommunication issues. For overseas missions with inadequate connectivity (i.e., telecommunications infrastructure does not meet response-time thresholds, insufficient bandwidth, etc.), the Agency will use a custom-developed application called Applets to promote telecommunications over the Internet.

Other integration tools such as LoadRunner and WinRunner, used in software load testing and regression testing, are currently being used on the Phoenix Overseas Deployment project. LoadRunner will help resolve performance-tuning issues related to mission deployment, and WinRunner automates the regression-testing processes after Phoenix is configured. The Agency has the ability to use both tools enterprise-wide.

Performance Goal 1.2: A System to Allocate Administrative Costs Fully to Agency Strategic Goals Installed in Washington and the Field

Indicator 1.2.1: Administrative costs allocated to strategic objectives

FY 2003 Target

Plan developed for implementing the cost accounting system Agency-wide

FY 2003 Result

The Managerial Cost Accounting (MCA) model was updated to accommodate the Agency reorganization. Expanded MCA development is a task in the overseas mission deployment project plan and related business case. The MCA model will be rolled out to the missions as Phoenix is deployed.

Objective 2: USAID Staff Skills, Agency Goals, Core Values, and Organizational Structures Better Aligned to Achieve Results Efficiently

FY 2003 Results Summary

To address the Agency's pressing human capital needs, rebuild its workforce, and prepare better for the 21st century, USAID in FY 2003:

- Launched the Development Readiness Initiative (DRI) to hire up to 50 new U.S. direct hire (USDH) positions over attrition—40 for the Foreign Service and 10 for the Civil Service—beginning in FY 2004.
- Approved a Preliminary Human Capital Strategy for FYs 2004–2009 targeted to achieve five strategic objectives: (1) A More Flexible Workforce Established, (2) A More Diverse Workforce Created, (3) A High-Performing Workforce Achieved, (4) Staff Placed on "Front Lines" of Agency Work, and (5) Increased Office of Human Resources Capacity to Support USAID Mission.
- Created and implemented a short-term 15-month plan to address the most critical short-term human capital needs, including initiating a competency-based workforce analysis for the entire USAID workforce and designing a human capital accountability system.

The USAID Human Capital Strategic Plan adheres to the six human capital standards articulated in the

Office of Personnel Management's (OPM's) Human Capital Assessment and Accountability Framework (HCAAF).

Strategic alignment. The Department of State and USAID have, for the first time, developed a Joint Strategic Plan to share the mission of achieving U.S. foreign policy goals. The plan provides the basis for alignment of the Human Capital Strategy with the Agency's mission. The strategy informs the transformation of the USAID Office of Human Resources from transactions to advice and counsel. Working closely with OMB, we have developed specific requirements to demonstrate strategic alignment of people with mission and budget.

Workforce planning and deployment. USAID's overarching human capital goal is "to have the right people, in the right place, at the right time, doing the right work." In its audit of USAID's human capital (August 2003), GAO states: "USAID has taken steps toward developing a workforce planning and human capital management system that should enable the agency to meet its challenges and achieve its mission in response to the President's Management Agenda (PMA), but it needs to do more. For example, USAID has not conducted a comprehensive assessment of the critical skills and competencies of its workforce and has not yet included its civil service and contracted employees in its workforce planning efforts. Because USAID has not adopted a strategic approach to workforce planning, it cannot ensure that it has addressed its workforce challenges appropriately and identified the right skill mix to carry out its assistance programs."

In response, USAID initiated during FY 2003 a competency-based workforce analysis. This competency-based workforce analysis and workforce planning will:

- Identify mission-critical occupations and then associate the core competencies required in those occupations now and in the future.
- Assess the current level of those competencies possessed by employees in those occupations.
- Provide a gap analysis based on that assessment at the individual, work unit, organizational unit, and Agency levels.
- Create and implement a work plan to reduce or close the competency gaps thus revealed thorough recruitment, retention, training, and other strategies.

Leadership and knowledge management. The Agency has developed an Action Plan for the next two years that will enhance the quality of USAID's relatively young training programs by (1) integrating distance learning; (2) creating progressive course curricula in leadership and management; (3) eliminating duplication of course content in a variety of skills, project management, and leadership training courses; and (4) introducing certification requirements for project management and supervision.

The DRI will provide training positions overseas so that we can place junior officers under senior officers who can coach, train, and pass on institutional knowledge. DRI also envisions building a "float capacity" that will allow staff to take necessary training while covering frontline staff positions.

Results-oriented performance culture. USAID's performance system links organizational objectives with employee performance. In FY 2003, USAID's

Business Transformation Executive Committee (BTEC) approved two performance management recommendations: (1) streamline the performance management process and emphasize ongoing performance feedback and (2) reinforce penalties for supervisors who fail to carry out their performance management responsibilities. More profound challenges exist in changing the performance culture, including a review of awards and incentive programs to more closely align them with accomplishment of overall Agency mission goals.

Talent. A working group is identifying critical occupations and competencies needed in the current and future workforces. The competency gaps will be identified and strategies developed to narrow or close the gaps (e.g., training, recruitment, retention). New systems for managing information on staff are critical to implementation of the HC strategy and will enable the Agency to do a better job in designing and implementing recruitment, training, and retention strategies. The working group has identified possible appropriate technology to collect, store, and manage competency and skill data.

Accountability. Agency human capital decisions are guided by a data-driven, results-oriented accountability system. Illustrative performance indicators have been developed as part of our HC strategy, and USAID is working closely with OPM to develop both process and outcome measures, as part of a full-fledged accountability system. To this end, a working group has been chartered under the auspices of the BTEC HC Subcommittee, and it has developed an action plan for designing and implementing a human capital accountability system.

Indicator 2.1: Recruitment efforts result in rapid deployment of staff in all labor categories and services

FY 2003 Target

All Foreign Service and Civil Service staffing requirements met (i.e., Agency ends fiscal year at onboard funded target for FY 2003)

FY 2003 Result

USAID hired more than 80 Civil Service employees and more than 60 Foreign Service employees in FY 2003, ending the year only 24 employees below employment target for USDH.

FY 2003 Target

A refined restructuring plan issued based on Washington Portfolio Reviews

FY 2003 Result

Annual portfolio reviews did not yield any additional need to restructure Washington.

FY 2003 Target

Recruitment efforts evaluated as excellent, based on indicators; efforts to rationalize staff evaluated as fair to good, based on performance indicators

FY 2003 Result

Foreign Service New Entry Professional (NEP) recruitment was evaluated as “good” by an outside evaluator. The Agency is working to improve the NEP recruitment process, based on the findings of the evaluator. For example, recognizing the shift from technical implementer to manager, USAID must move toward recruitment and selection of managers of technical resources, as opposed to the traditional technical implementer. The USAID selection process, in its present form, emphasizes technical skills, but needs to be adapted to evaluate these other critical skills.

Civil Service (CS) Presidential Management Intern (PMI) recruitment numbers are higher than anticipated, because managers were impressed with the quality of the candidates interviewing with USAID. Other CS recruitment efforts were evaluated as "good," based on preliminary indicators provided by the AVUE manager survey, but challenges remain, particularly with regard to streamlining the end-to-end recruitment process.

Based on a detail study, the Agency implemented the Overseas Template in order to better rationalize overseas staffing allocations. The resulting final template requires us to shift position allocations from region to region; by the end of FY 2005, we will have accomplished the reallocations. The template completes the first step in the process to have the right people in the right place doing the right work. The next step, examining our business model (i.e., the overseas organizational structure through which assistance programs are designed and implemented) to more explicitly and uniformly organize the way we deliver program and support services for bilateral, regional, or central programs, will take place in FY 2004.

FY 2003 Target

Comprehensive Civil Service recruitment plan in place, similar to Foreign Service recruitment plan

FY 2003 Result

After discussions with OPM, we incorporated the Civil Service planning into the total Agency workforce planning. The initiative is starting with three pilot groups, the Office of Human Resources, Contracting Officers, and the Bureau of Global Health, and will complete much of the work associated with these three in 2004. We have selected a contractor to work with us on this major undertaking.

FY 2003 Target

Web-enhanced human resource management tools available to Agency human resource management staff, which will, among other things, increase the number of job applications received and processed because of increased advertisement of job openings

FY 2003 Result

FY 2003 was the first year in which we used an automated recruitment tool for USDH career-hiring actions. The web-based recruitment tool (AVUE) is fully deployed to include internal as well as external recruitment. USAID now is concentrating on making the tool as effective and efficient as possible. In collaboration with the Agency, AVUE developed a web-based e-Exit Interview tool, which will enable us to collect data on the reasons people are departing, as required by a finding of our Office of the Inspector General.

The Electronic Workforce: Location and Distribution system (eWorld) now captures data input by missions, bureaus, and offices throughout the Agency on the non-USDH workforce. The second phase of eWorld will enable us to import to eWorld all relevant U.S. direct-hire employees' data from the central HRIS database.

Indicator 2.2: In-house training on critical operational skills continued

FY 2003 Target

2,500 employees trained in leadership, operations, financial management, and overall managing for results

FY 2003 Result

An estimated 2,611 employees were trained in these disciplines. The Agency is implementing a new training strategy that will extend from orientation for all new hires to leadership and executive training for middle management and senior staff. The strategy covers all employment categories and complements the Human Capital Strategy. The main categories of training under our strategy are Executive/Leadership/Supervision, Program/Project Management, Technical and Other Job Skills (which includes Language training), and Orientation. Critical among these are Leadership, Supervision, Language, Cognizant Technical Officer (CTO)/Project Management, and Orientation training. Recognizing that leadership training is no longer just for senior staff, our strategy pushes this training down to the lowest level possible, covering emerging leaders and growing them.

Objective 3: Agency Goals and Objectives Served by Well-Planned and -Managed Acquisition and Assistance

FY 2003 Results Summary

USAID achieves development results largely through intermediaries, contractors, or recipients of grants and cooperative agreements. During FY 2003, the Agency has continued its efforts to improve the timeliness of procurement actions, increase the use of performance-based instruments, and strengthen the competencies of technical and contract staff. Beginning in 2003, we have instituted a new forum between the partner community and ourselves, meeting quarterly to discuss common concerns and needed improvements. Action items are developed and worked on in tandem. This was a novel approach to erasing the dissension and unfairness argument. Different ways can be explored to increase small-business involvement, along with open discussions concerning procurement policy and various acquisition strategies. A partnership between government and private industry will invariably lead to a better product for the American taxpayer.

Performance Goal 3.1: Acquisition and Assistance Planning Integrated with Program Development

Indicator 3.1.1: Increased use of performance-based contracts

FY 2003 Target

Thirty percent of contracts valued at more than $25,000 performance-based

FY 2003 Result

In FY 2003, the Agency awarded more than 217 contracts in excess of $25,000 that were performance-based, thereby exceeding the target of 30 percent. The strategy has been to achieve better scope clarity by providing strong work objectives that can be evidenced by measurable results in program performance. Early examples are the recent awards in Iraq, which were completed in short order with excellent quality. Contractors were able to put teams on the ground and begin critical security and construction work immediately.

Performance Goal 3.2: Acquisition and Assistance Competencies of Technical and Contract Staff Strengthened

Indicator 3.2.1: Percentage of Cognizant Technical Officers (CTOs) and Contract Officers (COs) certified

FY 2003 Target

250 Cognizant Technical Officers (CTOs) certified, subject to available funding

FY 2003 Result

During FY 2003, more than 3,100 employees in Washington and 1,913 employees in missions have taken one or more training courses leading to CTO certification. In addition, there have been 112 new CTO certifications for Washington; however, no certifications were issued in the field.

This continued commitment to CTO training will enable the Agency to provide increased oversight for program implementation. It will also ensure that there are quality scopes of work that lay the foundation for better program results.

FY 2003 Target

Ninety percent of COs with procurement authority of $2.5 million or more certified by the end of FY 2003

FY 2003 Result

During FY 2003, USAID trained approximately 243 additional contracting staff leading up to certification, which fell short of the target of 90 percent. We have also installed a new commercial web-based software package that contracting staff can access via the Internet for official procurement classes. This has proven to be a successful e-learning tool, especially in light of recent geopolitical events that limited our ability to conduct regional training.

Performance Goal 3.3: Partnerships Among USAID Technical Contract Offices and Contractors and Recipients Improved

Indicator 3.3.1: Contract administration simplified

FY 2003 Target

Process and baselines established for changes in contracting officer approvals

FY 2003 Result

During FY 2003, the Agency decided to acquire a new automated procurement system for Washington and missions in the FY 2004 time frame. After implementation of this system, Contracting Officers will realize new scales of efficiency as manual processing and delegations become automated.

Performance Goal 3.4: Improved Consistency in Application of Acquisition and Assistance Procurement Policies and Procedures

Indicator: Uniform implementation of contracting policies

FY 2003 Target

Twenty percent improvement over the baseline set in first quarter of FY 2002

FY 2003 Result

During FY 2003, the Agency set out new lead times for each type of acquisition and assistance instrument, thereby meeting the target of 20 percent improvement. Alternative ways to provide technical offices with new approaches to getting projects online sooner with simplified processes and agency-to-agency mechanisms have been explored. This mix of streamlining and alternative approaches to procurement enables technical office flexibility and responsiveness to meet urgent and critical program needs.

Objective 4: Agency Goals and Objectives Supported by Better Information Management and Technology

FY 2003 Results Summary

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

FYs 2001–2005, mapping a course to use information management and technology more effectively in achieving development goals and objectives. A number of IM requirements critical to the success of the IM Strategic Plan remain unfounded; however, during FY 2003, the Agency set the following targets to support better information management and technology:

FY 2002 Performance Goal 4: Information Technology Improves Agency Efficiency and Effectiveness

Indicator: Enhanced compliance with Federal requirements and regulations

FY 2003 Target

Agency-wide systems deployed at selected missions

FY 2003 Result

Deployment was delayed based on a requirement to conduct joint planning with the State Department to integrate financial systems. Deployment of the procurement system is dependent on the deployment of the financial system and the continuing relationship with State on a joint acquisition and assistance system as part of the overall USAID-State Collaboration on Joint Management Initiatives. The current deployment schedules call for the worldwide financial system to be installed by October 2005 and the procurement system to be deployed by 2007.

FY 2003 Target

Telecommunications network equipment upgraded at 21 missions

FY 2003 Result

During FY 2003, USAID completed 22 telecommunications upgrades in mission sites, with a total of 77 throughout the life of the upgrade project. The telecommunications upgrades that were completed provide (1) enhanced telecommunications capacity and improved security by incorporating firewalls, (2) encryption of all circuits, (3) increased bandwidth dedicated to each individual site, and (4) implementation of Voice over Internet Protocol (VoIP) service between missions and the Washington headquarters PBX.

FY 2003 Target

Execution of actions to reduce risks in general control environment continued, and detailed targets established for the activities to strengthen the general control environment

FY 2003 Result

During FY 2003, risks in the general control environment were reduced in several areas by (1) preparing monthly graded vulnerability reports, (2) deploying a daily computer logon of computer security policies and procedures (TIPS-of-the-DAY security awareness program), (3) updating the Information Systems Security policies and procedures, and (4) rolling out the Windows 2000 desktop operating system.

Statement of the Chief Financial Officer

I am pleased to present the United States Agency for International Development's (USAID) principal financial statements for the year ending September 30, 2003. Fiscal Year (FY) 2003 has been a very successful and productive year for the Agency's financial operations, systems, and processes. We are extremely proud to report that for the first time ever, USAID has achieved an unqualified (clean) opinion on our consolidated financial statements.

History of USAID's Financial Statements

In accordance with the Government Management Reform Act (GMRA), USAID has prepared consolidated fiscal year-end financial statements since FY 1996. The USAID Office of Inspector General (OIG) is required to audit these statements, related internal controls, and Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, the OIG was unable to express an opinion on USAID's financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency, while continuing to issue a disclaimer of opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements. We are extremely pleased that the efforts of both Agency and OIG staff have resulted in an unqualified opinion on all of the financial statements for FY 2003.

FY 2003 GMRA Audit Issues

During the course of the FY 2003 GMRA audit, the OIG employed certain audit procedures to help identify material internal control weaknesses and instances of noncompliance with laws or regulations.

Report on Internal Controls

The auditors noted certain matters involving the internal controls and their operation that they consider material weaknesses and/or reportable conditions, including some material weaknesses and reportable conditions noted in prior GMRA audit reports.

The material weaknesses are in the following areas:

- USAID's Methodology for Assigning Strategic Objectives to Agency Goals
- USAID's Process for Reviewing Quarterly Accounts Payable and Accrued Program Expenses via the Accruals Reporting System
- USAID's Process for Recognizing and Reporting Accounts Receivable

The reportable conditions relate to USAID's need to improve its:

- Process for Reconciling the Fund Balance with U.S. Treasury
- Recording and Classifying Advances to Grantees and Related Expenses
- Analysis and Deobligation of Unliquidated Obligations
- Process for Recording Periodic Allowances to its Missions
- System for Preparing the Management Discussion and Analysis (MD&A) Section of the Performance and Accountability Report.

The Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for FY 2003 contains four audit recommendations related to the material weaknesses and reportable conditions identified above. We have accepted responsibility for implementing these recommendations and expect to take final action on these issues by the end of FY 2004. We also plan to follow up on all of the issues identified in order to resolve them before the next audit. We foresee no major impediments to correcting these weaknesses. Additional details regarding the weaknesses and our specific plans for addressing the audit recommendations can be found in the auditor's report and management's response.

Report on Noncompliance

The Independent Auditor's Report also relates several instances of noncompliance with laws as follows:

- **Computer Security Act of 1987.** The Computer Security Act of 1987 (Public Law No. 100 235) requires Federal agencies to protect information by: (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. Since September 1997, the OIG has reported that USAID did not implement an effective computer security program as required. In response to OIG audits, the Agency has made substantial computer security improvements. Although we have taken steps to improve security, more work is needed to ensure that sensitive data is not exposed to unacceptable risks of loss or destruction. We plan to correct this FMFIA material weakness during FY 2004.
- **Debt Collection and Improvement Act of 1996.** The Debt Collection Improvement Act of 1996 and the Federal Claims Collection Standards authorize USAID to:

    1. Collect debts owed to the Agency by means of administrative offset.
    2. Assess interest, penalties, and administrative costs on overdue debts against its debtors.
    3. Contract for private collection services.
    4. Disclose information on debts to credit reporting agencies.
    5. Report compromises to the Internal Revenue Service.

USAID's Claims Collection Standards, 22 CFR 213, cover the due process rights of debtors and procedures for collecting delinquent debt.

According to the OIG, USAID has not complied with all elements of the Act that require federal agencies to report to the Department of Treasury any receivables that should be included in Treasury's offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable. We continue to make progress in this area by implementing improvements in Agency policies and procedures related to accounts receivable, and ultimately via full deployment of our financial system.

- **Federal Financial Management Improvement Act of 1996.** The OIG reported that the Agency lacks an integrated financial management system that complies with the requirements of the Federal Financial Management Improvement Act (FFMIA). This has been a major impediment in providing information for USAID managers on a day-to-day basis, thereby hindering the Agency's ability to manage its resources. We continue to address deficiencies in this area and expect to be compliant with FFMIA by the end of FY 2005. Further information on our accomplishments and continued efforts in this area is found in the discussion on "Material Nonconformance of Financial Management System" and "Financial Systems Remediation Plan" included in the Financial Section of this Report.

Progress Made on Issues From FY 2002 GMRA Audit

The material internal control weaknesses identified by the auditors in FY 2002 included the following:

- Process for Allocating Program Expenses Statement of Net Cost
- Reconciliation of Cash Balances with the U.S. Treasury
- Reporting Credit Program Receivables
- Calculating and Reporting Accounts Payable and Accrued Expenses
- Accounting for Advances to Grantees
- Reporting Accounts Receivable
- Reporting on Unliquidated Obligation Balances

We have taken extensive actions during FY 2003 to address these weaknesses. Audit recommendations associated with six of the seven internal control material weaknesses have been addressed. Audit recommendations remain open for the process for reconciling the fund balance with the U.S. Treasury. This issue, which has been identified as a reportable condition in the FY 2003 audit, stems from the failure to reconcile differences between mission and Washington records, and State and Treasury data. Ultimately, the deployment of our financial management system overseas will mitigate this problem. Actions to resolve the issue in the interim include developing a web-based reconciliation process and using automated methods to match mission and Treasury reported disbursements. Although the auditors have acknowledged significant improvements, they have cited some new findings in the areas of accounts receivable, advances to grantees, and unliquidated obligations, which we will aggressively address during FY 2004.

Financial Performance

We have made significant progress resolving internal control weaknesses, such as reconciling cash balances, credit program balances, and advance balances with grantees, which resulted in dramatic reductions in unreconciled amounts. We have also implemented a process to estimate accounts payable at headquarters to enable the Agency to produce more reliable reports on the cost of operations and unliquidated obligations. We are directing greater attention to reduce unliquidated obligation balances on expired contracts and grants. Our financial policy staff has issued revised policy guidance for accrued expenditures, accounts receivable, obligations, and credit programs. We will continue to take action to enforce these policies.

Improvements are not limited to headquarters. Our field missions, and in particular, financial management operations at the missions, have made significant improvements in the past few years. The results of the OIG internal control reviews and transaction testing in the field have shown that the quality of accounting data has continued to improve each year. The field Controllers have taken aggressive action to address audit findings and improve financial controls in many of the same operational areas as headquarters operations. More than half of the Agency's funds are accounted for in the field, and these accomplishments have played a major role in improving audit results.

Integrity Act

USAID's Management Control Review Committee (MCRC) plays an active role in ensuring corrective action for deficiencies identified through OIG audits and management control reviews in accordance with the Federal Managers' Financial Integrity Act (FMFIA). The Committee, chaired by our Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when material weaknesses have been corrected. Parallel committees operate within the Agency's overseas operating units. We continue to report the following Agency material weaknesses under FMFIA: Primary Accounting System, Information Resources Management (IRM) Processes, and Computer Security. We expect to close the first weakness in FY 2005, with the worldwide deployment of our financial system. The other two weaknesses are expected to close in FY 2004, as we continue to make improvements in IRM Processes and Computer Security. No new material weaknesses were reported in FY 2003. Additional details regarding these weaknesses and USAID's Management Controls Program is found in the section titled "Management Controls Program/Integrity Act".

The President's Management Agenda - Improved Financial Performance Initiative

We are very proud of our progress on the PMA initiative for Improved Financial Performance. This scorecard achieved a green progress score as of the end of FY 2003 due to continuing progress with our collaboration with the Department of State on a shared financial management system; submitting the PAR and the audited financial statements in a timely manner; closing a previous FMFIA material weakness on financial reporting; and making significant progress in addressing the audit recommendations and weaknesses from the FY2002 audit. We are optimistic that our rating on this scorecard will continue to improve in FY 2004 and FY 2005 as our financial system, called Phoenix, is deployed to the field.

Conclusion

As USAID's CFO, I remain committed to continue to improve the quality of USAID's financial management systems by deploying an integrated accounting system to our overseas missions. We continue to make progress in improving the internal control systems and processes affecting the day-to-day management of our programs as well as our financial statements. We will resolve any impediments that could affect the OIG's ability to issue an unqualified audit opinion next year, and we are issuing the PAR on November 14, 2003, one year ahead of the requirement for FY 2004.

Lisa D. Fiely
Chief Financial Officer

November 14, 2003

Financial Performance

Guidance on Financial Statements

The principal financial statements prepared by USAID include a Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Financing. The Balance Sheet presents the amounts available as assets for use by USAID (assets); the amounts owed (liabilities); and amounts that comprise the difference between assets and liabilities, which is the Agency's net financial position or equity. The Statement of Net Cost provides the reader with an understanding of the full cost of operating USAID programs. The Statement of Changes in Net Position identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. 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. The Statement of Financing reconciles net obligations reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs.

The accompanying notes are an integral part of the financial statements. The notes provide explanatory information to help financial statement users to understand, interpret, and use the data presented.

The required supplemental information provide intragovernmental asset and liability amounts along with details on USAID's budgetary resources at year-end.

The consolidating financial statements are other accompanying information that provide more detailed program and fund data supporting the financial statements.

