

DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

The President's Proposal:

- Targets military and economic assistance to sustain key countries supporting the United States in the war on terrorism;
- Trains foreign law enforcement and armed services to improve their counter-terrorist capabilities;
- Attacks narcotics trafficking in source countries through training, equipment and law enforcement cooperation;
- Provides employees at U.S. diplomatic missions with safe, secure, and functional facilities;
- Promotes democracy and protection of human rights throughout the world;
- Maintains strong U.S. leadership in funding the international HIV/AIDS prevention and care campaign;
- Affirms America's tradition of international humanitarian relief for refugees, displaced people and victims of disasters;
- Increases the U.S. commitment to preserving the world's tropical forests and promotes environmental sustainability;
- For the first time, links U.S. support for international financial institutions to performance;
- Ensures continued U.S. leadership in responding to threats to international peace and stability through peacekeeping activities; and
- Strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East.

The foreign affairs functions of the U.S. Government are carried out through a complex structure of agencies—with foreign policy and diplomatic relations led by the Department of State; development assistance led by the U.S. Agency for International Development (USAID); international finance led by the Department of the Treasury; international trade and investment finance by the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency; international broadcasting by the Broadcasting Board of Governors; and other functions carried out by a number of other agencies, including the Peace Corps. The Secretary of State is responsible to the President.

For 2003, the President's Budget includes \$24.3 billion for these functions, a \$1 billion increase over the \$23.3 billion appropriated for 2002. Increased funding has been allocated based on three broad goals: 1) to support our highest priority foreign policy objectives, especially the war on terrorism; 2) to enhance security for American personnel and facilities; and 3) to advance the effort to connect resources to performance. In pursuing the first objective, the budget includes \$5.2 billion for programs that are essential in pursuing the war on terrorism.

The President's Budget also addresses the management challenges of our complex foreign affairs structure to eliminate redundancies, improve the delivery of foreign assistance, and strengthen the administration of foreign affairs. As examples, the budget launches an initiative to assure that the money taxpayers contribute to pay the high cost of stationing employees of more than 30 government agencies overseas is well managed. The budget seeks to deploy the right agencies with the most efficient number of people serving overseas advancing U.S. interests. The budget also consolidates most food aid programs under USAID, in order to ensure that U.S. food aid is delivered as efficiently and effectively as possible to feed hungry people. And, as with other agencies in the federal government, it sets forth a comprehensive agenda for strengthening management in the Department of State and USAID.

DEPARTMENT OF STATE

Department of State

Colin Powell, Secretary

www.state.gov 202-647-4000

Number of Employees: 28,967

Number of Embassies and Posts Abroad: 260

2002 Spending: \$15.9 billion

The State Department represents the United States in 180 foreign countries and 43 international organizations, operating a total of 260 embassies, consulates, and other posts. The past year has been a period of significant foreign policy achievement for the Bush Administration. The Administration has a broad, comprehensive foreign policy agenda for the future. In addition to the President's specific proposals, the State Department will emphasize efforts to:

- Maintain and strengthen the international coalition to fight global terrorism in all its forms;
- Maintain our core alliance relations with the North Atlantic Treaty Organization (NATO), Japan, Australia, and the Republic of Korea;
- Integrate Russia and China into cooperative frameworks to improve our relations and thereby help prevent the revival of destructive great power rivalries;
- Prevent conflict and promote reconciliation in Africa, the Balkans, the Middle East, Northeast Asia, and South Asia;
- Combat the proliferation of weapons of mass destruction;
- Enlist new support from Pakistan and other countries in the region for our efforts in Afghanistan, and assist the Pakistani government through diplomatic support and economic assistance;
- Help open markets, encourage investment, promote environmentally sound development, and expand economic opportunities around the world; and

- Promote human rights and democracy and further basic American values, including freedom of religion.

Overview

The State Department is the lead agency in formulating and implementing U.S. foreign policy. Since September 11, 2001, the Department's top priority has been the war on terrorism. The Department has led the effort to build and manage the broad-based international coalition that helped defeat the Taliban in Afghanistan and is now destroying the al Qaeda terrorist network around the world. The Department also diplomatically supported the creation of a post-war government for Afghanistan in 2001 and continues to lead the international community in developing programs to provide humanitarian relief, security, and economic reconstruction assistance to help the Afghan people create a more peaceful, prosperous, and free future.

While the war on terrorism is our top foreign policy priority, the President has stressed that it cannot be our only one. We live in an age of tremendous opportunities to advance America's interests. The Department will continue to promote the Administration's broad foreign policy agenda. In addition, the Department administers some foreign aid programs, such as the counternarcotics program in Colombia. To help preserve America's essential openness, the State Department also plays a critical role in facilitating safe travel to and from the United States. Every year the State Department issues seven million passports to U.S. citizens so they can travel abroad, and it processes over 10 million visa applications submitted by those wishing to visit our country.

Some of the Department's core programs, such as issuing visas or passports, are tangible and measurable. In government-wide customer satisfaction surveys, the Department's services to passport applicants score high in all of the areas measured, with an overall score of 76 on a scale of 1–100, which is five points higher than the national American Customer Satisfaction Index score for private sector services. Other programs, however, are intrinsically more difficult to evaluate, such as those that promote democracy and human rights. For these programs, successes—such as support for the transition from authoritarian to democratic rule in Serbia and Peru—are the best, but admittedly infrequent, measures of effectiveness.

War on Terrorism



President Bush addressing the United Nations, November 10, 2001.

border controls, including increased cooperation among border agencies to share data and guarantee the integrity and reliability of visas used to enter the United States. The United States will seek to improve the capabilities of those who agree to share our burden in the war against terrorism. This budget provides roughly \$3.5 billion for economic and security assistance, equipment, and training for states on the frontline of this war.

We will defeat the terrorists by destroying their network, wherever it is found. We will also defeat the terrorists by building an enduring prosperity that promises more opportunity and better lives for all the world's people.

President George W. Bush
October 20, 2001

Funding in 2003 for the Department of State, USAID, the Department of the Treasury, and other agencies with foreign relations responsibilities concentrates on sustaining current partnerships and building new relationships as the war against terror expands around the globe. As the front shifts, the United States must be prepared to help countries strengthen their internal counter-terrorism capabilities. We must tailor programs to meet specific local needs so that terrorists can find no safe haven, no open financial or geographic border. This task is both large and long term. It will require support for a wide range of programs from blocking terrorist assets and combating money laundering to improving management of

Strengthening counter-terrorism capabilities alone will not be enough. As we learned in Afghanistan, terrorists seek refuge and build support where the rule of law and democracy have been destroyed or failed. If we are to succeed, our commitment to end terrorism must integrate counter-terrorism initiatives with programs that tackle the desperate conditions which