Principal Financial Statements and Footnotes

U.S. Agency for International Development
Consolidated Balance Sheet
As of September 30, 2003 and 2002
(in thousands)

	2003	2002
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 14,215,414	$ 11,897,972
Accounts Receivable (Note 3)	1,134,074	496,369
Advances (Note 4)	32,998	46,527
Total Intragovernmental	15,382,486	12,440,868
Cash and Other Monetary Assets (Note 5)	240,412	262,088
Accounts Receivable, Net (Note 3)	66,313	31,116
Loans Receivable, Net (Note 6)	5,696,597	5,997,453
Inventory and Related Property (Note 7)	24,027	20,241
General Property, Plant, and Equipment, Net (Note 8 and 9)	64,333	54,449
Advances and Prepayments (Note 4)	350,067	329,762
Total Assets	**21,824,235**	**19,135,977**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	27,299	69,572
Debt (Note 11)	79,165	16,744
Due to U.S. Treasury (Note 11)	5,669,725	5,859,175
Other Liabilities (Note 12, 13, and 14)	14,843	50,253
Total Intragovernmental	5,791,032	5,995,744
Accounts Payable (Note 10)	1,842,778	1,101,961
Loan Guarantee Liability (Note 6)	1,159,415	1,048,751
Future Workers' Compensation Benefits (Note 14)	27,400	28,251
Other Liabilities (Note 12)	511,257	317,635
Total Liabilities	**9,331,882**	**8,492,342**
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	11,777,877	10,065,290
Cumulative Results of Operations	714,476	578,345
Total Net Position	**12,492,353**	**10,643,635**
Total Liabilities and Net Position	**$ 21,824,235**	**$ 19,135,977**

The accompanying notes are an integral part of these statements

Financial Performance

U.S. Agency for International Development

Consolidated Statement of Net Costs

For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Goal 1: Broad-Based Economic Growth and Agricultural Development		
Intragovernmental	$ 214,639	$ 132,431
With the Public	3,569,174	2,808,027
Total	3,783,813	2,940,458
Less Earned Revenues	(81,188)	(59,673)
Net Program Costs	3,702,625	2,880,785
Goal 2: Human Capacity Built Through Education and Training		
Intragovernmental	24,212	75,921
With the Public	307,797	737,461
Total	332,009	813,382
Less Earned Revenues	(758)	(8,876)
Net Program Costs	331,251	804,506
Goal 3: Protect the Environment for Long-Term Sustainability		
Intragovernmental	118,568	38,791
With the Public	736,453	498,318
Total	855,021	537,109
Less Earned Revenues	(97,958)	(24,860)
Net Program Costs	757,063	512,249
Goal 4: Stabilizing World Population and Protecting Human Health		
Intragovernmental	172,047	82,005
With the Public	1,996,562	1,472,830
Total	2,168,609	1,554,835
Less Earned Revenues	(5,442)	(48,687)
Net Program Costs	2,163,167	1,506,148
Goal 5: Strengthen Democracy and Good Governance		
Intragovernmental	27,426	60,947
With the Public	945,811	641,207
Total	973,237	702,154
Less Earned Revenues	(871)	(11,210)
Net Program Costs	972,366	690,944
Goal 6: Lives Saved through Humanitarian Assistance		
Intragovernmental	56,065	70,924
With the Public	2,012,834	1,538,770
Total	2,068,899	1,609,694
Less Earned Revenues	(1,806)	(81,077)
Net Program Costs	2,067,093	1,528,617
Less Earned Revenues Not Attributed to Programs	–	(5,890)
Net Cost of Operations (Note 17)	**$ 9,993,565**	**$ 7,917,359**

The accompanying notes are an integral part of these statements

U.S. Agency for International Development

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 578,345	$ 10,065,290	$ 10,326	$ 9,789,358
Prior period adjustments (Note 19)	1,690	–	483,897	(483,782)
Beginning Balances, as adjusted	580,035	10,065,290	494,223	9,305,576
Budgetary Financing Sources:				
Appropriations Received	–	10,536,974	–	7,936,485
Appropriations transferred-in/out	–	113,059	–	213,366
Other adjustments (recissions, etc.)	–	(51,797)	–	(70,739)
Appropriations used	8,885,648	(8,885,648)	7,319,398	(7,319,398)
Donations and forfeitures of cash and cash equivalents	100,316	–	104,919	–
Transfers-in/out without reimbursement	1,128,139	–	565,633	–
Other Financing Sources:				
Transfers-in/out without reimbursement	–	–	(1,928)	–
Imputed financing from costs absorbed by others	13,902	–	13,459	–
Total Financing Sources	10,128,005	1,712,588	8,001,481	759,714
Net Cost of Operations	9,993,565	–	7,917,359	–
Ending Balances	**$ 714,475**	**$ 11,777,878**	**$ 578,345**	**$ 10,065,290**

The accompanying notes are an integral part of these statements

Financial Performance

U.S. Agency for International Development
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003		2002	
	Budgetary	Credit Program Financing	Budgetary	Credit Program Financing
Budgetary Resources				
Budget Authority				
Appropriations Received	$ 10,801,068	–	$ 7,971,616	–
Borrowing Authority (Note 20)	–	62,886	–	465
Net Transfers	(436,693)	–	669,622	–
Other	–	–	32,525	–
Total Budget Authority	10,364,375	62,886	8,673,763	465
Unobligated Balance:				
Beginning of Period	1,592,265	798,979	1,769,666	796,958
Net Transfers, Actual	(1,684)	–	(4,599)	–
Total Unobligated Balance	1,590,581	798,979	1,765,067	796,958
Spending Authority from Offsetting Collections:				
Earned				
Collected	892,844	208,543	1,029,293	129,867
Receivable from Federal Sources	(5,961)	11,328	(678)	(11,327)
Change in Unfilled Customer Orders				
Advance Received	(331)	–	–	–
Subtotal	886,552	219,871	1,028,615	118,540
Recoveries of Prior Year Obligations	158,594	14,180	128,325	5,904
Permanently Not Available	(712,773)	(465)	(987,596)	(48,249)
Total Budgetary Resources	**12,287,329**	**1,095,451**	**10,608,174**	**873,618**
Status of Budgetary Resources:				
Obligations Incurred Direct (Note 20)	9,973,855	113,832	9,012,090	74,639
Unobligated Balance, Available	2,172,882	981,619	1,544,909	793,076
Unobligated Balance, Unavailable	140,592	–	51,175	5,903
Total Status of Budgetary Resources	**12,287,329**	**1,095,451**	**10,608,174**	**873,618**
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 20)	9,431,741	26,868	8,887,092	14,665
Obligated Balance Transferred, Net	1,819	–	–	–
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3,832)	–	(9,987)	11,327
Undelivered Orders	9,209,121	1,731	8,341,194	14,733
Accounts Payable	1,367,956	(135)	1,100,015	808
Outlays:				
Disbursements	8,680,899	113,597	8,340,309	67,860
Collections	(892,551)	(208,543)	(1,029,292)	(129,868)
Subtotal	7,788,348	(94,946)	7,311,017	(62,008)
Less: Offsetting Receipts	–	–	–	–
Net Outlays	**$ 7,788,348**	**$ (94,946)**	**$ 7,311,017**	**$ (62,008)**

The accompanying notes are an integral part of these statements

U.S. Agency for International Development

Consolidated Statement of Financing

For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 20)	$ 10,087,687	$ 9,086,729
Appropriations transferred to/from other agencies (net)	1,440,612	117,337
Total Obligations Incurred (Note 21)	11,528,299	9,204,066
Less: Spending authority from offsetting collections and recoveries (Note 21)	(1,279,197)	(1,147,155)
Spending authority transferred to/from other agencies (net)	(52,961)	3,503
Total Spending authority from offsetting collections and recoveries	(1,332,158)	(1,143,652)
Net Obligations	10,196,141	8,060,414
Other Resources		
Donated and Credit Program Revenue	(170,456)	(74,574)
Imputed Financing From costs Absorbed by Others	13,902	13,459
Net other resources used to finance activities	(156,554)	(61,115)
Total resources used to finance activities	10,039,587	7,999,299
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,318,994)	(1,111,255)
Resources that fund expenses recognized in prior periods	20	(995)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,091,885	959,754
Other	(6,057)	6,275
Resources that finance the acquisition of assets	80,309	33,413
Total resources used to finance items not part of net cost of operations	(152,837)	(112,808)
Total resources used to finance net cost of operations	9,886,750	7,886,491
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 21):		
Increase in annual leave liability	2,168	1,206
Upward/Downward reestimates of credit subsidy expense	98,115	(22,947)
Other	36,435	39,221
Total components of net cost of operations that will require or generate resources in future periods	136,718	17,480
Components not Requiring or Generating Resources		
Depreciation and Amortization	6,925	10,525
Revaluation of assets or liabilities	3,133	(2,056)
Other	(39,961)	4,919
Total components of net cost of operations that will not require or generate resources	(29,903)	13,388
Total components of net cost of operations that will not require or generate resources in the current period	106,815	30,868
Net Cost of Operations	**$ 9,993,565**	**$ 7,917,359**

The accompanying notes are an integral part of these statements

USAID FY2003 Footnotes to the Principal Financial Statements

NOTE 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

USAID accounting policies follow generally accepted accounting principles for the Federal government, as recommended by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard set for the Federal government. These standards have been agreed to, and published by the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Comptroller General.

B. Reporting Entity

Established in 1961 by President John F. Kennedy, USAID is the independent U.S. Government agency that provides economic development and humanitarian assistance to advance United States economic and political interests overseas.

Programs

The financial statements reflect the various program activities, shown by appropriation in the financial statements, which include such programs as the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Central America and the Caribbean Emergency Disaster Recovery Fund, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This new fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of: (1) water/sanitation infrastructure; (2) feeding and food distribution; (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance for families of innocent Iraqi civilians who suffer losses as a result of military operations; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian de-mining; and (12) agriculture.

Economic Support Fund

Programs funded through this account provide economic assistance to select countries in support of efforts to promote stability and U.S. security interests in strategic regions of the world.

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program was for democratic and economic restructuring in Central and Eastern European countries consistent with the objectives of the Support for East European Democracy (SEED) Act. All SEED Act programs support one or more of the following strategic objectives: promoting broad-based economic growth with an emphasis on privatization, legal and regulatory reform and support for the emerging private sector; encouraging democratic reforms; and improving the quality of life including protecting the environment and providing humanitarian assistance.

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famine, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

This program provides economic resources to developing countries to support programs to improve infant and child nutrition, with the aim of reducing infant and child mortality rates; to reduce HIV transmission and the impact of the HIV/AIDS pandemic in developing countries; to reduce the threat of infectious diseases of major public health importance such as polio, and malaria; and to expand access to quality basic education for girls and women.

Central America and the Caribbean Emergency Disaster Recovery Fund

This program was established by a FY 1999 emergency supplemental bill and is for necessary expenses to provide relief for natural disasters in Central America, South America, and Columbia.

Transition Initiatives

This account funds humanitarian programs that provide post-conflict assistance to victims of natural and man-made disasters. Until FY 2001, this type of assistance was funded under the International Disaster Assistance account.

Direct and Guaranteed Loans:

Direct Loan Program

These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of the borrower.

Urban and Environmental Program

The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.

Micro and Small Enterprise Development Program

The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises.

Israeli Loan Guarantee Program

Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed $9 billion and $1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

Ukraine Guarantee Program

The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999.

Development Credit Authority

The first obligations for USAID's new Development Credit Authority (DCA) were made in FY 1999. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that: 1) the project generates enough revenue to cover the debt service including USAID fees, 2) there is at least 50% risk-sharing with a private-sector institution, and 3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. Most of the fund accounts relate to general fund appropriations. USAID also has special fund, revolving fund, trust fund, deposit funds, capital investment fund, receipt account, and budget clearing accounts.

General fund appropriations and the Special fund are used to record financial transactions under Congressional appropriations or other authorization to spend general revenue.

Revolving funds are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress.

Trust funds are credited with receipts generated by the terms of the trust agreement or statute. At the point of collection, these receipts are unavailable, depending upon statutory requirements, or available immediately.

The capital investment fund contains no year funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

Deposit funds are established for (1) amount received for which USAID is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods or services received, and (4) monies held waiting distribution on the basis of legal determination.

C. Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. Finally, the Statement of Financing has been prepared to reconcile budgetary to financial (proprietary) accounting information.

D. Budgets and Budgetary Accounting

The components of USAID's budgetary resources include current budgetary authority (that is, appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate or future outlays of federal funds. Budgetary resources also include reimbursement and other income (that is, spending authority from offsetting collections credited to an appropriation of fund account) and adjustments (that is, recoveries of prior year obligations).

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to Treasury.

Pursuant to Section 511 of USAID's Appropriations Act for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available until expended if such funds are initially obligated within their period of availability.

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through congressional appropriations --annual, multi-year, and no-year appropriations -- that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the Commodity Credit Corporation and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others.

F. Fund Balances with the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, but they also include revolving, deposit, and trust funds.

G. Foreign Currency

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end.

H. Accounts Receivable

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before October 1, 1991 (the pre-credit reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the USG of making the loan. This cost, known as "subsidy", takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "Maintenance of Value" (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. Government agencies.

J. Advances and Prepayments

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

K. Inventory and Related Property

USAID's inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

USAID's office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered "held for sale". USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

L. Property, Plant and Equipment

USAID capitalizes all property, plant and equipment that has an acquisition cost of $25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. Real property is depreciated over 20 years, nonexpendable personal property is depreciated over 3 to 5 years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of $300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S.

Government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy".

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement to for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

P. Retirement Plans and Post Employment Benefits

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. OPM administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statements of Net Position and Financing and are also included as a element of net cost by goal on the Statement of Net Cost.

Q. Net Position

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

R. Non-entity Assets

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount and as reflected in Note 3, comprised solely of accounts receivables, net of allowances.

S. Program Costs

Program costs are presented on the Statement of Net Cost by agency goal. The six agency goals that support USAID objectives are:

1. Broad-based economic growth and agricultural development encouraged
2. Human capacity built through education and training
3. Global environment protected
4. World population stabilized and human health protected
5. Democracy and good governance strengthened
6. Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established

Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). USAID/Washington program expenses by goal area are obtained directly from Phoenix. A cost allocation model is used to distribute Management Bureau operating costs to specific goals. Expenses related to Credit Reform and revolving funds are directly applied to specific agency goals based on their objectives. Trust funds and remaining operating expenses are allocated based on established program and operating ratios.

NOTE 2. Fund Balances with Treasury

Fund Balances with Treasury (in thousands)
Fund Balances with Treasury as of September 30, 2003 and 2002 consisted of the following:

Fund Balances	2003	2002
Trust Funds	$ 23,253	$ 17,631
Revolving Funds	1,312,955	948,819
Appropriated Funds	12,894,164	10,947,817
Other Funds	(14,958)	(16,295)
Total	**$ 14,215,414**	**$ 11,897,972**
Status of Fund Balance		
Unobligated Balance		
Available	$ 3,260,019	$ 2,264,796
Unavailable	7,294	14,487
Obligated Balance Not Yet Disbursed	10,948,101	9,618,689
Total	**$ 14,215,414**	**$ 11,897,972**

As of September 30, 2003 there was a cash reconciliation difference of $34.6 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2002 was $45.1 million. For FY 2003 and FY 2002 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $34.6 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $34.6 million total amount in these accounts and will make adjustments accordingly.

NOTE 3. Accounts Receivable, Net

Accounts Receivable, Net (in thousands)
The primary components of USAID's Accounts Receivable as of September 30, 2003 and 2002 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 2003	Receivable Net 2002
Entity				
Intragovernmental				
Appropriation Reimbursements and other Accounts Receivable from Federal Agencies	$ 209	N/A	$ 209	$ 543
Disbursing Authority Receivable from USDA	1,133,865	N/A	1,133,865	495,826
Total Intragovernmental	1,134,074	N/A	1,134,074	496,369
Accounts Receivable	71,163	(9,180)	61,983	29,792
Total Entity	1,205,237	(9,180)	1,196,057	526,161
Total Non-Entity	**4,651**	**(321)**	**4,330**	**1,324**
Total Receivables	**$ 1,209,888**	**$ (9,501)**	**$ 1,200,387**	**$ 527,485**

Reconciliation of Uncollectible Amounts (Allowance Accounts), (in thousands)

	2003	2002
Beginning Balance	$ 14,346	$ 13,090
Additions	1,636	4,444
Reductions	(6,481)	(3,188)
Ending Balance	**$ 9,501**	**$ 14,346**

Entity Intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for accounts receivable due from the public which are more that one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately and there is no interest included in the accounts receivable listed above.

NOTE 4. Advances and Prepayments

Advances and Prepayments (in thousands)
Advances and Prepayments as of September 30, 2003 and 2002 consisted of the following:

	2003	2002
Intragovernmental		
Advances to Federal Agencies	$ 32,998	$ 46,527
Total Intragovernmental	32,998	46,527
Advances to Contractors/Grantees	290,433	252,639
Travel Advances	1,763	2,240
Advances to Host Country Governments and Institutions	38,785	53,988
Prepayments	5,661	7,932
Advances	13,425	12,963
Total Advances and Prepayments	**$ 383,065**	**$ 376,289**

Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other Advances consist primarily of amounts advanced for living quarters and home service.

NOTE 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets (in thousands)
Cash and Other Monetary Assets as of September 30, 2003 and 2002 are as follows:

	2003	2002
Imprest Fund-Headquarters	$ 140	$ 0
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	240,222	262,038
Total Cash and Other Monetary Assets	**$ 240,412**	**$ 262,088**

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's cumulative balance of the Department of State provided imprest funds was $ 4.9 million in FY 2003 and $4.1 million in FY 2002. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $ 240.2 million in FY 2003 and $262 million in FY 2002. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Ukraine Export Insurance Credit Program (Ukraine)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)

Direct loans resulting from obligations made prior to FY 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made prior to FY 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e. interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees are provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower depending on the borrower and the status of the loan.

Direct Loans (in thousands)

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2003:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans	$ 8,272,735	$ 322,098	$ 3,260,015	$ 5,334,818
MSED	1,360	90	1,529	(79)
Total	**$ 8,274,095**	**$ 322,188**	**$ 3,261,544**	**$ 5,334,739**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans	$ 8,843,329	$ 350,800	$ 3,428,309	$ 5,765,820
MSED	1,386	83	1,838	(369)
Total	**$ 8,844,715**	**$ 350,883**	**$ 3,430,147**	**$ 5,765,451**

Direct Loans Obligated After FY 1991: as of September 30, 2003:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Direct Loans	$ 216,063	$ 7,413	$ 213,993	$ 9,483
MSED	(908)	133	879	(1,654)
Total	**$ 215,155**	**$ 7,546**	**$ 214,872**	**$ 7,829**

Direct Loans Obligated After FY 1991: as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Direct Loans	$ 120,667	$ –	$ 186,673	$ (66,006)
MSED	311	25	468	(131)
Total	**$ 120,979**	**$ 25**	**$ 187,141**	**$ (66,137)**

Total Amount of Direct Loans Disbursed

Direct Loan Programs	FY 2003	FY 2002
Direct Loans	$ 8,488,798	$ 8,963,997
MSED	452	1,697
Total	**$ 8,489,250**	**$ 8,965,694**

Subsidy Expense for Direct Loans by Program and Component:

Modifications and Reestimates (FY 2003)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ –	$ (49)	$ (169)	$ (218)
Total	**$ –**	**$ (49)**	**$ (169)**	**$ (218)**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Subsidy Expense for Direct Loans by Program and Component:

Modifications and Reestimates (FY 2002)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ –	$ –	$ (3,618)	$ (3,618)
Total	**$ –**	**$ –**	**$ (3,618)**	**$ (3,618)**

Total Direct Loan Subsidy Expense

Direct Loan Programs	FY 2003	FY 2002
Direct Loans	$ (218)	$ (3,618)
Total	**$ (218)**	**$ (3,618)**

Schedule for Reconciling Subsidy Cost Allowance Balance

	FY 2003		
	Direct Loan	MSED	Total
Beginning Balance, changes, and ending balance			
Beginning balance of the subsidy cost allowance	$ 186,673	$ 468	$ 187,141
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs	–	–	–
(b) Default costs (net of recoveries)	–	–	–
(c) Fees and other collections	–	–	–
(d) Other subsidy costs	–	–	–
Total of the above subsidy expense components	–	–	–
Adjustments:			
(a) Loan modifications	25,653	–	25,653
(b) Fees received	–	–	–
(c) Foreclosed property acquired	–	–	–
(d) Loans written off	–	–	–
(e) Subsidy allowance amortization	3,356	412	3,768
(f) Other	(1,690)	–	(1,690)
Ending balance of the subsidy cost allowance before reestimates	$ 213,992	$ 880	$ 214,872
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate	–	–	–
(b) Technical/default reestimate	–	–	–
Total of the above reestimate components	–	–	–
Ending balance of the subsidy cost allowance	**$ 213,992**	**$ 880**	**$ 214,872**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)			
	FY 2002		
	Direct Loan	MSED	Total
Beginning Balance, changes, and ending balance			
Beginning balance of the subsidy cost allowance	$ 180,622	$ 468	$ 181,089
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs	–	–	–
(b) Default costs (net of recoveries)	–	–	–
(c) Fees and other collections	–	–	–
(d) Other subsidy costs	–	–	–
Total of the above subsidy expense components	–	–	–
Adjustments:			
(a) Loan modifications	6,627	–	6,627
(b) Fees received	–	–	–
(c) Foreclosed property acquired	–	–	–
(d) Loans written off	(6,343)	–	(6,343)
(e) Subsidy allowance amortization	267	–	267
(f) Other	5,500	–	5,500
Ending balance of the subsidy cost allowance before reestimates	$ 186,673	$ 468	$ 187,141
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate	–	–	–
(b) Technical/default reestimate	–	–	–
Total of the above reestimate components	–	–	–
Ending balance of the subsidy cost allowance	**$ 186,673**	**$ 468**	**$ 187,141**

Defaulted Guaranteed Loans (in thousands)

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2003				
Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
UE	$ 514,611	$ 28,149	$ 188,374	$ 354,386
Total	**$ 514,611**	**$ 28,149**	**$ 188,374**	**$ 354,386**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2002				
Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
UE	$ 442,358	$ 70,485	$ 214,705	$ 298,138
Total	**$ 442,358**	**$ 70,485**	**$ 214,705**	**$ 298,138**

Defaulted Guaranteed Loans from Post-1991 Guarantees
In FY 2003, the UE Program experienced $7.1 million in defaults on payments.
In FY 2002, the UE Program experienced $6.5 million in defaults on payments, and the DCA Program experienced $.25 million in defaults on payments on post-1991 guaranteed loans.

Guaranteed Loans Outstanding (in thousands)

Guaranteed Loans Outstanding (FY 2003):		
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 1,954,929	$ 1,954,929
MSED	95,542	48,492
Israel	10,789,083	10,789,083
DCA	549,631	235,866
Total	**$ 13,389,185**	**$ 13,028,370**

Guaranteed Loans Outstanding (FY 2002):		
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 2,093,798	2,093,798
MSED	115,700	58,150
Israel	9,206,027	9,206,027
DCA	297,620	106,110
Total	**$ 11,713,145**	**$ 11,464,085**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

New Guaranteed Loans Disbursed (FY 2003):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ –	$ –
MSED	100	50
DCA	267,446	133,723
Total	**$ 267,546**	**$ 133,773**

New Guaranteed Loans Disbursed (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 21,500	$ 21,500
MSED	9,000	4,500
DCA	38,420	19,210
Total	**$ 68,920**	**$ 45,210**

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2003:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$ 311,383	$ 175,521	$ 486,904
MSED	–	265	265
Israel	–	673,261	673,261
DCA	–	(1,015)	(1,015)
Total	**$ 311,383**	**$ 848,032**	**$ 1,159,415**

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2002:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$ 328,083	$ 58,316	$ 386,399
MSED	–	(431)	(431)
Israel	–	665,267	665,267
DCA	–	(2,484)	(2,484)
Total	**$ 328,083**	**$ 720,668**	**$ 1,048,751**

Subsidy Expense for Loan Guarantees by Program and Component (in thousands)

Subsidy Expense for New Loan Guarantees (FY 2003):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
DCA	$ –	$ 2,239	$ –	$ –	$ 2,239
MSED	–	3,413	–	–	3,413
Total	**$ –**	**$ 5,652**	**$ –**	**$ –**	**$ 5,652**

Subsidy Expense for New Loan Guarantees (FY 2002):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
UE	$ –	$ 1,612	$ (114)	$ –	$ 1,489
DCA	–	1,124	(285)	–	839
Total	**$ –**	**$ 2,736**	**$ (399)**	**$ –**	**$ 2,337**

Modifications and Reestimates (FY 2003):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ –	$ –	$ 48,211	$ 48,211
MSED	–	–	4,163	4,163
DCA	–	–	150	150
Total	**$ –**	**$ –**	**$ 52,524**	**$ 52,524**

Modifications and Reestimates (FY 2002):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ –	$ 2,080	7,257	9,337
MSED	–	(1,324)	2,078	754
Total	**$ –**	**$ 756**	**$ 9,335**	**$ 10,091**

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	FY 2003	FY 2002
DCA	$ 2,389	839
UE	48,211	10,835
MSED	7,576	754
Total	**$ 58,176**	**$ 12,428**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Subsidy Rates for Loan Guarantees by Program and Component:					
Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:					
Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	–	3.23 %	–	–	3.23 %

Other Schedule and Administrative Expense (in thousands)

Schedule for Reconciling Loan Guarantee Liability Balances					
(Post-1991 Loan Guarantees)					
	FY 2003				
	DCA	MSED	UE	Israel	Total
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (2,484)	$ (431)	$ 58,316	$ 665,267	$ 720,668
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:					
(a) Interest supplement costs	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–
(d) Other subsidy costs	2,239	3,413	–	–	5,652
Total of the above subsidy expense components	$ 2,239	$ 3,413	$ –	$ –	$ 5,652
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	7,464	117,715	125,179
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	(2,318)	(7,077)	–	(9,395)
(f) Interest accumulation on the liability balance	–	–	4,693	44,736	49,429
(g) Other	41	(2,595)	63,914	–	61,360
Ending balance of the loan guarantee liability before reestimates	$ (204)	$(1,931)	$127,310	$827,718	$952,892
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	–	–	–	–	–
(b) Technical/default reestimate	(811)	2,196	48,211	(154,456)	(104,860)
Total of the above reestimate components	$ (811)	$ 2,196	$ 48,211	$ (154,456)	$ (104,860)
Ending Balance of the Loan Guarantee Liability	**$ (1,015)**	**$ 265**	**$ 175,521**	**$ 673,261**	**$ 848,032**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Schedule for Reconciling Loan Guarantee Liability Balances

(Post-1991 Loan Guarantees)	FY 2002				
	DCA	MSED	UE	Israel	Total
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ 212	$ 289	$ 74,945	$ 626,050	$ 701,496
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:					
(a) Interest supplement costs	–	–	–	–	–
(b) Default costs (net of recoveries)	839	–	1,499	–	2,338
(c) Fees and other collections	–	–	–	–	–
(d) Other subsidy costs	–	–	–	–	–
Total of the above subsidy expense components	$ 839	$ –	$ 1,499	$ –	$ 2,338
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	2,673	–	2,673
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	(259)	(6,548)	–	(6,807)
(f) Interest accumulation on the liability balance	–	118	5,241	39,217	44,576
(g) Other	(559)	1,008	(4,405)	–	(3,956)
Ending balance of the loan guarantee liability before reestimates	$ 492	$ 1,156	$ 73,405	$ 665,267	$ 740,320
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	(1,428)	6,280	504	–	5,356
(b) Technical/default reestimate	(1,548)	(7,867)	(15,593)	–	(25,008)
Total of the above reestimate components	$ (2,976)	$ (1,587)	$ (15,089)	$ –	$ (19,652)
Ending Balance of the Loan Guarantee Liability	**$ (2,484)**	**$ (431)**	**$ 58,316**	**$ 665,267**	**$ 720,668**

Administrative Expense

Loan Programs	FY 2003	FY 2002
DCA	$ 8,155	$ 3,066
UE	448	1,156
MSED	936	2,482
Total	**$ 9,539**	**$ 6,704**

NOTE 6. Loans Receivable and Liabilities for Loan Guarantees (Cont.)

Other Information

1 Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Fifteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $28.3 million that is more than six months delinquent. Ten countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $507.2 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $20.7 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $466.4 million.

2 The MSED Liquidating Account general ledger has a loan receivable balance of $1.4 million. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.

3 The Ukraine program guarantees have expired, and the Ukraine Financing Account was closed out in FY 2002.

NOTE 7. Inventory and Related Property

Inventory and Related Property (in thousands)
USAID's Inventory and Related Property is comprised of Operating Materials and Supplies.
Operating Materials and Supplies as of September 30, 2003 and 2002 are as follows:

	FY 2003	FY 2002
Items Held for Use		
Office Supplies	$ 6,937	$ 8,691
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	7,120	5,909
Birth control supplies	9,970	5,641
Total	**$ 24,027**	**$ 20,241**

Operating Materials and Supplies are valued at historical cost and considered not held for sale.

NOTE 8. General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net (in thousands)
The components of PP&E at September 30, 2003 were:

Classes of Fixed Assets	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 to 5 years	$ 42,171	$ (25,004)	$ 17,167
Buildings, Improvements, & Renovations	20 years	52,292	(21,265)	31,027
Land and Land Rights	N/A	4,181	–	4,181
Assets Under Capital Lease		5,311	(1,117)	4,194
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	12,248	(5,054)	7,194
Total		**$ 116,773**	**$ (52,440)**	**$ 64,333**

The components of PP&E at September 30, 2002 were:

Classes of Fixed Assets	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 to 5 years	$ 40,631	$ (27,988)	$ 12,643
Buildings, Improvements, & Renovations	20 years	41,557	(18,671)	22,886
Land and Land Rights	N/A	4,056	–	4,056
Assets Under Capital Lease		7,081	(958)	6,123
Construction in Progress	N/A	647	–	647
Internal Use Software	3 to 5 years	10,526	(2,432)	8,094
Equipment	**3 to 5 years**	**$ 40,631**	**$ (27,988)**	**$ 12,643**

USAID PP&E includes assets located in Washington, D.C. offices and overseas field missions.

For FY 2003, USAID capitalization criteria for assets was $25,000 except for internal use software. The capitalization criteria for internal use software was $300,000. Assets meeting these criteria are depreciated using the half-year straight line depreciation method.

Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.

Structures and Facilities include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.

NOTE 9. Leases

Leases (in thousands)
Leases as of September 30, 2003 and 2002 consisted of the following:

Entity as Lessee:				
Capital Leases:		**2003**		**2002**
Summary of Assets Under Capital Lease:				
Buildings	$	5,311	$	7,081
Accumulated Depreciation	$	1,117	$	958
Future Payments Due:				
Fiscal Year		Future Costs		Future Costs
2003	$	–	$	1,185
2004		912		567
2005		426		144
2006		222		–
2007		192		–
2008		–		–
After 5 Years		–		–
Net Capital Lease Liability		1,752		1,896
Lease Liabilities Covered by Budgetary Resources		1,752		1,896
Lease Liabilities Not Covered by Budgetary Resource		–		–
The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.				
Operating Leases:		**2003**		**2002**
Future Payments Due:				
Fiscal Year		Future Costs		Future Costs
2003	$	–	$	70,470
2004		72,452		66,525
2005		70,968		64,486
2006		68,755		59,155
2007		68,022		58,091
2008		67,496		–
After 5 Years		344,031		254,747
Total Future Lease Payments:	**$**	**691,724**	**$**	**573,474**

Of the $691 million in future lease payments, $ 527 million is attributable to the Ronald Reagan Building in Washington D.C., USAID's headquarters. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates.

Lease payments for FY 2003 and 2002 amounted to $36 million and $33 million respectively. An approximate increase of 9.8% will take effect in FY 2004. The remaining $164 million relates to other USAID Washington activity and mission related operating leases.

NOTE 10. Accounts Payable

Accounts Payable (in thousands)
The Accounts Payable covered by budgetary resources as of September 30, 2003 and 2002 consisted of the following:

	2003	2002
Intragovernmental		
Accounts Payable	$ 27,299	$ 69,572
Disbursements in Transit	–	–
Total Intragovernmental	27,299	69,572
Accounts Payable	1,842,778	1,101,961
Disbursements in Transit	–	–
Total Accounts Payable	**$ 1,870,077**	**$ 1,171,533**

Intragovernmental Accounts Payable are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies.

All other Accounts Payable represent liabilities to other non-federal entities.

NOTE 11. Debt

Debt (in thousands)
USAID Intragovernmental debt as of September 30, 2003 and 2002 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2002 Beginning Balance	Net Borrowing	2002 Ending Balance	Net Borrowing	2003 Ending Balance
Urban & Environmental	$ –	$ –	$ –	$ –	$ –
Direct Loan	62,815	(47,255)	15,560	62,421	77,981
MSED	1,713	(529)	1,184	0	1,184
Total Debt	**$ 64,528**	**$ (47,784)**	**$ 16,744**	**$ 62,421**	**$ 79,165**

NOTE 11. Debt (Cont.)

Pursuant to the Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources. UE Program debt includes amounts borrowed before the effective date of the Credit Reform Act of 1990.

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $5.7 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

NOTE 12. Other Liabilities

Other Liabilities (in thousands)
As of September 30, 2003 and 2002 Other Liabilities consisted of the following:

	2003	2002
Intragovernmental		
OPAC Suspense	$ –	$ (2,901)
Deposit and Clearing Accounts	–	2,030
Unfunded FECA Liability	6,417	6,421
Other	8,426	44,703
Total Intragovernmental	14,843	50,253
Accrued Funded Payroll/Benefits	6,329	4,841
Deferred Credit	4,305	1,692
Liability for Deposit Funds and Suspense Accounts – Non-Entity	9,176	3,044
Foreign Currency Trust Fund	240,222	262,038
Trust Fund Balances	23,106	17,424
Unfunded Leave	28,714	26,696
Capital Lease Liability	1,981	1,896
Other	197,424	4
Total Other Liabilities	**$ 526,100**	**$ 367,888**

All liabilities are current. Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

NOTE 13. Accrued Unfunded Annual Leave and Separation Pay

Accrued Unfunded Annual Leave and Separation Pay (in thousands)
Accrued unfunded benefits for annual leave and separation pay as of September 30, 2003 and 2002 are:

	2003	2002
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 28,409	$ 26,291
FSN Separation Pay Liability	305	405
Total Accrued Unfunded Annual Leave and Separation Pay	**$ 28,714**	**$ 26,696**

NOTE 14. Accrued Unfunded Workers' Compensation Benefits

Accrued Unfunded Workers' Compensation Benefits (in thousands)
The provision for workers' compensation benefits payable, as of September 30, 2003 and 2002 are as follows:

	2003	2002
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$ 6,417	$ 6,421
Future Workers' Compensation Benefits	27,400	28,251
Total Accrued Unfunded Workers Compensation Benefits	**$ 33,817**	**$ 34,672**

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Compensation is given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL initially pays valid FECA claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

USAID's total FECA liability is $33.8 million as of September 30, 2003 and comprises of unpaid FECA billings for $6.4 million and estimated future FECA costs of $27.4 million.

For FY 2002, USAID's total FECA liability was $34.7 million and comprised of unpaid FECA billings for $6.4 million and estimated future FECA costs of $28.3 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year

NOTE 14. Accrued Unfunded Workers' Compensation Benefits (Cont.)

period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 5.50% in year 1 and year 2, 5.55% in year 3, and 5.60% in year 4 and thereafter.

The decrease of $851 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

NOTE 15. Commitments and Contingencies

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These matters are in the ordinary course of the Agency's operations and are not expected to have a material adverse effect on the Agency's financial operations.

USAID is involved in a group of cases before the US Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case. Any adverse judgment would likely be paid out of the Department of Treasury's Judgment Fund, but then be reimbursed by the Agency. In this case the amounts claimed are $2.2 million, exclusive of Equal Access to Justice Fees. To date, discovery has officially concluded on one of the cases in this group. Agreement was not reached during settlement discussions, and dispositive motions were filed by both parties. The Court entered summary judgment in favor of the Government. The plaintiff appealed the judgement to the Federal Circuit Court of Appeals.

In addition to the $2.2 Million in amounts claimed, the government may incur Equal Access to Justice Fees, which are estimated to be in the $500,000 range.

NOTE 16. Liabilities not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources (in thousands)
Liabilities not covered by budgetary resources as of September 30, 2003 and 2002 are as follows:

	2003	2002
Contingent Liabilities for Loan Guarantees	$ 311,383	$ 328,083
Accrued Unfunded Annual Leave and Separation Pay	28,714	26,696
Accrued Unfunded Workers Compensation Benefits	33,817	34,672
Total Liabilities not covered by Budgetary Resources	373,914	389,451
Total Liabilities covered by Budgetary Resources	8,957,967	8,102,890
Total Accrued Unfunded Workers Compensation Benefits	**$ 9,331,882**	**$ 8,492,342**

All liabilities not covered by Budgetary Resources are non-federal liabilities.

NOTE 17. Schedule of Costs by Responsibility Segments

Schedule of Costs by Responsibility Segments (in thousands)

		Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	Total
Goal 1:	Broad-Based Economic Growth and Agricultural Development									
	Intragovernmental	$ 11,257	$ 83,365	$ 43,489	$ 3,567	$ –	$ 38,480	$ 35,575	$ (1,094)	$ 214,639
	With the Public	344,810	2,375,094	365,825	236,559	–	106,821	140,065	–	3,569,174
	Total	356,067	2,458,459	409,314	240,126	–	145,301	175,640	(1,094)	3,783,813
	Less Earned Revenues	(1,060)	(7,961)	(46,320)	1,641	–	(3,507)	(25,330)	1,349	(81,188)
	Net Program Costs	355,007	2,450,498	362,994	241,767	–	141,794	150,310	255	3,702,625
Goal 2:	Human Capacity Built Through Education and Training					–				
	Intragovernmental	7,864	2,322	2,685	5,095	–	789	5,580	(123)	24,212
	With the Public	155,494	67,683	6,883	29,700	–	16,573	31,464	–	307,797
	Total	163,358	70,005	9,568	34,795	–	17,362	37,044	(123)	332,009
	Less Earned Revenues	(251)	(73)	(84)	(160)	–	(26)	(177)	13	(758)
	Net Program Costs	163,107	69,932	9,484	34,635	–	17,336	36,867	(110)	331,251
Goal 3:	Protect the Environment for Long-Term Sustainability					–				
	Intragovernmental	5,038	2,613	9,701	4,185	–	7,215	90,420	(604)	118,568
	With the Public	82,056	390,063	88,096	58,470	–	11,378	106,390	–	736,453
	Total	87,094	392,676	97,797	62,655	–	18,593	196,810	(604)	855,021
	Less Earned Revenues	(268)	(286)	(305)	(132)	–	(225)	(98,369)	1,627	(97,958)
	Net Program Costs	86,826	392,390	97,492	62,523	–	18,368	98,441	1,023	757,063
Goal 4:	Stabilizing World Population and Protecting Human Health									
	Intragovernmental	53,912	23,141	8,777	26,164	60,930	–	–	(877)	172,047
	With the Public	474,222	357,955	98,364	161,187	904,834	–	–	–	1,996,562
	Total	528,134	381,096	107,141	187,351	965,764	–	–	(877)	2,168,609
	Less Earned Revenues	(1,701)	(735)	(277)	(820)	(1,999)	–	–	90	(5,442)
	Net Program Costs	526,433	380,361	106,864	186,531	963,765	–	–	(787)	2,163,167
Goal 5:	Strengthen Democracy and Good Governance									
	Intragovernmental	5,713	1,238	6,376	3,785	–	5,987	4,467	(140)	27,426
	With the Public	162,527	182,576	325,621	155,907	–	106,704	12,476	–	945,811
	Total	168,240	183,814	331,997	159,692	–	112,691	16,943	(140)	973,237
	Less Earned Revenues	(181)	(41)	(204)	(121)	–	(199)	(140)	15	(871)
	Net Program Costs	168,059	183,773	331,793	159,571	–	112,492	16,803	(125)	972,366
Goal 6:	Lives Saved through Humanitarian Assistance									
	Intragovernmental	7	9,145	2,984	4,635	–	39,580	–	(286)	56,065
	With the Public	16,037	183,467	64,212	115,601	–	1,633,517	–	–	2,012,834
	Total	16,044	192,612	67,196	120,236	–	1,673,097	–	(286)	2,068,899
	Less Earned Revenues	–	(295)	(94)	(147)	–	(1,300)	–	30	(1,806)
	Net Program Costs	16,044	192,317	67,102	120,089	–	1,671,797	–	(256)	2,067,093
Net Costs of Operations		**$ 1,315,476**	**$ 3,669,271**	**$ 975,729**	**$ 805,116**	**$ 963,765**	**$ 1,961,787**	**$ 302,421**	**$ –**	**$ 9,993,565**

NOTE 18. Total Cost and Earned Revenue by Budget Functional Classification

Total Cost and Earned Revenue by Budget Functional Classification (in thousands)
Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net cost
International Development and Humanitarian Assistance – 151	$ 6,700,489	$ (188,023)	$ 6,512,466
International Security Assistance – 152	3,434,912	–	3,434,912
Conduct of Foreign Affairs – 153	45,200	–	45,200
Federal Employee Retirement and Disability – 602	987	–	987
Total	**$10,181,588**	**$ (188,023)**	**$ 9,993,565**

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net cost
International Development and Humanitarian Assistance – 151	$ 5,176,694	($81,359)	$ 5,095,335
International Security Assistance – 152	2,935,308	(158,914)	2,776,394
Conduct of Foreign Affairs – 153	44,880	–	44,880
Federal Employee Retirement and Disability – 602	750	–	750
Total	**$ 8,157,632**	**$ (240,273)**	**$ 7,917,359**

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net cost
International Development and Humanitarian Assistance – 151	$ 496,708	($17,452)	$ 479,256
International Security Assistance – 152	28,972	–	28,972
Conduct of Foreign Affairs – 153	45,200	–	45,200
Federal Employee Retirement and Disability – 602	–	–	–
Total	**$ 570,880**	**$ (17,452)**	**$ 553,428**

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net cost
International Development and Humanitarian Assistance – 151	$ 381,943	($63,762)	$ 318,180
International Security Assistance – 152	34,196	(152,988)	(118,792)
Conduct of Foreign Affairs – 153	44,880	–	44,880
Federal Employee Retirement and Disability – 602	–	–	–
Total	**$ 461,019**	**$ (216,750)**	**$ 244,269**

NOTE 19. Prior Period Adjustments

USAID recorded one prior period adjustment during FY 2003. This adjustment, in the amount of $1.7 million was to adjust the allowance for subsidy for prior year amortization of the reestimate interest expense in the Direct Loan Financing fund (Enterprise for the Americas Initiative Debt Restructuring Financing).

Two prior period adjustments were made in FY 2002.

The Department of Treasury advised USAID and the Department of Agriculture on new guidelines for recording transfers from the Department of Agriculture's Commodity Credit Corporation. Since the transfer of funds is not a transfer of appropriated funds, the Unexpended Appropriation Net Position account 3100 should not be used. An adjustment of $483.7 million for changes in accounting principles was made to reduce the Unexpended Appropriation balance via posting to account 3109 Unexpended Appropriations – Prior Year Adjustments and to account 7400 Prior Period Adjustment – Not Restated. This adjustment does not have an effect on the Agency's net position.

A credit adjustment of $190,000 was made during FY 2002 to the Micro and Small Enterprise Development financing fund to correct an equity posting error that occurred in FY 2001. This adjustment does not have a material effect on the Agency's net position.

NOTE 20. Statement of Budgetary Resources

A. Apportionment Categories of Obligations Incurred (in thousands):

	2003	2002
Category A, Direct	$ 1,371,774	$ 631,168
Category B, Direct	8,534,809	8,279,671
Category A, Reimbursable	10,065	7,301
Category B, Reimbursable	171,039	168,589
Total	**$ 10,087,687**	**$ 9,086,729**

B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

For credit financing activities, borrowing authority for FY 2003 was $62.9 million and for FY 2002, $465,000.

Borrowing Authority is indefinite and authorized under the Credit Reform Act of 1990 (P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Beginning Balance of Budgetary Resources:

A difference exists between FY 02 ending and FY 03 beginning balances for Total Obligations. The FY 2003 beginning obligated balance was increased by $519,000 based on periodic reviews.

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Liquidating appropriations for potential claims in excess of funds availability. Both are authorized under the Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

Pursuant to Section 511 of PL 107-115 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

NOTE 21. Statement of Financing – Other

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

A portion of net increase in contingent liabilities for loan guarantees from FY 2003 includes the $98.1 million for credit subsidy expense reestimates requiring resources in future periods which is shown on the Statement of Financing. Accrued Unfunded Annual leave on the balance sheet is shown as a cumulative balance, with the current period changes of $2.2 million. This increase is shown on the Statement of Financing as a change in components requiring resources in future periods.

Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet nor the Statement of Net Costs. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

NOTE 21. Statement of Financing – Other (Cont.)

Reconciliation of Obligations and Spending Authority from Offsetting Collections between the Statement of Budgetary Resources and the Statement of Financing as of September 30, 2003
(in thousands)

Obligations Incurred, Statement of Budgetary Resources			**$ 10,087,687**
Less:	Transfers to Other Agencies		
	Department of State	$ (437,630)	
	Department of Treasury	(999,000)	
	Nuclear Regulatory Commission	(1,634)	
	Others	(1,719)	(1,439,983)
Add:	Transfers from Other Agencies		
	Department of State	218,173	
	Department of Agriculture	1,185,126	
	Executive Office of the President	1,477,089	
	Others	207	2,880,595
Obligations Incurred, Statement of Financing			**$ 11,528,299**

Spending Authority from Offsetting Collections Per Statement of Budgetary Resources			**$ 1,279,197**
Less:	Transfers to Other Agencies		
	Department of State	(4,217)	
	Nuclear Regulatory Commission	(69)	(4,286)
Add:	Allocations from Other Agencies		
	Department of State	262	
	Department of Agriculture	56,985	57,247
Spending Authority from Offsetting Collections Per Statement of Financing			**$ 1,332,158**

Required Supplementary Information

U.S. Agency for International Development
Required Supplementary Information: Intragovernmental Amounts
As of September 30, 2003
(in thousands)

Intragovernmental Assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$ 14,215,414	$ –	$ 5,415	$ 14,220,829
Dept of Agriculture	–	1,133,865	2,235	1,136,100
Dept of Commerce	–	–	6,157	6,157
Dept of State	–	–	16,639	16,639
Other	–	209	2,552	2,761
Total	**$ 14,215,414**	**$ 1,134,074**	**$ 32,998**	**$ 15,382,486**

Intragovernmental Liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	$ 5,669,725	$ 1,639	$ 79,165	$ 4,096	$ 5,754,625
GSA	–	5,757	–	–	5,757
Dept of Agriculture	–	8,385	–	–	8,385
Dept of Labor	–	–	–	6,417	6,417
Dept of Health and Human Services	–	2,463	–	–	2,463
Other	–	9,055	–	4,330	13,385
Total Debt	**$ 5,669,725**	**$ 27,299**	**$ 79,165**	**$ 14,843**	**$ 5,791,032**

Intragovernmental earned revenues and related costs;

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.

U.S. Agency for International Development

Required Supplementary Information: Schedule of Budgetary Resources

For the Year Ended September 30, 2003
(in thousands)

	Program Funds							Operating Fund	Credit – Financing	Other Funds	Allocations to Other Agencies	Consoli-dated Total
	1010	1021	1035	1037	1093	1095	1096	1000				
Budget Authority	$ 368,431	$1,481,678	$ 433,801	$3,429,136	$ 420,918	$1,830,840	$ –	$ 595,471	$ 62,886	$ 365,268	$1,438,832	$10,427,261
Unobligated Balances – Beginning of Period	109,457	146,909	53,927	658,990	247,225	68,519	277	35,353	798,979	155,087	114,837	2,389,560
Spending Authority from Offsetting Collections	–	5,001	–	–	–	–	–	5,265	219,871	876,084	202	1,106,423
Recoveries of Prior-Year Obligations	10,005	26,691	11,261	7,552	22,153	4,520	449	19,800	14,180	52,079	4,084	172,774
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–	–	–	–
Permanently Not Available	(3,441)	(9,117)	(1,885)	(14,930)	(5,372)	(11,937)	–	(3,951)	(465)	(661,392)	(748)	(713,238)
Total Budgetary Resources	**484,452**	**1,651,162**	**497,104**	**4,080,748**	**684,924**	**1,891,942**	**726**	**651,938**	**1,095,451**	**787,126**	**1,557,207**	**13,382,780**
Status of Budgetary Resources:												
Obligations Incurred	391,647	1,448,271	456,241	3,009,088	489,880	1,747,553	–	625,866	113,832	365,326	1,439,983	10,087,687
Unobligated Balances – Available	91,603	200,589	40,863	1,070,856	194,410	144,389	726	24,924	981,619	420,714	(16,192)	3,154,501
Unobligated Balances – Unavailable	1,202	2,302	–	804	634	–	–	1,148	–	1,086	133,416	140,592
Total, Status of Budgetary Resources	**484,452**	**1,651,162**	**497,104**	**4,080,748**	**684,924**	**1,891,942**	**726**	**651,938**	**1,095,451**	**787,126**	**1,557,207**	**13,382,780**
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period	574,033	2,306,543	328,383	3,256,802	624,347	1,683,628	112,665	167,654	26,868	133,315	244,370	9,458,608
Obligated Balance, Transferred, Net	–	–	–	–	–	–	–	–	–	1,819	–	1,819
Obligated Balance, Net, End of Period	527,856	2,506,374	409,634	2,933,916	565,322	1,996,750	90,230	160,842	1,596	83,600	1,298,721	10,574,841
Outlays:												
Disbursements	427,818	1,222,806	363,728	3,324,424	526,581	1,431,260	21,987	616,527	113,597	364,773	380,995	8,794,496
Collections	–	(6,058)	–	–	–	(1,350)	–	(8,914)	(208,543)	(876,085)	(144)	(1,101,094)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–	–	–	–
Net Outlays	**$ 427,818**	**$1,216,748**	**$ 363,728**	**$3,324,424**	**$ 526,581**	**$1,429,910**	**$ 21,987**	**$ 607,613**	**$ (94,946)**	**$(511,312)**	**$ 380,851**	**$7,693,402**

Major Funds	
Program Fund	
1010	Special Assistance Initiatives
1021	Development Assistance
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds
1096	Latin American/Caribbean Disaster Recovery
Operating Fund	
1000	Operating Expenses of USAID
Credit-Financing Funds	
4119	Israel Guarantee Financing Fund
4137	Direct Loan Financing Fund
4266	DCA Financing Fund
4342	MSED Direct Loan Financing Fund
4343	MSED Guarantee Financing Fund
4344	UE Financing Fund
4345	Ukraine Financing Fund

Other Funds	
Operating Funds	
0300	Capital Investment Fund
1007	Operating Expenses of USAID Inspector General
1036	Foreign Service Retirement and Disability Fund
Program Funds	
1012	Sahel Development Program
1014	Africa Development Assistance
1023	Food and Nutrition Development Assistance
1024	Population and Planning & Health Dev. Asst.
1025	Education and Human Resources, Dev. Asst .
1027	Transition Initiatives
1028	Global Fund to Fight HIV / AIDS
1038	Central American Reconciliation Assistance
1040	Sub-Saharan Africa Disaster Assistance
1500	Demobilization and Transition Fund
Trust Funds	
8342	Foreign Natl. Employees Separation Liability Fund
8502	Tech. Assist. – U.S. Dollars Advance from Foreign
8824	Gifts and Donations

Other Funds (con't)	
Credit Program Funds	
0400	MSED Program Fund
0401	UE Program Fund
0402	Ukraine Program Fund
1264	DCA Program Fund
4103	Economic Assistance Loans – Liquidating Fund
4340	UE Guarantee Liquidating Fund
4341	MSED Direct Loan Liquidating Fund
5318	Israel Admin Expense Fund
Revolving Funds	
4175	Property Management Fund
4516	Working Capital Fund
4590	Acquisition of Property, Revolving Fund

Allocations to Other Agencies	
1000	Operating Expenses of USAID
1010	Special Assistance Initiatives
1014	Africa Development Assistance
1021	Development Assistance
1027	Transition Initiatives
1032	Peacekeeping Operations
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds
1500	Demobilization and Transition Fund

Other Accompanying Information

U.S. Agency for International Development

Consolidating Balance Sheet

As of September 30, 2003
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Intra-Agency Eliminations	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury	$ 1,345,880	$ 12,673,983	$ 183,798	$ 3,484	$ 23,253	$ (14,984)	$ –	$ 14,215,414
Accounts Receivable	–	–	1,134,074	–	–	–	–	1,134,074
Other Assets	–	32,375	623	–	–	–	–	32,998
Total Intragovernmental	1,345,880	12,706,358	1,318,495	3,484	23,253	(14,984)	–	15,382,486
Cash and Other Monetary Assets	50	–	240,362	–	–	–	–	240,412
Accounts Receivable, Net	142,288	13,145	1,306	–	–	4,329	(94,755)	66,313
Loans Receivable, Net	5,696,597	–	–	–	–	–	–	5,696,597
Inventory and Related Property	–	17,089	6,938	–	–	–	–	24,027
General Property, Plant, and Equipment, Net	–	1,197	63,136	–	–	–	–	64,333
Advances and Prepayments	1,402	305,679	42,289	99	598	–	–	350,067
Total Assets	**7,186,217**	**13,043,468**	**1,672,526**	**3,583**	**23,851**	**(10,655)**	**(94,755)**	**21,824,235**
LIABILITIES								
Intragovernmental								
Accounts Payable	1,239	36,481	13,740	–	–	(24,161)	–	27,299
Debt	79,165	–	–	–	–	–	–	79,165
Due to U.S. Treasury	5,669,725	–	–	–	–	–	–	5,669,725
Other Liabilities	4,096	–	6,417	–	–	4,330	–	14,843
Total Intragovernmental	5,754,225	36,481	20,157	–	–	(19,831)	–	5,791,032
Accounts Payable	129,649	1,390,539	416,359	295	691	–	(94,755)	1,842,778
Loan Guarantee Liability	1,159,415	–	–	–	–	–	–	1,159,415
Federal Employees and Veteran's Benefits	–	–	27,400	–	–	–	–	27,400
Other Liabilities	201,082	–	277,588	–	23,411	9,176	–	511,257
Total Liabilities	**7,244,371**	**1,427,020**	**741,504**	**295**	**24,102**	**(10,655)**	**(94,755)**	**9,331,882**
Commitments and Contingencies								
NET POSITION								
Unexpended Appropriations	44,421	11,596,111	137,345	–	–	–	–	11,777,877
Cumulative Results of Operations	(102,575)	20,337	793,677	3,288	(251)	–	–	714,476
Total Net Position	**(58,154)**	**11,616,448**	**931,022**	**3,288**	**(251)**	**–**	**–**	**12,492,353**
Total Liabilities and Net Position	**$ 7,186,217**	**$ 13,043,468**	**$ 1,672,526**	**$ 3,583**	**$ 23,851**	**$ (10,655)**	**$ (94,755)**	**$ 21,824,235**

U.S. Agency for International Development

Consolidating Statement of Net Costs

For the Year Ended September 30, 2003
(in thousands)

	Credit	Program	Operating	Revolving	Trust Funds	Other	Intra-Agency Eliminations	Total
Goal 1: Broad-Based Economic Growth and Agricultural Development								
Intragovernmental	$ 69,471	$ 48,587	$ 97,634	$ 41	$ –	–	$ (1,094)	$ 214,639
With the Public	50,006	3,350,615	165,112	1,479	1,962	–	–	3,569,174
Total	119,477	3,399,202	262,746	1,520	1,962	–	(1,094)	3,783,813
Less Earned Revenues	(77,873)	(1,630)	(1,829)	(1,205)	–	–	1,349	(81,188)
Net Program Costs	41,604	3,397,572	260,917	315	1,962	–	255	3,702,625
Goal 2: Human Capacity Built through Education and Training								
Intragovernmental	–	4,653	19,674	8	–	–	(123)	24,212
With the Public	–	276,688	30,681	299	129	–	–	307,797
Total	–	281,341	50,355	307	129	–	(123)	332,009
Less Earned Revenues	–	(156)	(371)	(244)	–	–	13	(758)
Net Program Costs	–	281,185	49,984	63	129	–	(110)	331,251
Goal 3: Protect the Environment for Long-Term Sustainability								
Intragovernmental	87,960	5,308	25,893	11	–	–	(604)	118,568
With the Public	63,316	632,313	40,260	394	170	–	–	736,453
Total	151,276	637,621	66,153	405	170	–	(604)	855,021
Less Earned Revenues	(98,599)	(179)	(487)	(320)	–	–	1,627	(97,958)
Net Program Costs	52,677	637,442	65,666	85	170	–	1,023	757,063
Goal 4: Stabilizing World Population and Protecting Human Health								
Intragovernmental	–	58,604	114,272	48	–	–	(877)	172,047
With the Public	–	1,816,397	177,677	1,738	750	–	–	1,996,562
Total	–	1,875,001	291,949	1,786	750	–	(877)	2,168,609
Less Earned Revenues	–	(1,966)	(2,150)	(1,416)	–	–	90	(5,442)
Net Program Costs	–	1,873,035	289,799	370	750	–	(787)	2,163,167
Goal 5: Strengthen Democracy and Good Governance								
Intragovernmental	–	11,032	16,527	7	–	–	(140)	27,426
With the Public	–	919,754	25,697	251	109	–	–	945,811
Total	–	930,786	42,224	258	109	–	(140)	973,237
Less Earned Revenues	–	(370)	(311)	(205)	–	–	15	(871)
Net Program Costs	–	930,416	41,913	53	109	–	(125)	972,366
Goal 6: Lives Saved through Humanitarian Assistance								
Intragovernmental	–	35,305	21,037	9	–	–	(286)	56,065
With the Public	–	976,899	1,035,480	318	137	–	–	2,012,834
Total	–	1,012,204	1,056,517	327	137	–	(286)	2,068,899
Less Earned Revenues	–	(1,183)	(394)	(259)	–	–	30	(1,806)
Net Program Costs	–	1,011,021	1,056,123	68	137	–	(256)	2,067,093
Net Costs of Operation	**$ 94,281**	**$ 8,130,671**	**$ 1,764,402**	**$ 954**	**$ 3,257**	**–**	**–**	**$ 9,993,565**

Financial Performance

U.S. Agency for International Development
Consolidating Statement of Net Position
For the Year Ended September 30, 2003
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	$ 5,922	$ 9,894,918	$ 738,958	$ 4,242	$ (405)	$ –	$ 10,643,635
Prior period adjustments	1,690	–	–	–	–	–	1,690
Beginning Balances, as adjusted	7,612	9,894,918	738,958	4,242	(405)	–	10,645,325
Budgetary Financing Sources:							
Appropriations Received	17,674	9,801,300	718,000	–	–	–	10,536,974
Appropriations transferred-in/out	11,184	97,907	3,968	–	–	–	113,059
Other adjustments (recissions, etc.)	(343)	(47,007)	(4,447)	–	–	–	(51,797)
Appropriations used	–	–	–	–	–	–	–
Nonexchange revenue	–						–
Donations and forfeitures of cash and cash equivalents	–	–	96,905	–	3,411	–	100,316
Transfers-in/out without reimbursement	–	–	1,128,139	–	–	–	1,128,139
Other budgetary financing sources	–	–	–	–	–	–	–
Other Financing Sources:							–
Donations and forfeitures of property	–	–	–	–	–	–	–
Transfers-in/out without reimbursement	–	–	–	–	–	–	–
Imputed financing from costs absorbed by others	–	–	13,902	–	–	–	13,902
Other	–	–	–	–	–	–	–
Total Financing Sources	28,515	9,852,200	1,956,467	–	3,411	–	11,840,593
Net Cost of Operations	94,281	8,130,671	1,764,402	954	3,257	–	9,993,565
Ending Balances	**$ (58,154)**	**$ 11,616,447**	**$ 931,023**	**$ 3,288**	**$ (251)**	**$ –**	**$ 12,492,353**

U.S. Agency for International Development

Consolidating Statement of Budgetary Resources

For the Year Ended September 30, 2003
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Credit-Financing	Allocations to Other Agencies	Total
Budgetary Resources:								
Budget Authority	$ 68,858	$ 8,125,623	$ 721,968	$ –	$ 9,094	$ 62,886	$ 1,438,832	$ 10,427,261
Unobligated Balances – Beginning of Period	121,635	1,309,465	39,446	3,262	1,936	798,979	114,837	2,389,560
Spending Authority from Offsetting Collections	872,335	5,002	5,364	3,649	–	219,871	202	1,106,423
Recoveries of Prior-Year Obligations	40,020	92,113	21,254	1	1,122	14,180	4,084	172,774
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–
Permanently Not Available	(660,571)	(47,007)	(4,447)	–	–	(465)	(748)	(713,238)
Total Budgetary Resources	**442,277**	**9,485,196**	**783,584**	**6,912**	**12,152**	**1,095,451**	**1,557,207**	**13,382,780**
Status of Budgetary Resources:								
Obligations Incurred	73,770	7,699,567	746,200	4,178	10,157	113,832	1,439,983	10,087,687
Unobligated Balances	368,050	1,780,688	35,607	2,734	1,995	981,619	(16,192)	3,154,501
Unobligated Balances	457	4,942	1,777	–	–	–	133,416	140,592
Total Status of Budgetary Resources	**442,277**	**9,485,197**	**783,584**	**6,912**	**12,152**	**1,095,451**	**1,557,207**	**13,382,780**
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	23,909	8,968,661	178,099	1,007	15,695	26,868	244,370	9,458,609
Obligated Balance, Transferred, Net	1,819	–	–	–	–	–	–	1,819
Obligated Balance, Net, End of Period	(5,842)	9,082,772	175,584	751	21,259	1,596	1,298,721	10,574,841
Outlays:								
Disbursements	65,310	7,495,577	731,111	4,434	3,472	113,597	380,995	8,794,496
Collections	(872,336)	(7,408)	(9,014)	(3,649)	–	(208,543)	(144)	(1,101,094)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–
Net Outlays	**$ (807,026)**	**$ 7,488,169**	**$ 722,097**	**$ 785**	**$ 3,472**	**$ (94,946)**	**$ 380,851**	**$ 7,693,402**

U.S. Agency for International Development
Consolidating Statement of Financing
For the Year Ended September 30, 2003
(in thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred	$ 187,593	$ 9,139,559	$ 746,199	$ 4,179	$ 10,157	$ –	$ 10,087,687
Appropriations transferred to/from other agencies (net)	–	255,488	1,185,124	–	–	–	1,440,612
Total Obligations Incurred	187,593	9,395,047	1,931,323	4,179	10,157	–	11,528,299
Less: Spending authority from offsetting collections and recoveries	(1,146,406)	(101,402)	(26,617)	(3,650)	(1,122)	–	(1,279,197)
Spending authority transferred to/from other agencies (net)	–	4,142	(57,103)	–	–	–	(52,961)
Total Spending authority from offsetting collections and recoveries	(1,146,406)	(97,260)	(83,720)	(3,650)	(1,122)	–	(1,332,158)
Net Obligations	(958,813)	9,297,787	1,847,603	529	9,035	–	10,196,141
Other Resources							
Donated and Credit Program Revenue	(176,472)	2,406	3,650	(40)	–	–	(170,456)
Imputed Financing From Costs Absorbed by Others	–	–	13,902	–	–	–	13,902
Net other resources used to finance activities	(176,472)	2,406	17,552	(40)	–	–	(156,554)
Total resources used to finance activities	(1,135,285)	9,300,193	1,865,155	489	9,035	–	10,039,587
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, service and benefits ordered but not yet provided	40,280	(1,157,115)	(196,907)	425	(5,677)	–	(1,318,994)
Resources that fund expenses recognized in prior periods	–	–	20	–	–	–	20
Budgetary offsetting collections and receipts that do not affect net cost of operations	–	–	–	–	–	–	–
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,091,845	–	–	40	–	–	1,091,885
Other	–	(2,406)	(3,651)	–	–	–	(6,057)
Resources that finance the acquisition of assets	(892)	(7,695)	88,896	–	–	–	80,309
Total resources used to finance items not part of net cost of operations	1,131,233	(1,167,216)	(111,642)	465	(5,677)	–	(152,837)
Total resources used to finance net cost of operations	(4,052)	8,132,977	1,753,513	954	3,358	–	9,886,750
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	215	–	2,054	–	(101)	–	2,168
Upward/Downward reestimates of credit subsidy expense	98,115	–	–	–	–	–	98,115
Other	–	–	36,435	–	–	–	36,435
Total components of net cost of operations that will require or generate resources in future periods	98,330	–	38,489		(101)	–	136,718
Components not Requiring or Generating Resources							
Depreciation and Amortization	–	618	6,307	–	–	–	6,925
Revaluation of assets or liabilities	–	–	3,133	–	–	–	3,133
Other	3	(2,924)	(37,040)	–	–	–	(36,961)
Total components of net cost of operations that will not require or generate resources	3	(2,306)	(27,600)	–	–	–	(29,903)
Total components of net cost of operations that will not require or generate resources in the current period	98,333	(2,306)	10,889	–	(101)	–	106,815
Net Cost of Operations	**$ 94,281**	**$ 8,130,671**	**$ 1,764,402**	**$ 954**	**$ 3,257**	**$ –**	**$ 9,993,565**

Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002

Audit Report No. 0-000-04-001-C

November 14, 2003

Washington, D.C.

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November 14, 2003

MEMORANDUM

TO: CFO/FM, Lisa D. Fiely

FROM: AIG/A, Bruce N. Crandlemire

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002 (Report No. 0-000-04-001-C)

The Office of Inspector General (OIG) is transmitting its report on the audit of the U.S. Agency for International Development's (USAID's) consolidated financial statements, related internal controls, and compliance with applicable laws and regulations for fiscal years (FY) 2003 and 2002. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2003, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (U.S Treasury) by February 1, 2004. However, because the submission deadline will be accelerated beginning in FY 2004, USAID opted to meet a November 15 deadline for the completion of its FY 2003 financial statement audit.

For USAID's FY 2003 consolidated financial statements, we are pleased to issue unqualified opinions on all five of USAID's principal financial statements. This is an important milestone and represents continued progress by USAID. However, for the balance sheet and statement of net cost, the opinion was achieved only through extensive audit efforts to overcome material weaknesses in internal control. Although these efforts resulted in auditable information on the balance sheet and statement of net cost, they did not provide information in a timely manner to enable USAID managers to make cost and budgeting decisions throughout the year.

With respect to internal controls, our report discusses three material weaknesses and five reportable conditions identified during the audit. The material weaknesses were related to USAID's process for (1) assigning strategic objectives to Agency goals, (2) reviewing quarterly accounts payable and accrued expenses, and (3) recognizing and reporting accounts receivables.

Financial Performance

The reportable conditions address USAID's need to (1) reconcile fund balance with the U.S. Treasury, (2) record and classifying advances to grantees and the related expenses, (3) review, analyze, and deobligate unliquidated obligations, (4) correctly record periodic allowances to its missions, and (5) improve its system for preparing the Management's Discussion and Analysis section of the Performance and Accountability Report required by the Federal Accounting Standards Advisory Board.

We are reporting that although USAID is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Debt Collection and Improvement Act of 1996 it is making progress towards becoming substantially compliant.

This report contains four recommendations to improve USAID's internal controls for the preparation of its annual financial statement required under the Government Management Reform Act. *(See Appendix III for the status of uncorrected findings and recommendations from our prior audits that affect the current objectives.)*

We have received and considered your response to the draft and the recommendations included therein (see page 47). Based on your response, we have accepted your comments as management decisions. Please forward all information to the Office of Management, Planning, and Innovation for acceptance and final action *(See Appendix II for USAID's Management Comments).*

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on the audit of the fiscal year 2004 financial statements (in the mandated accelerated schedule) and to seeing improved systems and controls.

Financial Performance

Table of Contents

Financial Performance

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Summary of Results

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, change in net position, budgetary resources, reconciliation of net costs, and budgetary obligations for fiscal years 2003 and 2002?

In our opinion, except for the effects of the inconsistencies in USAID's allocation of expenses on its FY 2002 statement of net cost, USAID's balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, and statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2003 and 2002, and its net cost, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles. *(See page 11)*

Other Required Supplementary Information

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the MD&A departs from prescribed guidelines. Specifically, the MD&A did not contain a clear picture of USAID's planned performance for FY 2003. Further, the primary performance information indicating the extent to which programs were achieving their objectives was based on results achieved in FY 2002. As a result, the MD&A did not adequately link costs to results for the current fiscal year.

Further information on this finding is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations. *(See pages 32 and 37, respectively.)*

Report on Related Internal Controls

Our audit identified three material internal control weaknesses *(see pages 17 to 23)* and five reportable conditions *(see pages 24 to 31)* which are included in this report.

The material weaknesses were as follows:

1. USAID's methodology for assigning strategic objectives to Agency goals needs improvement.
2. USAID's process for reviewing quarterly accounts payable and accrued expenses via its Accrual Reporting System needs improvement.

3. USAID's process for recognizing and reporting its Accounts Receivable needs improvement. (Repeat Finding)

The reportable conditions related to USAID's need to improve its:

1. Process for reconciling its Fund Balance with the U.S. Treasury. (Previously reported as a material weakness)

2. Recording and classifying advances to grantees and related expenses. (Previously Reported as a Material Weakness)

3. Process for analyzing and deobligating unliquidated obligations as necessary. (Previously reported as a material weakness)

4. Process for recording periodic allowances to its missions.

5. System for preparing the Management's Discussion and Analysis section of the Performance and Accountability Report.

Report on Compliance with Laws and Regulations

During fiscal year 2003, USAID's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996. Specifically, USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level. However, USAID has making progress towards becoming compliant. *(See pages 33 to 41)*

Our audit also disclosed five instances of noncompliance with laws and regulations that could have a direct and material effect on the principal financial statements and required supplementary information. The laws, standards, and regulations with which USAID did not comply were the:

- Federal Financial Management Improvement Act of 1996.
- Statements of Federal Financial Accounting Standards.
- Computer Security Act of 1987.
- Debt Collection and Improvement Act of 1996.
- Office of Management and Budget Bulletin No. 01-09.

We considered USAID's internal control weaknesses and noncompliance with laws and regulations to determine our auditing procedures for the purpose of forming our opinion on the financial statements and not to provide assurance on internal controls and compliance with laws and regulations. We have provided additional information in the independent auditor's report on internal controls *(See page 15)* and compliance *(See page 33).*

USAID reported three material weaknesses in its fiscal year 2002 Accountability Report and will report three material weaknesses in its fiscal year 2003 Performance and Accountability Report, which will be issued on November 14, 2003.

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 38 of which have operational and formal accounting stations. In fiscal year 2003, USAID had total obligation authority of about $13 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for FY 2003, USAID has prepared the following:

- Balance Sheet,
- Statement of Net Costs,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources,
- Statement of Financing,
- Notes to the financial statements, and
- Other accompanying information.

Audit Objectives

OMB Bulletin No. 01-02 and related GAO guidance established the minimum audit requirements for Federal financial statements. For fiscal year 2003, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respect, and in conformity with generally accepted accounting principles the assets, liabilities, net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations.
- Obtain an understanding of USAID's internal controls to (1) understand the design of controls relevant to an audit of financial statements and determine whether they have been placed in operation; and (2) assess control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.
- Obtain an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the performance measures included in Management's Discussion and Analysis (MD&A).
- Report on USAID's compliance with laws and regulations that could have a direct and material effect on the principal statements and any other applicable laws and regulations.
- Report whether USAID's financial management systems substantially comply with the Federal Financial Management Improvement Act section 803(a) requirements.

For the first objective, we obtained sufficient evidence concerning material line items on USAID's fiscal year 2003 financial statements to enable us to form an opinion on those statements.

For the second objective, we obtained an understanding of USAID's internal controls and assessed the control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

For the third objective, we gained an understanding of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

For the fourth and fifth objectives, we determined whether USAID's financial management systems substantially comply with Federal requirements for financial management systems, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the FFMIA of 1996. *(See Appendix I for our scope and methodology)*

In accordance with the OMB audit requirements for Federal financial statements, this combined audit report includes our separate reports on USAID's financial statements, internal controls, and compliance with applicable laws and regulations.

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Independent Auditor's Report on USAID's Financial Statements

Auditor's Opinion

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, change in net position, budgetary resources, reconciliation of net costs, and budgetary obligations for fiscal years 2003 and 2002?

We have audited the accompanying balance sheet, statement of changes in net position, statement of net cost, statement of budgetary resources, and statement of financing of USAID for the years ended September 30, 2003 and 2002.

We conducted our audits in accordance with generally accepted government auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, except for the effects of the inconsistencies in USAID's allocation of expenses on its FY 2002 statement of net cost, the financial statements referred to above present fairly, in all material respects, the financial position of USAID as of September 30, 2003 and 2002 and its net costs, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles.

The financial statements referred to above are the responsibility of USAID's management. In that regard, USAID's management is responsible for:

1. Preparing the financial statements in conformity with generally accepted accounting principles.
2. Establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act are met.
3. Establishing, maintaining, and ensuring that USAID's financial management systems comply with Federal Financial Management Improvement Act (FFMIA) requirements.
4. Complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In order to fulfill these responsibilities, we:

1. Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

2. Assessed the accounting principles used and significant estimates made by management.

3. Evaluated the overall presentation of the financial statements.

4. Obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Performance and Accountability Report.

5. Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls.

6. Considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act.

7. Tested whether USAID's financial management systems substantially complied with the three FFMIA requirements.

8. Tested USAID's compliance with selected provisions of the following laws and regulations:
   - Anti-Deficiency Act,
   - Prompt Payment Act,
   - Debt Collection and Improvement Act, and
   - Federal Credit Reform Act.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. Instead, we limited our internal control testing to controls over financial reporting and compliance.

Nevertheless, because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes. *(See the FFMIA section of Compliance Report on USAID's FY 2003 financial statements for additional internal control weaknesses.)*

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2003 and 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We have also issued reports, dated November 14, 2003, on our consideration of USAID's internal controls, and on its compliance with laws and regulations. *(See pages 15 and 33.)*

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. Although we did not audit and do not express an opinion on this information, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the performance information reported in the MD&A departs from prescribed guidelines. Specifically, the MD&A did not contain a clear picture of USAID's planned performance for FY 2003. Further, the primary performance information indicating the extent to which programs were achieving their objectives was based on results achieved in FY 2002. As a result, the MD&A did not adequately link costs to results for the current fiscal year.

Further information is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations. *(See pages 30 and 38, respectively.)*

Office of Inspector General
November 14, 2003

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Independent Auditor's Report on Internal Controls

Report on Internal Controls and Audit Findings

Did USAID establish adequate internal controls related to its financial statements and the performance measures contained in its Management's Discussion and Analysis section?

We have audited the consolidated financial statements of USAID for the fiscal years ended September 30, 2003 and 2002, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered USAID's internal controls over financial reporting by obtaining an understanding of those controls. We determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of controls to determine our substantive auditing procedures for the purpose of expressing an opinion on the financial statements. We limited the internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (such as those relevant to ensuring efficient operations).

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions that have a material impact on the financial statements, including those related to obligations and costs are executed in compliance with laws and regulations.

The objective of our audit was not to provide assurance on internal controls; consequently, we do not provide an opinion on those controls.

Financial Performance

Our consideration of the internal controls over USAID's financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses, on the other hand, are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may occur and not be detected. However, we noted certain matters, discussed in the following paragraphs and accompanying schedules, involving the internal controls and their operation that we consider to be either material weaknesses or reportable conditions, including such weaknesses or conditions noted in prior Government Management and Reform Act (GMRA) audit reports. Our Report on Compliance with Laws and Regulations (see Page 33) identifies additional internal control weaknesses affecting USAID's overall compliance with applicable laws and regulations. The material internal control weaknesses are as follows:

1. USAID's methodology for assigning strategic objectives to Agency goals needs improvement.
2. USAID's process for reviewing quarterly accounts payable and accrued expenses via its Accrual Reporting System needs improvement.
3. USAID's process for recognizing and reporting Its Accounts Receivable needs improvement (Repeat Finding).

The reportable conditions related to USAID's need to improve its:

1. Process for reconciling its Fund Balance with the U.S. Treasury (Previously reported as a material weakness).
2. Recording and classifying of advances to grantees and related expenses (Previously reported as a material weakness).
3. Process for analyzing and deobligating unliquidated obligations as necessary (Previously reported as a material weakness).
4. Process for recording periodic allowances to its missions.

5. System for preparing the Management's Discussion and Analysis Section of the Performance and Accountability Report.

Material Weaknesses

USAID's Methodology for Assigning Strategic Objectives to Agency Goals Needs Improvement

USAID's system for ensuring that expenses are correctly assigned to each of its six Agency goals needs improvement. Under the current system, USAID has limited assurance that its strategic objectives are being correctly assigned to each of the six Agency goals. This problem occurred because USAID's controls over the process used to map strategic objectives to the Agency goals are ineffective and its Office of Financial Management was not involved in the process of ensuring the reliability of the assignments. As a result, the expenses reported on USAID's Consolidated Statement of Net Cost cannot be relied without significant adjustments resulting from the audit process. At our request, USAID subsequently reallocated $2.1 billion of expenses on its Consolidated Statement of Net Cost to present more reliable expense information associated with its six Agency goals.

Statement of Federal Financial Accounting Standard (SFFAS) No. 4 requires Federal agencies to accumulate and report the costs of its activities on a regular and consistent basis for management information purposes. SFFAS states that reliable information on the costs of Federal programs and activities are crucial for effective management of government operations. The information supplied to internal and external users should be reliable and useful in making evaluations or decisions.

USAID uses a system known as the Annual Report Database to map its strategic objectives to the following six Agency goals:

1. Encourage Broad-based Economic Growth and Agricultural Development.
2. Build Human Capacity Through Education and Training.
3. Protect the Environment for Long-Term Stability.
4. Stabilize World Population and Protect Human Health.
5. Strengthen Democracy and Good Governance.
6. Promote Humanitarian Assistance.

The Annual Report Database is a decentralized list of strategic objectives mapped to corresponding Agency goals and monitored by USAID's Bureau for Policy and Program Coordination (PPC). To populate the Annual Report Database, at the beginning of every fiscal year, PPC relies on offices within each of USAID's central and regional Bureaus[1] to correctly assign individual strategic objectives to corresponding Agency goals. At the end of the fiscal year, USAID's Office of Financial Management uses the Annual Report Database to summarize the total expenses for each strategic objective to the corresponding Agency goal. These expenses are then reported on USAID's Consolidated Statement of Net Cost.

The Annual Report Database is the primary link between the information in USAID's general ledger and its Consolidated Statement of Net Cost. However, our review of the Annual Report Database found that:

- PPC does not require USAID Bureau officials to certify that its strategic objectives-to-goal assignments are reliable.
- Some strategic objectives that impact several Agency goals are being mapped to only one Agency goal.
- Some existing strategic objectives are not mapped to any of USAID's six goals. Automated Directives System (ADS) 201.3.7.1 requires that a strategic objective must link to one principal Agency goal, one principal Agency objective, and one Agency Pillar as defined in the most current Agency Strategic Plan.

The Office of Inspector General determined that different offices within USAID have different interpretations of how strategic objectives should be assigned to Agency goals, and we identified:

- 3 strategic objectives valued at about $1.3 billion where the attribution could be questioned.
- 11 strategic objectives valued at about $55 million that were assigned to only one Agency goal but should have been allocated to several.
- 43 strategic objectives valued at about $798 million that were not assigned to any Agency goal.

As a result of the OIG determinations, USAID subsequently made a manual adjustment to its Annual Reporting Database to present more reliable amounts on its Consolidated Statement of Net Cost.

The above system deficiencies exist at USAID because the assignments of strategic objectives to Agency goals, although approved by PPC, are actually performed by the individual USAID Bureaus without adequate guidance or oversight. This occurred because PPC believes that the mapping of

[1] USAID is comprised of the central and regional bureaus. The central bureaus are: Democracy, Conflict and Humanitarian Assistance; Economic Growth, Agriculture and Trade; Global Health; Legislative and Public Affairs; Management; and Policy and Program Coordination. The regional bureaus are: Africa; Asia and Near East; Europe and Eurasia; and Latin America and the Caribbean.

strategic objectives requires specific knowledge of program implementation, which is primarily held within the operating units and strategic objective teams.

Bureau officials forward the strategic objective assignments to the PPC, who approve them without questioning the assignments and without obtaining certifications from Bureau officials that the assignments are accurate. In addition, despite its financial reporting responsibilities for the Statement of Net Cost, USAID's Office of Financial Management does not monitor PPC's process to ensure that the information provided is reliable.

Because of the deficiencies in USAID's process for properly reporting expenses against the Agency goals on its Consolidated Statement of Net Cost, we are including the following recommendations to USAID management:

Recommendation No 1: We recommend that USAID's Chief Financial Officer coordinate with the Bureau for Policy, Planning and Coordination to:

1.1 Obtain annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals.

1.2 Implement Automated Directives System 201.3.7.1 by requiring that all strategic objectives be assigned to an Agency goal.

1.3 Develop separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.

Financial Performance

USAID's Process for Reviewing Quarterly Accounts Payable and Accrued Expenses via Its Accrual Reporting System Needs Improvement.

USAID's methodology for estimating its accounts payable and accrued expenses using Cognizant Technical Officer (CTO) reviews of information contained in the Accrual Reporting System,[2] and the supervision of the results of this exercise, have not worked effectively. This occurred because:

- Financial information generated by the Accrual Reporting System is often unreliable.
- CTO information maintained in the Accrual Reporting System is unreliable.
- USAID has not used all available information to monitor the credibility of the information that is either accepted or reviewed within Accrual Reporting System.
- USAID's Office of Financial Management is not statistically reviewing the accuracy of accrual modifications.
- Support for recorded accruals is held with as many as 600 individuals every quarter, making the system extremely difficult to audit.

Statement of Federal Financial Accounting Standards No.1, paragraph 77 requires that, when an entity accepts goods (or services), it should recognize a liability for the unpaid amount of these goods or services. If applicable invoices are not available when financial statements are prepared, then the amounts owed should be estimated. USAID estimates its accounts payable using its Accrual Reporting System.

As a result of revised Accrual Reporting System estimates proposed by the OIG, USAID reduced yearend accrued expenses and accounts payable by about $244 million to more accurately reflect the activity in accounts impacted by accruals.

USAID's accrual methodology uses the Accrual Reporting System to develop quarterly estimates of accrued expenses recorded against individual contract and grant awards. These estimates are reviewed and certified by Cognizant Technical Officers (CTOs). Of the $1.33 billion in accrued expenses estimated by the Accrual Reporting System as of September 30, 2003, about $650 million were adjusted deliberately as a result of CTO reviews of unliquidated obligations recorded in USAID's

[2] The Accrual Reporting System gathers obligation and contract information from USAID's Financial Management and Acquisition and Assistance system, and uses this data to calculate estimated quarterly expenses against individual USAID contracts, grants, or obligation line items.

Accrual Reporting System . However, the remainder, about $680 million represented system-generated estimates of accrued expenses against yearend unliquidated obligations.

Because the system-generated estimates of accrued expenses are calculated by the Accrual Reporting System on a straight-line basis using the unliquidated obligation balances for the remaining performance period of the individual awards, USAID has no assurance that these system-generated estimates are reliable or that the system-generated portion of accrued expenses is supported by an adequate accrual methodology. Although USAID Office of Financial Management officials have suggested that eliminating system-generated estimates might cause CTOs to review their accruals more closely, it could also cause USAID's accounts payable to be materially understated, which would require a potentially large and imprecise adjustment.

At the end of every quarter, USAID provides, via the Accrual Reporting System, its estimates of expenses recorded against related obligations to CTOs who are responsible for the individual obligations. The CTO names included in the Accrual Reporting System are derived from USAID's existing procurement system – a module of USAID's New Management System - which identifies a CTO for each recorded obligation. However, many of the CTOs identified by this system and, subsequently, by the Accrual Reporting System were not the CTOs responsible for the corresponding obligations. USAID's Office of Financial Management believes that its CTO information will be more reliable when a procurement module is acquired and integrated with its current financial management system.

Under the current Accrual Reporting System, CTOs are not accountable to a single authority with the responsibility for monitoring the accruals process. Instead, CTOs are located in USAID's individual bureaus and report to the management of those individual bureaus. Also, USAID's Office of Financial Management does not compile or maintain statistics on periodic accruals to show:

- How often recorded accruals were adjusted by CTOs.
- The adjustments made by each bureau.
- The number and value of straight-line accruals accepted by CTOs.
- Whether or not CTOs are actually reviewing quarterly accruals.

At the beginning of every quarter, CTOs must log into the Accrual Reporting System and certify that the recorded accrual amounts in the system were the most reliable representation of expenses for the previous quarter. However, this quarterly certification process only provides assurance that CTOs have checked off an electronic certification box and does not provide information on the level of review performed for each accrual. Although evidence of these reviews is required to be maintained by the individual CTOs, the required documentation was often either missing or inadequate. USAID subsequently made a $243 million adjustment to reduce its accounts payable and expenses to present more reliable yearend balances.

USAID's Office of Financial Management does compile statistics on whether or not CTOs are reviewing quarterly accruals and has issued guidance to CTOs on how to review accruals. Nevertheless, USAID has no assurance that all CTOs understand the issued guidance, nor is it clear to whom the CTOs are accountable if they do not follow the guidance. USAID's Office of Financial Management also interviews between 30 and 40 CTOs to determine the accuracy of their accrual modifications but this sample is not large enough to verify the accuracy of the quarterly accruals.

Because of the inadequacies in USAID's Accrual Reporting System and in the CTO information used to calculate and report on accounts payable and expenses in its financial statements, we are making the following recommendations to USAID management:

Recommendation No 2: We recommend that USAID's Chief Financial Officer:

2.1 Establish and implement procedures to obtain updated Cognizant Technical Officer information whenever personnel changes affect the information recorded in the Accrual Reporting System.

2.2 Establish and implement procedures to evaluate the reliability of the Accrual Reporting System by performing quarterly reviews using valid statistical analysis techniques.

2.3 Establish and implement procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the Accrual Reporting System by USAID's Cognizant Technical Officers - by individual USAID Bureau - to assist in planning follow-up reviews of Accrual Reporting System information.

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding)

As of September 30, 2003, USAID continues to lack an integrated financial management system with the ability to account for its worldwide accounts receivable. This internal control weakness was reported in a previous audit report[3]. Because this systemic weakness continues to exist, we have included it as a material weakness in this report. Because USAID lacks a worldwide integrated system and has not effectively implemented policies and procedures for its missions and its Office of Procurement to immediately recognize accounts receivable, USAID had to rely on the web-based data collection tool to determine the year-end accounts receivable balances. Therefore, USAID has no complete assurance that the amount reported for accounts receivable in its fiscal year 2003 financial statements represents all receivables due to USAID.

SFFAS No. 1, paragraphs 40 to 52, "Accounts Receivables," requires the recognition (recording) of accounts receivable when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures in place for recognizing and reporting them at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notify the Office of Financial Management that employees, vendors, contractors, and grantees owe funds to USAID. We determined that accounts receivable within the Office of Financial Management were outstanding in a range of 7 to 1,101 days.

We identified similar findings in a previous report[4] and made recommendations for corrective actions by USAID management. USAID has taken final action on last year's recommendation by issuing policies and procedures for the immediate recognition and reporting of all accounts receivable. USAID is still in the process of implementing the new procedures; therefore, we are not including additional recommendations in this audit report. However, we will continue to monitor USAID's progress in implementing the recommended corrective actions.

[3] Report on USAID's Consolidated Financial Statement, Internal Controls and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

[4] Report on USAID's Consolidated Financial Statement, Internal Controls and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

Reportable Conditions

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement (Previously Reported as a Material Weakness)

The OIG determined that USAID's internal controls over its fund balance reconciliation process needs improvement. While USAID has improved its reporting of monthly and cumulative fund balance differences with the U.S. Treasury, we identified several problems that continue to hinder USAID's ability to reconcile differences with its fund balance. Specifically, USAID's overseas missions did not consistently reconcile, research, and resolve differences identified between its records, the State Department's U.S. Disbursement Offices records, and U.S. Treasury records. USAID missions continue to have large unreconciled balances because they have not been able to implement procedures to reconcile items quickly. Additionally, accounting stations responsible for several client missions do not consistently receive documentation to support unreconciled transactions.

As a result, in fiscal year 2003, USAID's Office of Financial Management made unsupported adjustments of about $35 million net ($201 million in absolute dollar value) to bring its cash balance in agreement with the U.S. Treasury's balance. This is an improvement over the $45 million net ($203 million in absolute dollar value) that was reported last year. According to USAID's Office of Financial Management officials, this adjustment was made because it is necessary for USAID to bring its fund balance in agreement with the U.S. Treasury for the yearend closing statement and the annual financial statement.

The U.S. Department of Treasury's guidance[5] for reconciling fund balances requires that Federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences.

The reconciliation process contains two steps: (1) identifying the differences between USAID's records and the U.S. Department of Treasury's records and (2) researching and resolving these differences. Some of the differences are timing differences that will eventually be eliminated, while other differences are accounting and posting errors that must be corrected. The U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its fund balance with the U.S. Treasury

[5] Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual, ITFM 2-5100, August 1999.

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account. The procedures further state that an agency can adjust its fund balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy. USAID did not consistently follow the first and second steps of the reconciliation process but did adjust its fund balance with the U.S. Treasury account.

In FY 2003, USAID implemented a new reporting system that will be used to determine its missions' reconciling items at the end of each accounting period. We will be evaluating the effectiveness of this new reporting system during upcoming audits.

We identified similar reconciliation findings in a previous audit report[6] and made recommendations for corrective action by USAID management. As of September 30, 2003, USAID has not taken final action to implement those recommendations. Therefore, we are not including additional recommendations in this audit report. However, because USAID continues to record unsupported adjustments to its year-end fund balance to bring this account balance in agreement with the U.S. Treasury, we are including the following recommendation to USAID management:

Recommendation No. 3: We recommend that the Chief Financial Officer require the Office of Financial Management to develop and implement specific procedures for its overseas missions to reconcile USAID's fund balance accounts with the U.S. Treasury account.

USAID's Process for Reconciling and Classifying Advances to Grantees Needs Improvement (Previously Reported as a Material Weakness)

USAID's process for recording and classifying advances to grantees needs improvement. USAID's Office of Financial Management has no means of identifying all obligations established for funding advances to grantees and, as of September 30, 2003, had not recorded about $30 million in expenses related to advance liquidations incurred by grantees. Progress has been made in this area because our FY 2002 GMRA audit identified about $88 million in expenses related to advances that were not recorded by USAID. However, this condition continues to occur because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data. Therefore, obligations established for advances that are managed by the Department of Health and

[6] Report on USAID's Consolidated Financial Statement, Internal Controls, and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

Human Services must be manually entered into the Payment Management System.[7] Consequently, the obligations related to the $30 million had not been entered into the PMS and the expenses were not recognized and reported by the Department of Health and Human Services. As a result of our audit, USAID subsequently made an adjustment to record the $30 million as expenses.

General Accounting Office (GAO) “Standards for Internal Controls in the Federal Government” require that transactions and other significant events should be promptly recorded and properly classified. This guidance further states that transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions. This applies to:

- The entire process or life cycle of a transaction or event and includes the initiation and authorization.
- All aspects of the transactions while in process.
- Its final classification in summary records.

In addition, obligations for grant agreements and/or modifications must be entered into Department of Health and Human Services’ Payment Management System so that grantees can report advance liquidation expenses related to the corresponding obligations. As of September 30, 2003, USAID had not recorded in the Payment Management System approximately 39 grant agreements and/or modifications with a net value of about $66 million. USAID has since recorded 19 of the 39 grant agreements and/or modifications valued at $39 million. Therefore, at the time of our review, USAID still had about $27 million not recorded in the Payment Management System.

This occurred because USAID does not have a worldwide integrated financial management system that links its accounting, procurement, and assistance data, as well as all other activities performed by USAID. Although USAID established and implemented procedures for new grants and/or modifications to be sent to its Office of Financial Management, some grant officers were not following the established procedures. Therefore, copies of new grants and/or modifications issued by USAID’s Office of Procurement were still not submitted to the Office of Financial Management in a timely manner. USAID has made significant progress in this area and will continue to show progress and a

[7] The Payment Management System was developed to establish a central point capable of paying most Federal Assistance grants, contracts, and block grants. The main purpose of this system is to serve as a fiscal intermediary between awarding agencies and the recipients of grants and contracts, with particular emphasis on: (1) expediting the flow of cash between the Federal Government and recipients; (2) transmitting recipient disbursement data back to the awarding agencies; and (3) managing cash advances to recipients.

strengthening of the internal controls over its advance process after the implementation of a worldwide financial management system that links its accounting, procurement, and assistance data.

We identified similar findings in a previous audit report[8] and made recommendations for corrective actions by USAID management. As of September 30, 2003, USAID has taken final action by implementing the recommendations to eliminate existing backlogs and establishing mandatory procedures for the prompt recording of grant documents and data within its Office of Financial Management and Office of Procurement. We will continue to monitor USAID's progress in implementing the recommended corrective actions.

Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary (Previously Reported as a Material Weakness)

USAID records showed that unliquidated obligations that may no longer be needed for their original obligation purpose were not deobligated as necessary. This occurred because USAID has not:

- Established better reporting capabilities, effectively implemented the new quarterly accrual process, nor improved its pipeline management to conduct the careful review needed to identify the amount of unliquidated obligations that are no longer needed.
- Dedicated the required resources to specifically target the review and deobligation of unneeded funds.

As a result, as of September 30, 2003, about $119 million in unliquidated obligations that had no payment activity against them for more than one year still remained. More that 56 percent of the $119 million is over the $100,000 threshold established by USAID for periodic reviews and deobligation as necessary. The $119 million is a decrease from the $153 million in unliquidated obligations that our FY 2002 GMRA audit identified. The $119 million in unliquidated obligations, identified by our FY 2003 GMRA audit, may no longer be needed for their original obligation purposes.

USAID's Automated Directives System (ADS) 621.3.15, *Annual Certification of unexpended balances,* states, "As part of the annual budget process, Assistant Administrators, independent office directors, and mission directors must certify whether unexpended balances are necessary for on-going programs." The directive further requires that in conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS

[8] Report on USAID's Consolidated Financial Statement, Internal Controls, and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

621.3.13, where there is an unobligated balance that has remained unchanged for 12 months or more and there is no evidence of receipt of services and/or goods during that same 12-month period, the remaining balances may no longer be needed.

In FY 2002, USAID's Business Transformation Executive Committee working group reviewed 576 awards with performance periods ending on or before September 30, 2000, and having unliquidated obligation balances of $100,000 or more. As a result of the group's review, USAID deobligated about $100 million of the reported unliquidated obligations related to the 576 awards. However, because USAID has not fully institutionalized business processes and policy and procedural improvements, many other unliquidated obligations may be available for deobligation.

In FY 2002, USAID implemented an Accrual Reporting System to require review and approval of system-generated expenses based on recorded unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. Recommendation No. 2 addresses the deficiencies identified within the Accrual Reporting System. Because USAID has not fully institutionalized business processes and policy and procedural improvements, and the benefits of the Accrual Reporting System have not been achieved, we are including the following recommendation for corrective action to USAID management.

Recommendation No. 4: We recommend that the USAID Chief Financial Officer:

4.1 Issue revised and expanded policy and procedural guidance for the careful reviews needed to identify the amount of unliquidated obligations that are no longer needed.

4.2 Review the lists of unliquidated obligations totaling $119 million identified in this report and make a determination regarding the deobligation of those funds.

USAID's Process for Recording Periodic Allowances to Its Missions Needs Improvement

In FY 2003, USAID made cumulative allotments to its missions before related allowances were recorded in the financial management system. The OIG determined that these allotments included about $25 million in the Asia Near East Bureau; $84 thousand in the Latin America Caribbean Bureau for the Child Survival & Disease Prevention Program appropriation; and about $176 thousand in the Africa Bureau for the Operating Expenses appropriation. *(See table 1 below)*

Allotments Made Before Recorded Allowances

Table 1

Bureau	Appropriation	Country	Amount
Asia Near East	Child Survival & Disease Prevention	Indonesia	$ 9,000,000
Asia Near East	Child Survival & Disease Prevention	Bangladesh	$ 15,670,000
Asia Near East	Child Survival & Disease Prevention	Philippines	$ 34,494
Latin America Caribbean	Child Survival & Disease Prevention	Peru	$ 83,758
Africa	Operating Expense	Ghana	$ 23,485
Africa	Operating Expense	Mali	$ 9,689
Africa	Operating Expense	Senegal	$ 87,054
	Total		**$ 24,908,480**

According to USAID's Automated Directives System, 634.3.4, funds control violations may be either statutory or administrative. A statutory violation may result in disciplinary and/or criminal penalties. An administrative violation results from actions in violation of Agency funds control policies and procedures below the allotment level. The penalties for such violations are handled on a case-by-case basis.

The excess allowances to missions occurred because USAID Bureaus sent out allotments to their respective missions before recording those allotments in the financial management system. The $25 million in cumulative allotments that were included in its records before the related apportionments were recorded, could lead to Funds Control Violations in the allotment process for funding its missions. Because USAID took corrective steps to eliminate this weakness during the course of our audit, we are not including a recommendation to USAID management in this report.

USAID's System for Preparing the Management Discussion and Analysis Section of the Performance and Accountability Report Needs Improvement

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[9] and completeness[10] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. The Statement of Federal Financial Accounting Standards (SFFAS) No. 15, "Management's Discussion and Analysis," requires the MD&A to be included as required supplementary information in each annual financial statement. OMB Bulletin No. 01-09 provides additional guidance for preparing the MD&A and requires that the discussion of performance relate to major goals and objectives in the Agency's strategic and performance plans, and that it provide a clear picture of planned and actual performance.

USAID has made notable improvements to this year's draft MD&A over the FY 2002 MD&A in two major ways:

1. The draft MD&A reported more current-year results. For example, it reported FY 2003 results for important programs being conducted in Iraq and Afghanistan. Additionally, the draft MD&A reported FY 2003 accomplishments made by the Global Development Alliance and reported FY 2003 performance results for selected activities under each of the six strategic goal areas. The draft MD&A did not, however, tie these activities to indicators or targets established in the 2003 performance plan, as discussed below.

2. The draft MD&A has also been reorganized to present performance results information under each strategic goal. This allows a user to link the performance results reported under each strategic goal in the MD&A to the corresponding goal category featured in the Statement of Net Cost.

Although notable improvements have been made, more needs to be done. Based on a limited review of USAID's system to collect and report performance information in the draft MD&A, the OIG identified the following weaknesses:

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[9] This management assertion deals with whether information included in the MD&A actually occurred during the given period.

[10] This management assertion deals with whether all performance results which should be presented have been included.

- USAID's current system does not yet capture significant reporting of Agency-wide performance results for the current year. For example, much of the Agency-wide performance information contained in the draft FY 2003 MD&A relates to FY 2002 data. Although the draft MD&A included discussion of selected program performance results for FY 2003, much of this discussion was anecdotal information relating to a particular mission or program. Moreover, the discussion did not provide a clear and complete picture of current-year performance on an Agency-wide basis under each strategic goal.

- Except for USAID's discussion under its Management Goal, the draft MD&A did not provide performance indicators/targets for many of the actual results reported for FY 2003. Since current-year results were not clearly linked to planned performance goals or targets contained in USAID's FY 2003 Annual Performance Plan, the draft MD&A did not provide a clear picture of planned and actual program performance for FY 2003.

In conclusion, as the OIG reported in previous years, USAID needs to improve its system for collecting, summarizing, and preparing performance information included in the MD&A. Specifically, USAID needs to revise its current system to ensure that the MD&A contains a clear picture of USAID's planned performance goals/targets for the current year and a comparison of these goals with more actual results for the current year. Since recommendations addressing the issues identified were made in a recent OIG audit report[11], we did not include a recommendation in this report regarding the MD&A.

Office of Inspector General
November 14, 2003

[11] Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993, Audit Report No. 9-000-03-011-P, dated September 30, 2003.

Financial Performance

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Independent Auditor's Report on Compliance With Laws and Regulations

Report on Compliance With Laws and Regulations

Did USAID comply with laws and regulations that could have a direct and material effect on the financial statements, and with any other applicable laws and regulations?

We have audited the financial statements of USAID for the fiscal years ended September 30, 2003 and 2002 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards the standards applicable to financial audits contained in Government Auditing Standards (issued by the Comptroller General of the United States) and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, we tested certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements contained in the Federal Financial Management Improvement Act (FFMIA) of 1996, the Computer Security Act of 1987, the Debt Collection and Improvement Act of 1996 and OMB Bulletin No. 01-09. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAID.

The results of our tests disclosed instances, described below, in which USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level.

Under FFMIA, we are required to report whether USAID's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

The results of our tests disclosed instances, described below, in which USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level.

Nature, Extent, and Causes of Noncompliance

FFMIA was passed to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent financial data from year to year. The Act requires each agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements.
- Applicable Federal Accounting Standards.
- The United States Government Standard General Ledger at the transaction level.

OMB Circular A-127, "Financial Management Systems," prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements that Federal financial systems should meet. In January 2001, OMB issued a guidance, "Revised Guidance for the Federal Financial Management Improvement Act," to supplement Office of Management and Budget Circular No. A-127. The purpose of the guidance is to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet. (Please note that, although OMB issued a draft Super Circular that would replace its FFMIA guidance, that effort was discontinued. As such, according to OMB officials, the January 2001 guidance remains in full effect.)

Since 1997, the OIG has reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[12] The reason for USAID's noncompliance was that the Agency's core financial management system[13] did not operate effectively. Therefore, USAID had to rely on a combination of outdated legacy systems; informal, unofficial records; and a core financial management system that suffered from technical and operational problems.

Since December 2000, USAID has been pursuing an effort to modernize the Agency's systems and meet FFMIA requirements. Specifically, USAID implemented a new core financial system in Washington and completed efforts to upgrade or interface five major systems.[14]

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[12] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

[13] Called the New Management System.

[14] Those systems were: (1) Acquisition and Assistance System (procurement system), (2) National Finance Center Payroll System (payroll system), (3) Management Accounting and Control System Auxiliary Ledger, (4) letter of credit grant processing system, and (5) loan-processing system.

In addition, USAID plans to deploy its new core financial system overseas, with pilot-testing scheduled to begin in April 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the summer of 2005, but the integration with a procurement system will not take place until, at the earliest, late 2005. (At this time, the OIG is not sure whether this delay will impact USAID's ability to meet financial management system requirements.)

In March 2003, the Department of State and USAID conducted a joint study to explore the possibility of implementing a joint financial management system. The study concluded that USAID and State could share the core financial system but should maintain separate databases because State and USAID business processes and information requirements are very different. Based on the recommendations from the study, USAID plans to share a single version of the core financial system with the Department of State beginning, in October 2005.

Federal Financial Management System Requirements

Although USAID has enhanced its financial management systems over the past three years, further improvements are needed to:

- Integrate the systems to further strengthen funds control.
- Strengthen computer security controls.

As a result, USAID's financial system may not provide users with the complete, accurate, and timely financial information needed for decision-making purposes. The following paragraphs discuss some of USAID's progress made during fiscal year 2003—as well as some of the problems that continued to exist.

Funds Control – According to OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," each Federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that at year-end, multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year.

In January 2003,[15] the OIG reported that because USAID did not have an integrated financial management system, it used a separate system to process obligations for its overseas missions. As

[15] Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Year 2002 (Audit Report No. 0-000-03-001-C, January 24, 2003).

such, the appropriation amount displayed as available after the roll-up was overstated by the amount of the mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to “cuff records” to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we did not make any recommendations. The OIG will continue to monitor USAID’s progress in deploying its core financial system overseas.

Computer Security Weaknesses – OMB Circular No. A-130, Appendix III, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information systems. However, during recent audit work, the OIG found that computer security weaknesses continued to exist. For example, USAID did not implement an information security training program, as required. This occurred because USAID’s Information System Security Officer did not have the authority to enforce mandatory training requirements because program, mission, and division directors control employees within their respective organizations. As a result, USAID’s information systems were not fully protected from risks and vulnerabilities.

Reorganization of Data in USAID’s Core Financial Management System – In November 2001, USAID’s Administrator implemented a reorganization of the Agency, thus creating new bureaus and eliminating or combining others. As a result of the reorganization, the financial data within USAID’s core financial system had to be changed to accommodate the Agency’s new organizational structure.

This audit concluded that USAID’s reorganization process did not adversely affect the integrity of the Agency’s financial data.

Statements on Federal Financial Accounting Standards (SFFAS)

Standard No. 1: Accounting for Selected Assets and Liabilities

USAID’s advances and accounts receivable did not comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, as discussed below.

Accounts Receivable – USAID does not have an adequate system or process to recognize its worldwide accounts receivable in a timely manner. USAID is only aware of its receivables when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This situation occurred because USAID lacked coordination and integration of various systems, adequate policy and procedural guidance and, as previously stated, an integrated financial management system.

SFFAS No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of a receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period. USAID did not comply with the accounts receivable aspects of SFFAS No. 1.

Standard No. 4: Managerial Cost Accounting Concepts and Standards for the Federal Government

USAID did not comply with all elements of SFFAS No. 4. Specifically, USAID does not have an effective system of identifying and reporting all costs against appropriate Agency goals. USAID did not record and report about $2.1 billion in expenses to the correct Agency goals in FY 2003.

SFFAS 4, paragraph 146, requires that a costing methodology, once adopted, be used consistently so that cost information can be compared from year to year. Since USAID was required to make such large adjustments of costs between goals in its Statement of Net Cost, the FY 2003 data on expenses within each of USAID's six Agency goals cannot effectively be compared to that of FY 2002. As mentioned in SFFAS No.4, paragraph 20, Congress and Federal executives, including the President, make policy decisions on program priorities and allocate resources among programs using this cost information. These users need cost information to compare alternative courses of action, to make program authorization decisions, and to evaluate program performance but USAID's current system does not allow this to be accomplished successfully.

Standard No. 15, Management's Discussion and Analysis (MD&A)

According to SFFAS 15, each general purpose federal financial report should include financial statements and a section devoted to the MD&A. SFFAS 15 states that the MD&A is required supplementary information and should include, among other things, information on performance goals and results that relate to the financial statements.

Based on our review of a draft of the MD&A, dated October 10, 2003, the OIG determined that the draft MD&A did not provide a clear and concise description of program performance that related to the financial statements included in the Performance and Accountability Report. Specifically, the draft MD&A did not provide a clear picture of planned and actual performance for fiscal year 2003 since the document contained few performance targets and inadequate coverage of the agency-wide performance results relating to key targets contained in the FY 2003 Annual Performance Plan.

United States Standard General Ledger at the Transaction Level

FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States standard general ledger at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Department of the Treasury, Financial Management Service.

The OIG previously determined that USAID did not substantially comply with the standard general ledger at the transaction level. Specifically, in fiscal year 2001, the OIG reported that USAID did not record mission activities—accounting for approximately 52 percent of USAID's total net cost of operations—using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System—a computer-based system that did not have a standard general ledger chart of accounts. Instead, the Mission Accounting and Control System uses transaction codes to record transactions.

Thus, USAID cannot ensure that transactions are posted properly and consistently from mission to mission. Therefore, USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet the requirements of the Department of Treasury. However, until USAID deploys its core financial system worldwide, the Mission Accounting and Control System will continue to operate as the financial system for overseas missions.

As discussed in the "Nature, Extent, and Causes of Noncompliance" section, USAID plans to convert all 38 accounting stations to its new core financial system by the summer of 2005. The OIG will continue to monitor USAID's progress to deploy its core financial system overseas.

Remediation Plan

OMB Circular No. A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date the system was determined not to be substantially compliant.

For fiscal year 2003, USAID had a target to conduct a study to make more effective use of capital planning, enterprise architecture, and modern business practices to modernize the Agency's business systems and accelerate the Agency-wide deployment of its core financial management system. According to USAID's updated remediation plan in the "USAID CFO FY-2004 Financial Management Budget Justification" USAID conducted the planned study as scheduled.

Computer Security Act

The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. To further improve program management and evaluations of agencies' computer security efforts, the Federal Information Security Management Act (Public Law No. 107-347) was passed in January 2002.

Since September 1997, the OIG has reported that USAID did not implement an effective computer security program as required. In response to OIG audits, USAID has made substantial computer security improvements. For example, USAID:

- Implemented centralized controls of all firewalls deployed through the Agency network.
- Integrated encryption capabilities into three communication paths being used through the Agency-wide network.
- Executed a performance measure program that monitors the Missions' Information Security Technology risk levels.
- Developed a technical assessment guide to determine USAID's network detection capabilities.
- Developed information security training for personnel in key information security positions.

Although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction. USAID plans to correct this material weakness by October 2003. The OIG will continue to monitor USAID's progress in improving computer security.

Debt Collection and Improvement Act of 1996

The Debt Collection and Improvement Act of 1996 and the Federal Claims Collection Standards authorize USAID to:

1. Collect debts owed to the Agency by means of administrative offset.

2. Assess interest, penalties, and administrative costs on overdue debts against its debtors.

3. Contract for private collection services.

4. Disclose information on debts to credit reporting agencies.

5. Report compromises to the Internal Revenue Service.

USAID's Claims Collection Standards, 22 CFR 213, cover the due process rights of debtors and procedures for collecting delinquent debt.

USAID has not complied with all elements of the Debt Collection and Improvement Act of 1996 that require Federal agencies to report to the Department of Treasury any receivables that should be included in the Treasury's offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable.

Office of Management and Budget (OMB) Bulletin No. 01-09

The Office of Management and Budget Bulletin No. 01-09 requires Federal agencies to reconcile intragovernmental assets, liabilities, and revenue amounts with trading partners semi-annually in FY 2002 and quarterly beginning in FY 2003. USAID has not complied with all elements of this specific requirement. Specifically, USAID has not reconciled all intragovernmental activities with its trading partners. This occurred because USAID lacked the dedicated resources needed to conduct this periodic reconciliation.

Office of Inspector General
November 14, 2003

Management Comments and Our Evaluation

We received USAID's management comments to the findings and recommendations included in our draft report. USAID management agreed with all findings and recommendations. Management commented that they are extremely pleased that the OIG was able to issue unqualified opinions on all of USAID's principal financial statements. Also, USAID's management recognized the OIG's dedication and cooperation throughout the audit process. We have evaluated USAID's management comments on the recommendations and have reached management decisions on all four recommendations. The following is a brief summary of USAID's management comments on each of the four recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1. The Office of Financial Management agreed to work with the Office of Policy and Program Coordination to implement this recommendation. We agree with this management decision. Regarding recommendation No. 1.2, USAID management commented that they agree to take the action that is consistent with the cited Automated Directives System policy requiring all strategic objectives to be assigned to an Agency goal except for Program Development and Learning Objectives and Objectives exempted from strategic planning requirements for foreign policy reasons. We believe that whenever exempted programs are assigned strategic objectives, those strategic objectives should be assigned to a corresponding Agency goal according to the Automated Directives System.

Recommendation No. 2

USAID management agreed with Recommendation No. 2 and plan to implement this recommendation by March 31, 2004. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2004 GMRA audit.

Recommendation No. 3

USAID management agreed with Recommendation No. 3. Management commented that they agree to implement this recommendation and will engage overseas staff in the implementation process. USAID management commented that it has a target completion date of June 30, 2004 for the implementation of this recommendation. We agree with this management decision and will review USAID's progress in the implementation of this recommendation in our FY 2004 GMRA audit.

Recommendation No. 4

USAID management agreed with Recommendation No. 4. Management commented that it plan to implement this recommendation and convene a follow-up team to review USAID's progress in the implementation and eventual closure of this recommendation. USAID commented that it would implement this recommendation by June 30, 2004. We agree with this management decision and will review USAID's progress in its implementation during our FY 2004 GMRA audit.

See **Appendix II** for USAID's management comments.

Appendix I - Scope and Methodology

Scope

This audit was conducted in accordance with generally accepted government auditing standards. Following those standards, we assessed the reliability of USAID's fiscal year 2003 financial statements, related internal controls, and compliance with provisions of applicable laws and regulations.

We obtained an understanding of the account balances reported in USAID's FY 2003 financial statements. The OIG determined whether the amounts were reliable, whether applicable policies and procedures were established, and whether they had been placed in operation to meet the objectives of the Federal Accounting Standards Advisory Board and other regulations. We considered all reasonable efforts made by USAID's management to improve its financial management and respond to our previous recommendations relating to the operations of its financial portfolio.

We statistically selected and reviewed FY 2003 financial statements and financial related activities at USAID/Washington and 16 USAID missions[16]. A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2002 total assets net of intergovernmental balances. Any amount over $75 million was considered material and was included in our audit of USAID's FY 2003 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2003 financial statements were reliable.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected USAID's portrayal of performance results as required by prescribed guidelines.

[16] The 16 missions selected were USAID: Mali, Hungary, Mozambique, Haiti, Egypt, Jamaica, Dominican Republic, Bangladesh, India, El Salvador, Senegal, South Africa, Ukraine, Russia, Ghana, and Nigeria. USAID Dominican Republic, Haiti, and Jamaica were substituted for USAID/Kenya because of security concerns.

Methodology

In accomplishing our audit objectives, we reviewed significant line items and amounts related to USAID's fiscal year 2003 financial statements. These financial statements include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. To accomplish the audit objectives we:

- Obtained an understanding of the components of internal control and assessed the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements.
- Performed tests of compliance with laws and regulations that could have a direct and material effect on USAID's financial statements including the Federal Financial Management Improvement Act.
- Conducted internal control reviews at USAID/Washington and 16 statistically selected missions and detailed audit tests of selected account balances at USAID/Washington and the 16 statistically selected missions.
- Statistically selected and confirmed outstanding advances to grantees and selected direct loan balances.
- Reviewed prior audit reports related to USAID financial activities and determined their impact on USAID's fiscal year 2003 financial statements.
- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the FY 2003 financial statements.
- Followed up on previous financial statement audit recommendations and restated those recommendations not implemented by USAID management.
- Conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A. Reviewed the October 10, 2003, draft of the MD&A.

Appendix II - USAID's Management Comments

USAID

U.S.AGENCY FOR INTERNATIONAL DEVELOPMENT

November 10, 2003

MEMORANDUM

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Lisa D. Fiely /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2002 and 2003 (Report No. 0-000-04-001-C)

Fiscal year 2003 was a landmark year for Federal financial management at USAID. We are pleased that your draft report titled "USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2002 and 2003" so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. We wish to recognize the OIG's dedication and cooperation throughout the audit process. We appreciate the excellent counsel and support the auditors provided to us. As noted in your report, in addition to receiving an unqualified audit opinion, we met the significant challenge set by the Office of Management and Budget (OMB) and the U.S. Department of Treasury (U.S. Treasury) of adopting the earlier reporting date of November 15, 2003, 45 days after the close of the fiscal year. We also appreciate your acknowledgement of the improvements that we made throughout the year to improve financial systems and processes.

Following are our management decisions regarding the proposed audit recommendations:

45

USAID's Methodology for Assigning Strategic Objectives to Agency Goals Needs Improvement

Recommendation 1: We recommend that USAID's CFO coordinate with the PPC Bureau to:

1.1 Obtain annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals.

1.2 Implement ADS 201.3.7.1 by requiring that all strategic objectives be assigned to an Agency goal.

1.3 Develop separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.

Management Decision: We agree to work with PPC to implement these recommendations. Regarding recommendation 1.2, we agree to take action that is consistent with the cited ADS policy; therefore, we will require that all strategic objectives be assigned to an Agency goal, except Program Development and Learning Objectives and objectives exempted from strategic planning requirements for foreign policy reasons. Target completion date is September 30, 2004.

USAID's Process for Reviewing Quarterly Accounts Payable and Accrued Program Expenses via its Accruals Reporting System Needs Improvement.

Recommendation 2: We recommend that USAID's CFO:

2.1 Establish and implement procedures to obtain updated Cognizant Technical Officer information whenever personnel changes affect the information recorded in the Accruals Reporting System.

2.2 Establish and implement procedures to evaluate the reliability of the Accrual Reporting System by performing quarterly reviews using valid statistical analysis techniques.

2.3 Establish and implement procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the Accruals Reporting System by USAID's Cognizant Technical Officers – by USAID Bureau – to assist in planning follow-up reviews of Accrual Reporting System information.

Management Decision: We agree to implement recommendations 2.1, 2.2, and 2.3. Target completion date is March 31, 2004.

USAID's Process for Reconciling its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding)

Recommendation 3: We recommend that the CFO require its Office of Financial Management to develop and implement specific procedures for its overseas missions to reconcile their fund balance accounts with the U.S. Treasury account.

Management Decision: We agree to implement recommendation 3 and will engage overseas staff in this process. Target completion date is June 30, 2004.

Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary (Repeat Finding)

Recommendation 4: We recommend that the USAID CFO:

4.1 Issue revised and expanded policy and procedural guidance for the careful reviews needed to identify the amount of unliquidated obligations that are no longer needed.

4.2 Review the lists of unliquidated obligations totaling $119 million identified in this report and make a determination regarding the deobligation of those funds.

Management Decision: We agree to implement these recommendations. A follow-up team will be convened to review progress and issues since the quick hit effort in 2002. This team will be responsible for taking the necessary actions to close these recommendations. Target completion date is June 30, 2004.

In closing, I would like to restate USAID's commitment to continual improvement in financial management. That commitment permeates throughout the Agency. We will continue the improvements made in the last few years as we develop and implement the fundamental long-term solutions needed to address the internal control weaknesses cited in your report. Both the OIG and USAID management recognize that it is only through implementation of our financial system (Phoenix) worldwide that we will be able to overcome many of the weaknesses cited in your audit report.

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Appendix III - Status of Uncorrected Findings and Recommendations from Prior Audits That Affect the Current Audit Objectives

Office of Management and Budget's (OMB) Circular No. A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID either have not been corrected and/or final action has not been completed as of September 30, 2003. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Audit of USAID's Compliance with
Federal Computer Security Requirements
Audit Report No. A-000-97-008-P, September 30, 1997

Recommendation No. 2: We recommend that the Acting Assistant Administrator for Management demonstrate support for an effective computer security program by taking action to direct the computer security program manager to develop and implement an effective computer security program by:

2.2 Ensuring that adequate resources and skills are available to implement the program.

2.4 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.5 Bringing sensitive computer systems, including the New Management System, into compliance with computer security requirements by: (1) assigning security responsibility, (2) preparing security plans, (3) completing contingency/disaster recovery plans, (4) identifying technical controls, (5) conducting security reviews, and (6) obtaining management's authorization before allowing systems to process data.

Recommendation is pending final action by USAID.

Report on USAID's Financial Statements,
Internal Controls, and Compliance for Fiscal Year 1998
Audit Report No. 0-000-99-001-F, March 1, 1999

Recommendation No. 1: Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau For Policy and Program Coordination to:

1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID.

Report to USAID Managers on Selected
USAID Internal Controls for Fiscal Year 1998
Audit Report No. 0-000-99-002-F, March 31, 1999

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.

Recommendation is pending final action by USAID.

Report on USAID'S Consolidated
Financial Statements, Internal Controls
And Compliance for Fiscal-Year 2002
Audit Report No. 0-000-03-001-C, January 24, 2003

Recommendation No. 2: We recommend that the Chief Financial Officer:

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before USAID missions request write-offs.

2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Recommendation is pending final action by USAID.

Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993, Audit Report No. 9-000-03-011-P, dated September 30, 2003

Recommendation No. 1: We recommend that the USAID Bureau for Policy and Program Coordination improve USAID's performance-reporting system to enable the reporting of current-year results for its program activities.

Recommendation is awaiting final action by USAID.

Recommendation No. 2: We recommend that the USAID Bureau for Policy and Program Coordination incorporate annual output indicators into USAID's performance-reporting system that will supplement longer-term outcome indicators.

Recommendation is awaiting final action by USAID.

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Inspector General's Summary of Serious Management Challenges

November 7, 2003

INFORMATION MEMORANDUM

TO: A/AID, Andrew S. Natsios

FROM: IG, Everett L. Mosley

SUBJECT: USAID's Most Serious Management Challenges

SUMMARY

Attached is my office's statement of the most serious challenges facing USAID management for inclusion in USAID's fiscal year 2003 Performance and Accountability Report.

DISCUSSION

The Report Consolidation Act of 2000 (Public Law 106–531) states that an agency accountability report:

> ... shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges.

If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment:

USAID Office of Inspector General Statement Concerning USAID's Most Serious Management and Performance Challenges

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

USAID OFFICE OF INSPECTOR GENERAL STATEMENT CONCERNING USAID'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

This document presents the Office of Inspector General's assessment of the most serious challenges facing USAID management at the close of fiscal year 2003.

In pursuit of its mission, USAID faces a number of serious challenges. We have identified nine management and performance challenges in five areas (Financial Management, Information Resource Management, Managing for Results, Procurement Management, and Human Capital Management). This statement describes USAID's continuing efforts to address its major management and performance challenges and OIG efforts to assist in overcoming these challenges.

Financial Management

Although USAID has made considerable progress toward resolving the challenges with its financial management system in the past year, it still has challenges that must be addressed. These challenges include:

- Assigning strategic objectives to Agency goals
- Calculating and reporting accounts payable
- Recognizing and reporting accounts receivable

Assigning Strategic Objectives to Agency Goals - Ensuring that expenses are correctly assigned to each of its six Agency goals is a challenge facing USAID. Under the current system, USAID has limited assurance that its strategic objectives are being correctly assigned to each of its six Agency goals. This is occurring because USAID's controls over the process used to map strategic objectives to the Agency goals have been ineffective, and because of a lack of coordination between different USAID offices involved in the assignment processes. As a result, expenses reported on USAID's Consolidated Statement of Net Cost cannot be relied on without significant adjustments resulting from the audit process. During fiscal year 2003, USAID reallocated $2.1 billion of expenses to present more reliable information associated with its six Agency goals.

Calculating and Reporting Accounts Payable - The OIG determined that, although USAID has made progress in this area through the establishment of the Accrual Reporting System used by Washington and the Mission Accounting and Control System used by its missions, a significant portion of the **fiscal year 2003 calculated accounts payable** amount was unsupported. **In our previous audit reports, the OIG recommended that USAID develop standardized documentation requirements** for its missions' accounts payable. The OIG determined that USAID's methodology for estimating its accounts payable and accrued program expenses using cognizant technical officer reviews of information contained in the accrual reporting system has not worked effectively. These problems caused overstatements in the USAID fiscal year accounts payable balance.

Recognizing and Reporting Accounts Receivable – USAID continues to experience difficulty in recognizing and reporting accounts receivable in an accurate and timely manner. This problem was previously reported by the OIG in previous consolidated financial statement audit reports, yet it continues to be a challenge because USAID has not established adequate policies and procedures to account for worldwide accounts receivable. Although USAID has revised its policies and issued an additional directive for worldwide reporting of accounts receivable, the weakness remains. The OIG will continue to review USAID's procedures and systems during the fiscal year 2004 GMRA audit.

Information Resource Management

OIG audits have identified significant weaknesses in USAID's management of information technology resources. The ClingerCohen Act of 1996 requires executive agencies to implement a process that maximizes the value and assesses the management risks involved in information technology investments. Because USAID's management practices have impacted its ability to fully comply with the Act's requirements, its managers have not had access to financial information that is complete, reliable, and timely.

Within the area of Information Resource Management, the OIG has identified two challenges: (1) information resource management processes and (2) computer security.

Information Resource Management Processes – **As** discussed in our March 31, 2003 Semiannual Report to the Congress, **USAID** has created a Business Transformation Executive Committee (BTEC), whose membership consists of senior members of management. BTEC's purpose is to provide USAID-wide leadership for initiatives and investments to transform USAID business systems and organizational performance. BTEC's roles and responsibilities include:

- **Guiding business transformation efforts and ensuring broadbased cooperation, ownership, and accountability for results.**
- Initiating, reviewing, approving, monitoring, coordinating, and evaluating projects and investments.
- Ensuring that investments are focused on highest pay-off performance improvement opportunities aligned with USAID's programmatic and budget priorities.

During fiscal year 2003, BTEC's Capital Planning and Investment Control (CPIC) subcommittee developed and implemented policies and procedures for reviewing and approving capital investments in information technology, with the objective of ensuring that investments are focused on high pay–off performance improvement opportunities. In its efforts to track USAID's progress, the OIG participated in meetings leading to the development of these policies and procedures. Furthermore, although not a voting member in the actual review and approval of proposed information technology projects, the OIG participated in review and approval meetings.

BTEC monitors USAID's progress in acquiring a global core accounting system and a procurement system. The OIG has attended meetings relating to these activities.

While BTEC, through the CPIC, has brought better control to. planning for major investments, issues remain in overseas offices

The OIG performed a review of USAID's software development practices at overseas missions. Based on the results of that review, the OIG recommended that USAID:

- Develop policies and procedures for controlling the installation of software at overseas missions.
- Request all overseas missions to conduct an inventory of the locally developed software and submit the list to headquarters.
- Develop a process to maintain a current inventory list of software.

USAID generally agreed with the recommendations and is taking preliminary actions aimed at eliminating the **weaknesses identified** in the review.

Although USAID has made some progress in improving its information resource management processes, the OIG will continue to monitor USAID's efforts in this area.

Computer Security – USAID continues to have significant computer security weaknesses. For example, the OIG has determined that USAID does not always:

- Limit access to financial systems and data.
- Control software changes to ensure that only authorized and tested changes were placed in production.
- Follow a system development life cycle methodology in developing application software and programs.
- Segregate duties to mitigate the risk of errors and fraud in the Mission Accounting and Control System.

USAID has made improvements in these areas:

- Implemented centralized controls of all firewalls deployed through its network.
- Integrated encryption capabilities into three communication paths being used through the USAIDwide network.
- Executed a performance measure program that monitors missions' information security technology risk levels.
- Developed information security training for personnel in key information security positions.

The OIG will continue to monitor USAID's progress in improving its computer security to ensure that critical systems and data are protected from unauthorized access, modification, or destruction.

Managing for Results

USAID has programs in over 100 countries, programs that promote a wide range of objectives related to economic growth, agriculture, and trade; global health; and democracy, conflict prevention, and humanitarian assistance. Federal laws, such as the Government Performance and Results Act of 1993 (Results Act), require Federal agencies to develop performance measurement and reporting systems that establish strategic and annual plans, set annual targets, track progress, and measure results. Agencies are also expected to link their performance results to budget and human capital requirements as a result of government-wide initiatives, such as the President's Management Agenda.

A significant element of USAID's performance management system is the Annual Report prepared by each of USAID's operating units. Annual Reports provide information on the results achieved with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's annual Performance and Accountability Report (PAR).

OIG audit work has identified the following major weaknesses in USAID's performance measurement and reporting systems.

Reliability of Performance Data – Prior OIG audit reports have identified deficiencies in the performance measurement systems of USAID operating units. These deficiencies called into question the reliability of performance data included in the units' Annual Reports. These deficiencies, such as not performing required data quality assessments, meant that units had not taken steps to ensure or fully understand the quality of the data they collected and reported, and might have reported inaccurate or inconsistent data on the results of their activities. In response to OIG and General Accounting Office reports and recommendations, USAID instituted an extensive training effort on strategic planning and performance measurement requirements and techniques, which its management believes will improve the performance reporting of its operating units. To determine what improvements USAID has made in reporting reliable performance data, the OIG's fiscal year 2004 audit plan includes an audit of selected USAID operating units' performance data.

Untimely Reporting of Results – For several years, the OIG has been reporting on USAID's untimely reporting of results. Most recently, the OIG reported that most of the performance information in the Performance and Accountability Report (PAR) for fiscal year 2002 represented performance that was actually accomplished in fiscal year 2001 or earlier. This delay occurred because USAID had not revised its systems to report on current–year results as required by the Government Performance and Results Act. Specifically, the schedule established for the preparation and submission of Annual Reports by USAID's operating units does not permit the reporting of current-year results for PAR reporting.

During this reporting period, the OIG conducted an audit that addressed USAID's efforts to meet the requirements of the Results Act'. The OIG concluded that USAID did not finalize and issue an annual performance plan for fiscal year 2002, did not establish performance targets for the majority of indicators in its fiscal year 2003 annual performance plan, and did not include results data for fiscal year 2002 performance goals in its fiscal year 2002 PAR.

Financial Performance

Procurement Management

USAID achieves development results largely through intermediaries: contractors or recipients of grants or cooperative agreements. Efficient and effective acquisition and assistance systems are therefore critical. The Office of Procurement has been the focus of various initiatives for defining ways to improve the efficiency and effectiveness of the acquisition and assistance process. These initiatives are in direct response to the long-standing challenges that the office of Procurement has faced in the areas of procurement staffing; activity planning; and awarding and administering contracts, grants, and cooperative agreements.

The OIG recognizes the importance of the acquisition and assistance process in accomplishing USAID's mission. Therefore, as part of its strategic plan, it has adopted a strategic objective of contributing to the improvement of USAID's processes for awarding and administering contracts and grants. The OIG has also developed multi-year strategies to promote increased efficiency and effectiveness in USAID procurement processes.

Audit of USAID's Efforts to meet the Requirements of the Government Performance and Results Act of 1993 (Audit Report No. 9-000-03-011-P dated September 30, 2003)

Within the framework of a multi-year audit plan, the **OIG-in collaboration with USAID management-has defined "standards for success" for** critical acquisition and award processes. Timephased audit plans have been developed to identify the office of Procurement's status in achieving these standards and the steps needed for further improvement.

The OIG has recently completed three audits addressing procurement management. The first indicated that the office of Procurement lacked an adequate internal control system to ensure that all administrative support service contractors were complying with various security requirements such as providing required security training and returning USAID building passes to USAID.

The second determined—among other things—that selected USAID Bureaus in Washington had not provided cognizant technical officers (CTOs) with enough training to acquire core competencies or to understand and perform the full range of tasks assigned to them. In addition, the Bureaus lacked a process to formally hold all of their CTOs accountable for the performance of their CTO duties. Similar audits have been conducted in Mexico, Malawi, and Guatemala and the results of these and other CTO audits will be discussed in an upcoming report.

The third audit addressed the Professional Document System, a software tool to help USAID employees write procurement documents conforming to Federal laws and USAID policies. The audit identified several issues including that (1) additional training was needed, (2) data fields were sometimes too small to hold required information, and (3) significant amounts of editing were required to finalize documents created in the system.

Human Capital Management

Management of a diverse and widespread workforce impacts on the ability of USAID to carry out its mission. Accordingly, USAID has undertaken a major effort to improve and restructure its human capital management. However, as of June 30, 2003, the office of Management and Budget (OMB) had given USAID an unsatisfactory—or red light—in the area of human capital. While USAID has made progress, such as drafting a revised strategic plan that establishes human capital goals, more remains to be done. For example, USAID needs to: complete a workforce analysis evaluating current and future mission needs, develop succession plans in mission—critical areas and complete and implement its new plan to identify its mission—critical occupations, competencies and skills.

In a December 2002 report on its Audit of USAID's Human Capital Data, the OIG noted that USAID's human capital data was neither complete nor totally accurate. To help improve the quality and completeness of this data, the OIG recommended that USAID (1) issue guidance explaining responsibilities for workforce reporting, and (2) develop procedures for attesting to the accuracy of workforce data.

The OIG has also planned a worldwide audit examining how USAID manages its U.S. personal services contractors, and will commence pilot missionlevel fieldwork early in fiscal year 2004.

Audit of Human Capital Data (Audit Report No. 9-000-03-002-P dated December 20, 2002)

Management Controls Program / Integrity Act

Annual Assurance Statement

> *As of September 30, 2003, the management accountability and control systems of the U.S. 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 and the material non-conformance of the financial management system noted. This statement is based on the results of an Agency-wide management control assessment and input from senior officials.*
>
> Andrew S. Natsios
> Administrator

USAID continues to maintain an active management control program that fully implements the requirements of the Federal Managers' Financial Integrity Act (FMFIA). To successfully achieve the intent of the Act, the Agency makes use of external and internal audits, internal reviews conducted by each of its operating units, special studies, program evaluations, and knowledge and observation of daily operations to identify control weaknesses. The Agency then develops and implements detailed corrective action plans for all weaknesses identified. The Management Control Review Committee (MCRC), which is chaired by the Deputy Administrator with participation from senior-level managers, meets semiannually to monitor the status and results of corrective actions regarding material weaknesses and significant concerns. Additionally, MCRC meetings are conducted at the operating unit level worldwide to ensure compliance with the Integrity Act.

As an Agency-wide accomplishment in FY 2003, our managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures and operations. As the results from overseas operating units were consolidated up to the bureau level, they did not disclose any new material weaknesses for the Agency in FY 2003. However, the MCRC noted several significant management concerns, two of which were raised last year.

Inadequate physical security in USAID's overseas buildings and operations continues to represent a significant concern. Without additional financial resources, USAID cannot implement appropriate actions to comply with Federal physical security standards for all employees serving overseas.

USAID also continues to consider workforce planning and human capital management challenges as a serious problem, but one that should not be reported as a material weakness. The Agency does not yet have adequate capacity to address these major challenges, either in the form of skilled human resources specialists or automated systems. This is exacerbated by the aging Federal workforce, with nearly half of USAID's employees eligible for retirement. This issue is being addressed through various venues including corrective actions related to audit findings and the President's Management Agenda (PMA).

We also consider management of contracts and grants to be a significant challenge within the Agency. Several management initiatives are underway to address long-standing challenges in the areas of procurement staffing, activity planning, and acquisition and assistance award and administration.

USAID continues to implement actions to correct the three existing Integrity Act material weaknesses. Progress on these weaknesses is described briefly below.

USAID's Primary Accounting System – Since 1988, it has been reported that 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. Although the Agency has made substantial progress in implementing and enhancing the system, closure of this material weakness is contingent upon the overseas deployment of Phoenix. During FY 2003, the Inspectors General (IGs) for USAID and the Department of State (DoS) recommended that field deployment of USAID's accounting software be deferred until further analysis could be performed to determine the feasibility of merging USAID and DoS databases and configurations. The IGs presented their recommendations to the Office of Management and Budget (OMB) and it was determined that a collaboration study was necessary. The study recommended that DoS and USAID undertake a joint project to merge financial system software, while maintaining separate databases. USAID and DoS are currently collaborating to achieve economies of scale through integration of the operating systems environment and telecommunications costs, while USAID continues on a path to deploy its financial system worldwide and become compliant with the provisions of the Federal Financial Management Improvement Act (FFMIA) by the end of 2005. Additional information regarding this issue is found in the section on the "Material Nonconformance of Financial Management System".

Information Resources Management (IRM) Processes – Organizational and management deficiencies exist in the Agency's IRM practices. The Clinger-Cohen Act of 1996 requires the heads of Executive agencies to implement a process that maximizes the value of, and assesses and manages the risks involved in information technology (IT) investments. The process is to include: (1) procedures to select, manage, and evaluate investments; and (2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality.

USAID has formally chartered an Information Management Integrated Product Team (IMIPT) to produce the current version of the budget and has established a Program Management Office (PMO) to better coordinate these activities. The PMO will report to a newly chartered Information Technology Council. These groups will continue improvements in this area.

USAID has updated its Capital Planning and Investment Control (CPIC) procedures and they are being finalized based upon testing and improvement made during the FY 2005 investment selection process, which occurred in FY 2003. For the FY 2005 budget, USAID will use the new CPIC procedures, which call for a comprehensive portfolio approach to IT investment management.

Specialized management advice, support, and expertise are being provided by contractors to improve discipline processes in life cycle management.

When the PMO is fully operational and portfolio comparisons are possible, the USAID Capital Planning and Investment Management Process will be implemented and this material weakness will be closed. This is expected to occur during FY 2004.

Computer Security Program – During FY 2003, USAID continued to undertake a series of major upgrades and modernizations to its infrastructure that allowed enhancement of the computer security posture of the Agency. During FY 2004, USAID plans to continue implementing its computer security program to comply with the Computer Security Act of 1987, the Agency's administrative policies, and requirements of OMB Circulars A-123, 127, and 130. To help ensure compliance with federal requirements, USAID officials decided to designate Information Systems Security as a capital investment in USAID's budget. USAID's management oversight process will continue to assign responsibility and accountability for identifying, tracking, and correcting information security vulnerabilities. Recognizing that computer security will be a continuing issue, USAID plans to implement sufficient measures during FY 2004 to be in compliance with Federal standards in this constantly evolving discipline and close this material weakness.

Pending Material Weaknesses

Title	Fiscal Year First Reported	Fiscal Year Targeted for Correction
USAID's Primary Accounting System	1988	2005
Information Resources Management Processes	1997	2004
Computer Security Program	1997	2004

Material Nonconformance of Financial Management System

USAID implemented a commercial-off-the-shelf (COTS) core financial system in USAID/Washington in December 2000. The American Management Systems (AMS) Momentum Financialsäproduct is a Joint Financial Management Improvement Project (JFMIP)-compliant core financial system. The USAID configuration of Momentum is called "Phoenix". During FY 2002, USAID interfaced five critical feeder systems with Phoenix, which furnish critical information to the core financial system. During FY 2003, the Agency deployed several new reports. Additional upgrades to reports were also implemented as part of a growing portfolio of financial management reports that are available to Agency staff via Crystal Enterprise, a web-based reporting system on the USAID Intranet. USAID completed a Phoenix Data Sensitivity Analysis in June 2003. This study established a baseline of key sensitive data elements and made recommendations to improve both user awareness and security controls. Approval and funding has been received to start the Phoenix Mission Rollout project. The project began in July 2003. In addition, the overall project charter, project plan and pilot schedule were completed. Separate FY 2005 OMB Exhibit 300s were prepared detailing the business cases for the three projects: Phoenix Steady State, Phoenix Overseas Rollout, and the Joint Financial Management System (JFMS) with the Department of State. The rollout teams have completed required documentation such as Final High Level Deployment Strategy, Final Data Migration and Validation Strategy, Draft Final Risk Management Plan, Draft Final Quality Control Plan and Draft Final Technical Architecture Test Plan. Three pilot implementation sites were selected; Ghana, Egypt, and Peru, with a pilot implementation period established for the summer of 2004. Overseas mission accounting staff from the pilot sites visited Washington in September 2003 to participate in Phoenix training and assist with functional requirements and workflow.

Despite the improvements to date, USAID is still not substantially compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996. The primary remaining deficiency is that USAID's Mission Accounting and Control System (MACS), a feeder system to the core financial system, does not support a general ledger. Consequently, the core financial system is not substantially compliant with FFMIA requirements for a standard general ledger. Substantial compliance with the FFMIA is contingent upon deployment of Phoenix overseas. For further information on FFMIA compliance, see the section titled "Financial Systems Remediation Plan".

Financial Systems Remediation Plan

The financial systems remediation plan is a required part of USAID's annual budget submission as required by OMB Circular A-11. It sets forth a strategy for modernizing USAID's financial management systems and details specific plans and targets for achieving substantial compliance with federal financial management requirements and standards.

The FFMIA requires USAID to implement and maintain a financial management system that complies substantially with:

- Federal requirements for an integrated financial management system.
- Applicable federal accounting standards.
- U.S. Standard General Ledger at the transaction level.

These requirements are further detailed in OMB Circular A-127, Financial Management Systems, and OMB Memorandum for Heads of Executive Departments and Establishments, Chief Financial Officers and Inspector Generals regarding "Revised Implementation Guidance for the Federal Financial Management Improvement Act" dated January 4, 2001. The Office of the Inspector General (OIG) is required under FFMIA to report on compliance with these requirements as part of the annual audit of USAID's financial statements. In successive audits, the OIG has determined that USAID's financial management systems do not substantially comply with FFMIA accounting and system requirements. The USAID Administrator also continues to report the material non-conformance of the financial management systems.

Financial Performance

The Agency relies extensively on OIG audit work to determine compliance with FFMIA. The results of the FY 2003 audit indicate that we have made substantial progress in becoming compliant and have three remaining items to address. The remaining deficiencies in the Agency's financial management systems and associated remedies are detailed in Table 38.

The current target date for substantial compliance with FFMIA is by the end of FY 2005. This is based on business cases for system enhancements and improvements, collaboration with the Department of State, and deployment of Phoenix overseas.

Table 38: FY 2003 – FY 2005 FFMIA Remediation Plan

Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets	Responsible Official	Status
Deficiency: MACS is not substantially compliant with JFMIP requirements for a core financial system. The MACS Auxiliary Ledger and interface to Phoenix do not sufficiently address compliance deficiencies. MACS does not support new electronic government initiatives. The Agency's overseas operations do not have access to the Agency's integrated financial management system that is compliant with Federal requirements, standards, and government-wide initiatives.				
Remedy: Implement Phoenix worldwide as the Agency's core financial system.	End of FY 2005		CFO	On target
Deficiency: The Computer Security Program material weakness, and GMRA and General Controls audit work have identified significant deficiencies in the computer security program, general controls environment, and compliance with Federal requirements.				
Remedy: Complete system and general control environment risk assessments, mitigate risks, and develop disaster recovery plans for mission critical systems.	FY 2002 On-Going - Revision Required	1st Qtr of FY 2004	M/IRM Director	Computer Security FMFIA material weakness planned for closure in FY2004.
Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities.				
Remedy: Fully implement cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level.	FY 2002 On-Going	4th Qtr of FY 2005	CFO	The cost allocation module needs to be modified to account for missions' indirect costs. This will be done as Phoenix is implemented in the field.

Audit Follow-up Program

The USAID Office of Inspector General (OIG) uses the audit process to help Agency 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 engages the Defense Contract Audit Agency (DCAA) 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 audit firms or supreme audit institutions of host countries. OIG staff conducts 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 2003, USAID received 413 audit reports; 373 of these reports covered financial audits of contractors and recipients and 40 covered Agency programs and operations.

During FY 2003, the Agency closed 410 audit recommendations. Of these, 153 were from audits performed by OIG staff and 257 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $3.2 million in disallowed costs, and $1.2 million was put to better use during the fiscal year.

At the end of FY 2003, there were 262 open audit recommendations, 21 fewer than at the end of FY 2002 (283). Of the 262 recommendations open at the end of FY 2003, only 15 or 5.7 percent, had been open for more than one year. This is a significant achievement, as the Agency has worked diligently to address longstanding issues and close audit recommendations associated with significant management problems. At the end of FY 2002, there were 34 open audit recommendations over one year old. During FY 2003, 19, or more than half, were successfully addressed. The old recommendations that were closed during the year involved performance reporting, computer security, information technology investments and processes, and collection of funds from contractors or recipients.

As regards the 15 recommendations still open for more than one year at the end of FY 2003, USAID must collect funds from contractors or recipients to complete actions on two of these recommendations. The remaining 13 require improvements in Agency programs and operations. Most of these are related to USAID's cargo preference reimbursements under Section 901(d) of the Merchant Marine Act of 1936; staff training and development activities; and compliance with federal computer security requirements.

Table 39: Management Action on Recommendations that Funds be Put to Better Use

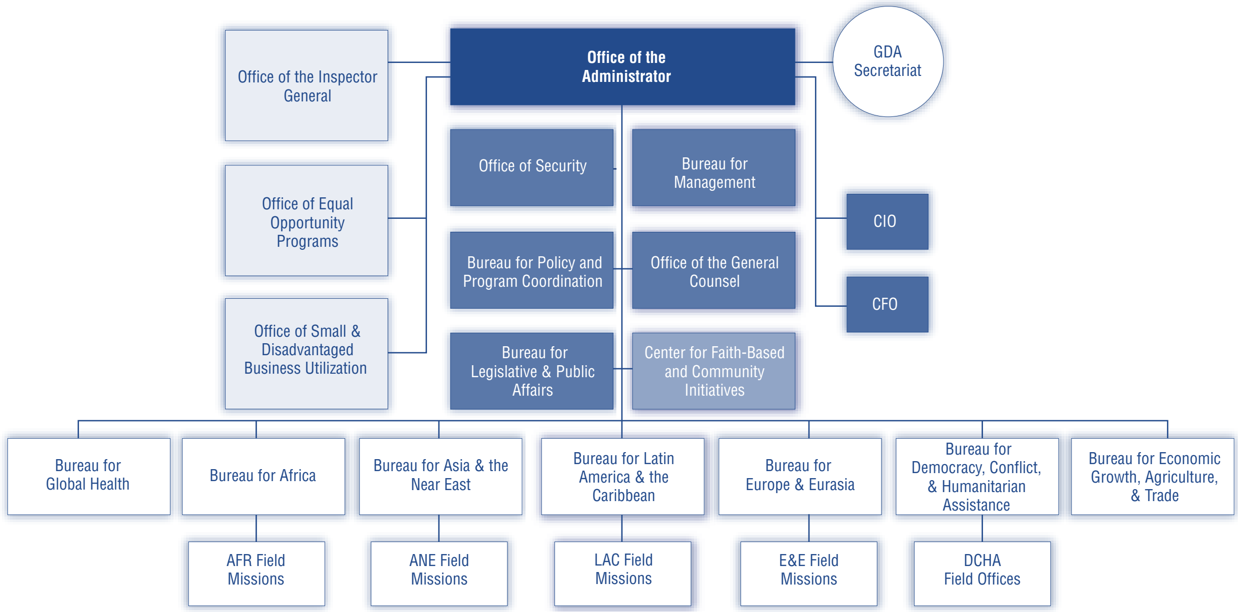
	Recommendations	Dollar Value ($000)
Beginning balance 10/1/02	9	$ 214,356
Management decisions during the fiscal year	7	$ 2,132
Final action	8	$ 1,219
Recommendations implemented	8	$ 1,219
Recommendations not implemented	–	–
Ending Balance 9/30/03	**8**	**$ 215,269**

Table 40: Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/02	92	$ 11,819
Management decisions during the fiscal year	140	$ 5,350
Final action	135	$ 3,239
Collections/Offsets/Other	135	$ 3,239
Write-offs	0	$ 0
Ending Balance 9/30/03	**97**	**$ 13,930**

Appendix A: Organizational Structure of USAID

Figure A-1: Organizational Structure of USAID



Organizational Description of USAID

Three *pillar bureaus* support the delivery of technical services to overseas missions and promote leading-edge research on new approaches and technologies for development:

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

In addition to these pillar bureaus, the Global Development Alliance (GDA) Secretariat is a temporary entity that develops and supports headquarters and mission work to develop public-private alliances.

Four *geographic bureaus* oversee USAID mission and overseas field office activities, including bilateral relations with host governments, and coordinate the Agency's work with the Department of State and other U.S. Government entities in their respective regions:

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

Three *functional bureaus* provide support to the Agency as a whole: the Bureau for Management (M), the Bureau for Policy and Program Coordination (PPC), and the Bureau for Legislative and Public Affairs (LPA). In addition, six offices and centers support USAID's security, business, compliance, and diversity initiatives:

- Office of Security (SEC)
- Office of Equal Opportunity Programs
- Office of the General Counsel (GC)
- Office of the Inspector General
- Office of Small and Disadvantaged Business Utilization/Minority Resource Center (OSDBU/MRC)
- Center for Faith-Based and Community Initiatives

Appendix B: Indicator Data Sources and Data Quality Issues

Real GDP per capita growth rates - Data sources for estimates of real GDP growth are from IMF World Economic Outlook, 2003. Population growth rates were calculated from population figures from the World Bank, World Development Indicators, 2003. Rolling averages were calculated for both indicators using geometric mean based on endpoints (assuming year 1 = 100). Corresponding averages of population and GDP were used to calculate the per capita rate. USAID has established four ranges of per capita growth performance: 5% or more, 1%-5%, 0%-1%, and negative growth.

Data Quality - Data from the IMF World Economic Outlook (WEO) are maintained jointly by the IMF's Research Department and area departments, with the latter regularly updating country projections based on consistent global assumptions.

For developing countries, figures for recent years are IMF staff estimates. Data for some countries are for fiscal years. For countries in transition, data for some countries refer to real net material product (NMP) or are estimates based on NMP. For many countries, figures for recent years are IMF staff estimates. The figures should be interpreted only as indicative of broad orders of magnitude because reliable, comparable data are not generally available. In particular, the growth of output of new private enterprises or of the informal economy is not fully reflected in the recent figures. - IMF WEO

Assumptions: The IMF estimates and projections are based on the assumption that established policies of national authorities are to be maintained. In addition, other financial assumptions concern the future price of oil, and levels of interest rates for U.S., Japanese, and Euro deposits. For more detailed information on the IMF's methodology, see Fund's website at: *http://www.imf.org*.

World Bank estimates of mid-year population are generally based on extrapolations from the most recent national census. The estimates do not include refugees not permanently settled in the country of asylum. These estimates are produced by its Human Development Network and Development Data Group in consultation with its operational staff and country offices and include inputs from census reports and other statistical publications from the UN, CDC, and U.S. Bureau of the Census.

Economic Freedom Index - The source for the Economic Freedom Index is the annual publication Index of Economic Freedom, co-published by the Heritage Foundation and the *Wall Street Journal.* Economic freedom is defined in the publication as *"the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself."* The overall score is the average of ten factors. The data included in this report include the latest report (2002). USAID has established four ranges of Economic Freedom Index scores: 4-5, 3-3.95, 2-2.95, and 1-1.95.

Data Quality - Countries are scored using 50 independent variables, classified into 10 broad economic factors:

- Trade policy (based on tariff rates and existence of non-tariff barriers)
- Fiscal burden of government (based on the existence and levels of income and flat taxes, corporate taxes, and levels of government expenditures)
- Government intervention in the economy (based on levels of government consumption and ownership of businesses and industries)
- Monetary policy (inflation rates)
- Capital flows and foreign investment (includes the levels of restrictions on foreign ownership of business, restrictions on foreign companies, restrictions on repatriation of earnings)
- Banking and finance (government control of banks, allocation of credit, and regulation of financial services and insurance policies)
- Wages and prices (existence of minimum wage laws, government price controls, and government subsidies)
- Property rights (includes levels of freedom of the judicial system, contracts, and protection of private property)
- Regulation (includes ease of business licensing, levels of labor and environmental regulations)
- Black market (includes levels of piracy of intellectual property and levels of goods and services supplied to the black market)

The scale runs from 1 to 5 with 1 being the most free and 5 the least free. The higher the score, the less supportive of private markets are institutions and policies. For more, see the 2002 edition of Index of Economic Freedom or visit: http://www.heritage.org/bookstore/2001/index2002/

Agriculture production per capita growth rates - Agriculture, value added, is defined as the net output of all agricultural goods after adding up all outputs and subtracting intermediate inputs. Agriculture includes forestry and fishing. Data sources for estimates of real agricultural-sector growth and population are from the World Bank, World Development Indicators, 2003. Rolling averages were calculated for both indicators using geometric mean based on endpoints (assuming year 1 = 100). Corresponding averages of population and agriculture were used to calculate the per capita rate. USAID has established four ranges of per capita growth performance: 5% or more, 1%-5%, 0%-1%, and negative growth.

Data Quality - World Bank agricultural-sector data are based on ISIC divisions 1-5 and include forestry and fishing. “Value added” is the net output after adding up all outputs and subtracting intermediate inputs.

National account data are collected from national statistical organizations and central banks by World Bank missions and from UN national accounts publications. Among the difficulties using data from compiled national accounts is the extent of unreported informal economic activity. In developing countries, large shares of agricultural output are either not exchanged (consumed in households) or not exchanged for money. Agricultural production has to be estimated based on yields and cultivation areas. For more about the World Bank's methodology, see its website at: http://www.worldbank.org/data/wdi2001/index.htm

For population data, see the above discussion under GDP per capita.

Total fertility rate - Sources: Demographic and Health Surveys (DHS), Reproductive Health Surveys from the Centers for Disease Control (CDC), and U.S. Bureau of the Census, International Database, May 2000. The total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with prevailing, age-specific fertility rates.

Methodology - USAID calculated fertility rate trends based on the available survey data augmented by BUCEN estimates. Three methods were used:

- For countries with at least two survey data points, a growth trend was derived from the slope between the two points.
- Where only one survey data point existed, the trend was calculated based on BUCEN's average annual growth rate for the period of analysis (1989-2001). This rate was used to estimate the data points before and after the single survey observation.
- Where no survey data were available, the actual BUCEN estimates were used.

USAID established six ranges of fertility reduction performance: under 2, 2-2.9, 3-3.9, 4-4.9, 5-5.9, and 6 and over.

Data Quality - See DHS, CDC, and US BUCEN descriptions below.

Contraceptive prevalence rate - Sources: Demographic and Health Surveys (DHS) and U.S. Bureau of the Census, International Database, May 2000. The percentage of married women, ages 15-49, who are practicing, or whose sexual partners are practicing, any modern method of contraceptive. Modern methods include birth control pills, IUDs, injections, condoms, both female and male sterilization, and implants.

Methodology - All countries in the analysis had at least two survey data points from either DHS or BUCEN-reported sources. Annual rates were calculated from the slope between data points. For 2000 and 2001 estimates, the most recent growth rate was applied to the last survey point. USAID established four ranges of contraceptive prevalence performance: 50% and over, 35-49%, 16%-34%, and 15% and under.

Data Quality - See DHS and US BUCEN descriptions below.

Under-5 mortality rate - Sources: Demographic and Health Surveys (DHS), Reproductive Health Surveys from the Centers for Disease Control (CDC), and U.S. Bureau of the Census, International Database, May 2000.

The under-5 mortality rate is the probability that a newborn baby will die before reaching age 5, if subject to current age-specific mortality rates. It is expressed as the number of deaths per 1,000 live births. Methodology: USAID calculated mortality rate trends based on the available survey data, augmented by BUCEN estimates. Three methods were used:

- For countries with at least two survey data points, a growth trend was derived from the slope between the two points.
- Where only one survey data point existed, the trend was calculated based on BUCEN's average annual growth rate for the period of analysis (1989-2001). This rate was used to estimate the data points before and after the single survey observation.
- Where no survey data were available, the actual BUCEN estimates were used.

USAID established six ranges of mortality reduction performance: under 50, 50-99, 100-149, 150-199, and 200 and over.

Data Quality - See DHS, CDC, and US BUCEN descriptions below.

DPT vaccination coverage - Source: Demographic and Health Surveys (DHS). This rate is the percentage of children 12 months or less who have received their third dose of DPT vaccine. To show vaccination trends, the available DHS data were divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data points in both periods were included (15).

Data Quality - See DHS description below.

Oral rehydration therapy use - Sources: Demographic and Health Surveys (DHS) and Reproductive Health Surveys from the Centers for Disease Control (CDC). This rate is the percentage of children ages 6-59 months who had a case of diarrhea in the last two weeks and received oral rehydration therapy. To show therapy trends, the available DHS data were divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data points in both periods were included (13).

Data Quality - See DHS and CDC descriptions below.

Maternal mortality rate - The World Health Organization and UNICEF and UNDP have collaborated on two studies of maternal mortality in the last decade. For 1990 estimates, the source is WHO/UNICEF, Revised 1990 Estimates of Maternal Mortality, 1996. For 1995 data, WHO, UNICEF, and UNDP produced Maternal Mortality in 1995, 2001. Maternal mortality rate is the number of women who die during pregnancy and childbirth, per 100,000 live births.

Data Quality - Maternal mortality is complex and very difficult to measure. Few developing countries have reliable national estimates of maternal mortality. Country-level estimates are based on vital registration data, direct sisterhood estimates (DHS method), Reproductive Age Mortality Studies (RAMOS, which involved identifying and investigating the causes of all deaths of women), verbal autopsy techniques, census data, and estimates generated from WHO/UNICEF models. For a complete report on maternal mortality and difficulties inherent in measurement, see the 2003 report mentioned above at: *http://www.who.int/reproductive-health/publications/RHR_01_9_maternal_mortality_estimates/index.en.html*

Births attended by medically trained personnel - Sources: Demographic and Health Surveys (DHS) and CDC Reproductive Health Surveys. Medically trained personnel include doctors and trained nurses/midwives or other health professionals. It does not include nontrained birth attendants. To show attendance trends, the available DHS data were divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data points in both periods were included (12).

Data Quality - See DHS and CDC descriptions below.

Adult HIV prevalence rates - The sources for 1997 and 1999 estimates are from UNAIDS. UNAIDS estimates country-level prevalence rates on a biennial basis. Source: *Report on the Global HIV/AIDS Epidemic - June 1998, and June 2000.* The rate is the estimated number of adults living with HIV/AIDS divided by the adult population. Adults are defined as ages 15-49. USAID established six ranges of HIV prevalence levels: under 1 percent, 1-4.9 percent, 5-9.9 percent, 10-14.9 percent, 15-20 percent and more than 20 percent.

Data Quality - Estimates of HIV prevalence for 1997 were compiled from individual Epidemiological Fact Sheets and from methodologies detailed in UNAIDS, *Country-specific estimates and models of HIV and AIDS: methods and limitations* (Schwartlander B, Stanecki KA), which *"describes and discusses the processes and obstacles that were encountered in this multi-partner collaboration including national and international experts. The 1997 estimates required two basic steps. First, point prevalence estimates for 1994 and 1997 were carried out and the starting year of the epidemic was determined for each country. The procedures used to calculate the estimates of prevalence differed according to the assumed type of the epidemic and the available data. The second step involved using these estimates of prevalence over time and the starting date of the epidemic to determine the epidemic curve that best described the spread of HIV in each particular country. A simple epidemiological program (EPIMODEL) was used for the calculation of estimates on incidence and mortality from this epidemic curve. ...The result of this first country-specific estimation process yielded higher estimates of HIV infection than previously thought likely, with more than 30 million people estimated to be living with HIV/AIDS. The application of survival times that are specific to countries and regions also resulted in higher estimates of mortality, which more accurately describe the impact of the epidemics....There are, however, shortcomings in the current systems of monitoring the epidemic. Improvements in HIV surveillance systems are needed in many parts of the world. In addition, further research is needed to understand fully the effects of the fertility reduction as a result of HIV, differing sex ratios in HIV infection and other factors influencing the course and measurement of the epidemic."* - abstract of the report from PubMed, National Library of Medicine.

Demographic and Health Surveys - Funded by USAID, Demographic and Health Surveys provide information on family planning, maternal and child health, child survival, HIV/AIDS/STIs (sexually transmitted infections), and reproductive health.

DHS are nationally representative household surveys with large sample sizes of between 5,000 and 30,000 households, typically. DHS provide data for a wide range of monitoring and impact evaluation indicators in the areas of population, health, and nutrition.

The core questionnaire for MEASURE DHS+ emphasizes basic indicators and flexibility. It allows for the addition of special modules so that questionnaires can be tailored to meet host-country and USAID data needs. The standard DHS survey consists of a household questionnaire and women's questionnaire. A nationally representative sample of women ages 15-49 are interviewed. For more on DHS survey methods and processes, see: *http://www.measuredhs.com/*

CDC International Reproductive Health Surveys (IRHS) - The Centers for Disease Control and Prevention (CDC) provides technical assistance with population-based surveys that help USAID to assess program needs and monitor program performance and impact over time. CDC has been providing technical assistance for such surveys since 1975, and has helped to carry out reproductive health surveys in Latin America, the Caribbean, Central and Eastern Europe, the former Soviet Union, Africa, and the Middle East. CDC trains its host counterparts in all aspects of survey implementation.

IRHS are conducted at a national, and occasionally at the sub-national, level. These surveys measure a wide variety of health and demographic indicators such as fertility, contraceptive use, infant and child mortality, child health, maternal morbidity and mortality, and knowledge and attitudes about HIV/AIDS and sexually transmitted infections. For more on the IRHS, see the CDC website: *http://www.cdc.gov/nccdphp/drh/logistics/global_rhs.htm*

U.S. Bureau of the Census - The Bureau's International Programs Center (IPC) maintains the International Database (IDB). The IDB combines data from country sources with IPC's estimates and projections to provide information dating back as far as 1950 and as far ahead as 2050. The estimates are based on data from national statistics offices, survey data, and UN publications.

For most developing countries, various techniques have been developed to evaluate and correct information on deaths and fertility in relation to information on population. Data are collected either directly from vital statistics registers, when available, or indirectly from census, survey information or statistics from international organizations such as the UN's World Population Prospects. Underregistration of deaths is adjusted based on the stability of the country populations. For an in-depth review of the IPC's methodology for estimating and projecting fertility and mortality, see the Center's World Population Profile 1998 (see Appendix B Population Projections and Availability of Data) available online at: *http://www.census.gov/ipc/www/wp9*

Appendix C: FY 2003 Management Goal Results Data

Management Goal:
Achieve USAID's Goals in the Most Efficient and Effective Manner
FY 2003 Performance Data

Performance Goals & Indicators	FY 2003 Target	Assessment	Linkage to President's Management Agenda
Objective #1: Accurate Financial Information Available for Agency Decisions			
Goal 1.1: USAID's core financial management system certified compliant with Federal requirements. **Indicator 1.1.1:** Integrated, automated financial systems worldwide	**1**. Plans finalized for worldwide deployment of core accounting system	**Met**	Financial Performance
1.1.2: A fully operational, secure and compliant core financial system installed with interfaces to major feeder systems	**1.** Mission accounting system security certification completed at all (38) overseas accounting stations.	**Not Met**	Financial Performance
	2. Select priority enhancements to core financial system implemented (e.g., credit card processing, grantee advances, Agency-wide cash reconciliation system, core financial system upgrade, and application integration tools).	**Met**	Financial Performance; Electronic-Government
Goal 1.2: A system to allocate administrative costs fully to Agency strategic goals installed in Washington and the field. **Indicator 1.2.1:** Administrative costs allocated to strategic objectives.	**1.** Plan developed for implementing the cost accounting system Agency-wide.	**Met**	Budget & Performance Integration; Financial Performance
Objective #2: USAID Staff Skills, Agency Goals, Core Values and Organizational Structures Better Aligned to Achieve Results Efficiently			
Goal 2.1: Human capital management capabilities strengthened. **Indicator 2.1.1:** Recruitment efforts result in rapid deployment of staff in all labor categories and services.	**1.** All FS and CS staffing requirements met i.e., Agency ends the fiscal year at on-board funded target for FY 2003.	**Not Met**	Human Capital
	2. A refined restructuring plan issued based on annual Washington Portfolio Reviews.	**Met**	Human Capital
	3. Recruitment efforts evaluated as excellent, based on indicators. Efforts to rationalize staff evaluated as fair to good based on performance indicators.	**Not Met**	Human Capital
	4. Comprehensive Civil Service recruitment plan in place similar to Foreign Service recruitment plan.	**Not Met**	Human Capital
	5. Web-enhanced human resource management tools available to Agency human resource management staff, which will, among other things, increase the number of job applications received and processed because of increased advertisement of job openings.	**Met**	Human Capital; Electronic-Government
Indicator 2.2: In-house training on critical operational skills continued.	**1.** A total of 2,500 employees trained in leadership, operations, financial management, and overall managing for results.	**Target Exceeded**	Human Capital

Management Goal:

Achieve USAID's Goals in the Most Efficient and Effective Manner
FY 2003 Performance Data (Cont.)

Performance Goals & Indicators	FY 2003 Target	Assessment	Linkage to President's Management Agenda
Objective #3: Agency Goals and Objectives Served by Well-Planned and Managed Acquisition and Assistance			
Goal 3.1: Acquisition and assistance planning integrated with program development. **Indicator 3.1.1:** Increased use of performance-based contracts.	30% of contracts valued at over $25,000 are performance based.	**Target Exceeded**	Competitive Sourcing
Goal 3.2: A&A competencies of technical and contract staff strengthened. **Indicator 3.2.1:** Percentage of Cognizant Technical Officers (CTOs) and Contract Officers (COs) certified.	**1.** A total of 250 CTOs certified, subject to available funding.	**Not Met**	Human Capital
	2. 90 % of COs with procurement authority of $2.5 million or more certified by the end of FY 2003.	**Not Met**	Human Capital
Goal 3.3: Partnerships among USAID technical contract offices and contractors and recipients improved. **Indicator 3.3.1:** Contract administration simplified.	Process and baseline established for changes in contracting officer approvals.	**Met**	Budget & Performance Integration
Goal 3.4: Improved consistency in application of A&A procurement policies and procedures. **Indicator 3.4.1:** Uniform implementation of contracting policies.	20% improvement over the baseline set in first quarter FY 2002.	**Met**	N/A
Objective #4: Agency Goals and Objectives Supported by Better Information Management and Technology			
Goal 4: Information technology improves Agency efficiency and effectiveness. **Indicator 4.1:** Enhanced compliance with Federal requirements and regulations.	**1.** Agency-wide systems deployed at selected missions.	**Not Met**	Financial Performance
	2. Telecommunications network equipment upgraded at 21 missions.	**Met**	Financial Performance; Electronic-Government
	3. Execution of actions to reduce risks in general control environment continued and detailed targets established for the activities to strengthen the general control environment.	**Not Met**	Financial Performance; Electronic-Government

Appendix D: Status of Selected Agency Evaluations

Midterm Evaluation of the South Asia Regional Initiative/Energy (SARI/Energy) Program

Date:	01/03
Sector/s:	Economic Growth
Geographic Area/s:	South Asia (India, Bangladesh, Nepal, Sri Lanka)
Organization/s:	Checchi and Company Consulting/Louis Berger Joint Venture
Author/s:	Niels de Terra, Shawkat Ali Ferdousi, Joanta Green, and Mahendra P. Lama
Catalog No.:	PD-ABX-772
Hyperlink:	http://www.dec.org/pdf_docs/PDABX772.pdf

Summary: The slow pace of reform in South Asia's electricity sector and regional instability are tremendous obstacles to attracting private capital, both foreign and domestic, for development. Civil society groups in the SARI/Energy countries consider energy issues to be important and have been receptive to regional energy initiatives. USAID-provided technical assistance has had mixed results, relying largely upon the inconsistent participation and support of government actors who control almost all energy assets.

Key Findings: The program's most important impact has been human capital development through training, workshops, seminars and study trips. Participants, including senior governmental officials, repeatedly commented on the usefulness and high quality of the activities. Noticeable results include the establishment of cross-border relationships between senior officials and executives; capacity building that is relevant to the management of power sector reform; and the implementation of energy efficiency programs.

Key Recommendations:

- Continue to provide energy sector expertise. The program will continue to need the same range of resources as is now offered by the partners, including socioeconomic analysis skills.
- Strengthen USAID program management capability to monitor deliverables for quality and relevance, including improvements in performance monitoring indicators.

Increase emphasis on sustainability via centers of excellence, academic institutions and the use of local consulting firms, and expand the transfer of lessons learned to include Latin America and other Asian countries.

Final Evaluation: The OTI Program in East Timor

Date:	02/03
Sector/s:	Democracy and Governance
Geographic Area/s:	East Timor
Organization/s:	Development Associates, Inc.
Author/s:	Jeffrey Clark, Ann von Briesen Lewis, and Lia Juliani
Catalog No.:	PD-ABX-987
Hyperlink:	http://www.dec.org/pdf_docs/PDABX987.pdf

Summary: East Timor emerged from the political violence of 1999 facing the huge challenges of constructing a new government and in defining a new nation. USAID's Office of Transition Initiatives (OTI) has worked in East Timor since 1999 to promote economic recovery and strengthen democratic development. OTI's principal objectives are increasing public access to information on the establishment of government; strengthening political institutions; increasing citizen participation in the governance of the country; and solidifying the rule of law and strengthening the justice sector.

Key Findings: OTI's experience in East Timor has had a significant impact, and has promoted U. S. foreign policy goals. Measurable impacts to strengthen the NGO and media sectors were observed, yet more could have been realized if there had been greater care in the selection of local entities to assist, and if there had been earlier emphasis on capacity building and less on commodity transfers. OTI's procurement mechanisms and small grant authorities were key to its success, because of flexibility and quick disbursement of funds, making OTI a highly effective player when most other donors remained stymied and inactive.

Key Recommendations:

- OTI should deepen its economic recovery expertise, through external consultants, to improve the conceptualization and implementation of economic recovery initiatives.
- OTI's well-placed emphasis on civil society and NGOs should not preclude OTI to seize opportunities to support local government structures through training and technical assistance.

OTI staff worldwide should emulate the cooperation and inclusiveness that were hallmarks of its presence in East Timor.

Evaluation of the FINCA/NIS Regional Technical Assistance Program

Date: 04/03

Sector/s: Economic Growth

Geographic Area/s: Eastern Europe and the Caucasus

Organization/s: Development Associates, Inc.

Author/s: D.E. Dembowski, Team Leader; Joshua Badach; Richard Chitwood; and Ron Bielen

Catalog No.: PD-ABY-008

Hyperlink: http://www.dec.org/pdf_docs/PDABY008.pdf

Summary: The Foundation for International Community Assistance (FINCA) was founded in 1984 with the goal of raising incomes of the poor through "village banking programs." FINCA manages 20 micro-credit programs throughout the world. Under its New Independent States (NIS) regional technical assistance program, FINCA established a network of seven regional micro-finance affiliates located in Russia, Kyrgyzstan, Armenia, Georgia, Azerbaijan, and Kosovo. The question addressed by this evaluation was whether a Moscow hub has enabled FINCA to operate successfully in the NIS region.

Key Findings: FINCA has implemented the strategic plan for the hub effectively, generating a steady demand by affiliates who are generally satisfied with the hub's performance and support services. Financial sustainability of the current operational structure is feasible, with FINCA having moderate success in diversifying funding sources for the NIS program. Hub services have generally been adequate in meeting the technical assistance needs of affiliates, placing it at the forefront of efforts to promote reform of the legal and regulatory environment for non-bank financial institutions in Russia and the NIS.

Key Recommendations:

- USAID assistance to the hub be continued; however, future assistance should be conditioned upon FINCA's agreeing to dramatically improve operating expense ratios and loan-to-asset ratios.
- USAID should encourage and monitor the hub's efforts to improve affiliates' productive use of assets.

USAID should bolster ongoing lobbying efforts to strengthen the legal services that the hub provides to affiliates.

Journalism Training and Institution Building in Central American Countries – PPC Evaluation Working Paper No. 5

Date:	06/03
Sector/s:	Democracy and Governance; Education
Geographic Area/s:	Central America
Organization/s:	USAID Bureau for Policy and Program Coordination (PPC)
Author/s:	Rick Rockwell and Krishna Kumar
Catalog No.:	PN-ACR-755
Hyperlink:	http://www.dec.org/pdf_docs/PNACR755.pdf

Summary: The Center for Latin American Journalism (CELAP) is a private, self-supporting institution that provides journalism training in Latin American. CELAP is an offshoot of the Latin American Journalism Project (LAJP), which was USAID's first major media initiative in Central America from 1988 to 1997. This evaluation assessed the contribution that LAJP and CELAP have made to the growth of independent media in Central America and to the democratization process.

Key Findings: LAJP and CELAP contributed to upgrading journalists' professional skills and competence, strengthening ethical standards, and contributing to the democratic process. The initiatives made major contributions toward improving the skills of journalists and the design, layout, and coverage of many prominent newspapers in the region. LAJP brought media owners and journalists together to produce the first regional journalism code of ethics for Central America. LAJP and CELAP also provided intensive training for journalists covering the post-conflict elections that were to pave the way for peace and democracy.

Key Recommendations:

- Journalism projects should include safeguards to ensure their transparency and allay doubts about USAID's intentions.
- USAID and its partner institutions should consider raising sufficient funds for an endowment that will subsidize training costs when USAID support is not available.

The recruitment process for journalism training should be transparent and ensure the participation of different ethnic groups and minorities.

USAID's Approach to Poverty Reduction, The Case of Honduras – Evaluation Brief Number 5

Date: 03/03

Sector/s: All

Geographic Area/s: Honduras

Organization/s: USAID Bureau for Policy and Program Coordination (PPC)

Author/s: Jonathan Sleeper, Clarence Zuvekas, and John Thomas

Catalog No.: PN-ACR-351

Hyperlink: http://www.dec.org/pdf_docs/PNACR351.pdf

Summary: Honduras, one of the poorest countries in Latin America, has focused on strategies to reconstruct and transform its economy after the devastating impact of Hurricane Mitch in 1998. USAID/Honduras has an annual program of about $31 million that emphasizes health and education, economic growth and natural resource management, decentralization and municipal government, and democratic governance. This evaluation compared USAID/Honduras' sustainable development approach with the poverty reduction paradigm evolving in the World Bank, IMF, and other development agencies.

Key Findings: USAID/Honduras is one of the few Agency operating units that comes close to adopting poverty reduction as its overarching goal by emphasizing economic policy reform. However, over half of its portfolio supports the direct delivery of social services because of Congressional earmarks that necessitate spending in such areas. The program is focused on the poor, especially in health and education, and incorporates many poverty reduction objectives, including microenterprise initiatives. USAID played a key role in the development of Honduras' Poverty Reduction Strategy Plan (PRSP) and a high level of donor coordination, contributing greatly to its success.

Key Recommendations:

- Poverty reduction strategies in Latin America should give high priority to strengthening the human capital of poor households and increasing their access to infrastructure and assets.
- Honduras needs additional policy and institutional reforms in many areas, particularly in public sector salary policy, rule of law, and modernization of the state.

Greater improvements in education indicators will be especially important for poverty reduction in Honduras.

USAID's Approach to Poverty Reduction, The Case of Mali – Evaluation Brief Number 6

Date:	01/03
Sector/s:	All
Geographic Area/s:	Mali
Organization/s:	USAID Bureau for Policy and Program Coordination (PPC)
Author/s:	Joseph Lieberson, Diane Ray, Dirck Stryker, Lane Vanderslice
Catalog No.:	PN-ACR-352
Hyperlink:	http://www.dec.org/pdf_docs/PNACR352.pdf

Summary: Mali has an effective poverty reduction approach, but one that still needs to do more to enable economic growth and opportunity.

Key Findings: USAID's program is generally focused on the rural poor and incorporates many poverty reduction objectives, creating an impressive synergy among programs in different sectors. The USAID program is heavily skewed toward delivery of direct social services, with proportionately less allocated to activities emphasizing broader economic or policy reforms that have an indirect effect on all of the poor. Commitment of a large proportion of the portfolio to PVO projects may reflect a relative lack of engagement with the government. This may reduce USAID's visibility and influence at the national level on key policy issues, especially those having to do with economic growth strategy development.

Key Recommendations:

- USAID/Mali should give more attention to the enabling environment for poverty reduction.
- USAID should stay fully engaged in the PRSP process to stimulate donor coordination and leverage on development issues and preserve its influence on the spending of HIPC debt-reduction funds.

USAID should be careful not to allow its concentration on PVO development partners to jeopardize its participation in the national policy dialog.

Evaluation of IFES Civic Education Programs in Kazakhstan, Kyrgyz Republic and Tajikistan

Date: 06/03

Sector/s: Democracy and Governance

Geographic Area/s: Central Asia

Organization/s: Checchi and Company Consulting, Inc./The Louis Berger Group, Inc. Joint Venture

Author/s: Gina Gilbreath Holdar and David B. Ogle

Catalog No.: PD-ABY-347

Hyperlink: http://www.dec.org/pdf_docs/PDABY347.pdf

Summary: Beginning in 2000, the primary focus of USAID-funded activities of the International Foundation for Election Systems (IFES) in Central Asia shifted from the organization's traditional mission of political party development and election reform to civic education. Today, IFES has an active civic education program in the Central Asian republics of Kazakhstan, Kyrgyzstan, and Tajikistan, including such activities as the production of high school civics textbooks, democracy summer camps, Student Action Committees (SACs), and adult civic education programs. The purpose of this evaluation was to determine whether or not to extend this Cooperative Agreement.

Key Findings: The IFES-CAR civic education program is making a significant contribution to building strong foundations for sustainable democratic systems in Kazakhstan, Kyrgyzstan and Tajikistan. The program has been highly successful in increasing understanding of the principles of democracy and in encouraging active participation in civil society by students. There is every reason to anticipate continued success on an incrementally greater basis if the USAID-IFES Cooperative Agreement is extended.

Key Recommendations:

- USAID should review the adequacy of staffing levels in each country office and encourage more exchange of personnel, resources and information among them.
- IFES should continue to actively pursue its efforts in each country to expand use of the civic education textbook in schools, by working more intensively to encourage each country's Ministry of Education to approve the IFES civic education course as an official part of the country's national school curriculum.

IFES should work to increase summer camp participation by students from all areas of each country, and coordinate the establishment of information-exchange networks of established Student Action Committees.

USAID's Approach to Poverty Reduction, The Case of Uganda – Evaluation Brief Number 8

Date: 01/03

Sector/s: All

Geographic Area/s: Uganda

Organization/s: USAID Bureau for Policy and Program Coordination (PPC)

Author/s: Joseph Lieberson, Diane Ray, Dirck Stryker, and Lane Vanderslice

Catalog No.: PN-ACR-354

Hyperlink: http://www.dec.org/pdf_docs/PNACR354.pdf

Summary: Uganda is one of the few African countries that is succeeding with economic policy reforms designed to accelerate growth and reduce poverty. USAID responded to the Ugandan Government's approach with a new strategic plan (2002-2007) centering on poverty reduction. This evaluation assessed the impact on poverty of sound economic policies and poverty reduction as a central organizing principle.

Key Findings: Government, NGO, and donor coordination, organized around a central theme of poverty reduction, improves overall efforts and makes it easier for donors to encourage a broad range of policy reforms. Impressive results are possible when a government is committed to poverty reduction, and economic policy reform that leads to strong economic growth is essential to increasing income and reducing poverty. USAID supported Uganda's efforts, but at times Congressional earmarks reduced USAID's flexibility, making it difficult to support certain programs.

Key Recommendations:

- Because direct assistance may deflect attention and resources from the need to promote enabling environments for economic reform and poverty reduction, USAID should consider putting more resources into indirect assistance that expands opportunities for the poor.
- Although HIV/AIDS is a serious problem in Uganda, high USAID funding levels may be creating institutional capacity problems in absorbing that much money. Based on need and U.S. comparative advantage, non-health programs should be larger than they now are.

USAID should monitor Uganda's exchange rate situation closely and encourage the government, private sector, and other donors to address the issue. Currency appreciation can harm private-sector, export-oriented activities that USAID supports.

Appendix E: Involvement of Non-Federal Parties

IBM Business Consulting Services is a contractor to the Bureau for Policy and Program Coordination. IBM has experience assisting USAID and other Federal agencies with the preparation of agency performance reports, in compliance with the Government Performance and Results Act and guidance from the Office of Management and Budget. For this report, IBM suggested timelines and provided editorial direction and logistical support.

Appendix F: Acronyms Used in This Document

A&A	Acquisition and Assistance
ABS	Agency Budget Submission
ADP	Alternative Development Program
ADS	Automated Directives System
AEEB	Assistance for Eastern Europe and Baltic States
AFR	Bureau for Africa
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
ANE	Bureau for Asia and the Near East
APHIS	Animal and Plant Health Inspection Service
APP	Annual Performance Plan
APR	Annual Performance Report
ASP	Agency Strategic Plan
BSM	Business Systems Modernization
BTEC	Business Transformation Executive Committee
BUCEN	U.S. Bureau of the Census
CARPE	Central Africa Regional Program for the Environment
CBA	Centrally Billed Account
CenPEEP	Centers for Power Efficiency and Environmental Protection
CETT	Centers of Excellence for Teacher Training
CFO	Chief Financial Officer
CIF	Capital Investment Fund
CIO	Chief Information Officer
CMM	Conflict Management and Mitigation
CO	Contract Officer
COOP	Continuity of Operations Plan
COTS	Commercial off-the-Shelf
CPA	Coalition Provisional Authority
CPR	Contraceptive Prevalence Rate
CRB	Contract Review Board
CS	Civil Service
CSH	Child Survival and Health Funds
CTO	Cognizant Technical Officer
DA	Development Assistance Funds
DART	Disaster Assistance Response Team
DCHA	Bureau for Democracy, Conflict, and Humanitarian Assistance
DFI	Direct Foreign Investment
DHS	Demographic and Health Survey
DG	Democracy and Governance
DoS	Department of State
DRI	Development Readiness Initiative
E&E	Europe and Eurasia
EA	Enterprise Architecture
EDDI	Education for Development and Democracy Initiative
EGAT	Economic Growth, Agriculture, and Trade

ESF	Economic Support Funds
FACS	Financial Accounting and Control System
FAO	Food and Agriculture Organization
FBO	Faith-Based Organization
FFMIA	Federal Financial Management Improvement Act
FFP	Office of Food for Peace
FMFIA	Federal Managers Financial Integrity Act
FP	Family Planning
FS	Foreign Service
FSA	FREEDOM Support Act (Assistance for the Independent States of the Former Soviet Union)
FSI	Financial Systems Integration
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FY	Fiscal Year
GAO	General Accounting Office
GAAP	Generally Accepted Accounting Principles
GDA	Global Development Alliance Secretariat
GDP	Gross Domestic Product
GFATM	Global Fund to Fight AIDS, Tuberculosis, and Malaria
GFMS	Global Financial Management System
GH	Bureau for Global Health
GPRA	Government Performance and Results Act
GVEP	Global Village Energy Partnership
HC	Human Capital
HCD	Human Capacity Development
HCP	Hemispheric Cooperation Program
HIV	Human Immunodeficiency Virus
IBA	Individually Billed Account
IDA	International Development Assistance
IDI	International Development Intern
IDP	Internally Displaced Person
IG	Inspector General
IGAD	Intergovernmental Authority on Development
IM	Information Management
IQC	Indefinite Quantity Contract
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
JFMS	Joint Financial Management System
JPM	Joint Planning Mechanism
KV	Kilovolt
LAC	Latin America and Caribbean
MACS	Mission Accounting and Control System
MCA	Millennium Challenge Account
MCTC	Mother-to-Child Transmission
MD&A	Management Discussion and Analysis
MFI	Microfinance Institution
MoH	Ministry of Health
MT	Metric Ton

Appendices

MW	Megawatts
NEP	New Entry Professional
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NIS	Newly Independent States
NMS	New Management System
ODA	Official Development Assistance
OFDA	Office of U.S. Foreign Disaster Assistance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPIN	Online Presidential Initiative Network
OTI	Office of Transition Initiatives
OU	Operating Unit
OYB	Operating Year Budget
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
P.L.	Public Law
PMA	President's Management Agenda
PMI	Presidential Management Intern
PMP	Performance Monitoring Plan
PMTCT	Prevention of Mother-to-Child Transmission
PPC	Bureau of Policy and Program Coordination
PVC	Private and Voluntary Cooperation
PVO	Private Voluntary Organization
RCSA	Regional Center for South Africa
REDSO	Regional Economic Development Services Office
RIF	Reduction in Force
SME	Small and Medium Enterprise
SO	Strategic Objective
SPS	Sanitary and Phytosanitary Standards
STATE	U.S. Department of State
TB	Tuberculosis
TCB	Trade Capacity Building
TFR	Total Fertility Rate
TRADE	Trade for African Development and Enterprise
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
USDH	United States Direct Hire
USG	United States Government
VCT	Voluntary Counseling and Testing
WARP	West Africa Regional Program
WET	Water Efficiency Team
WHO	World Health Organization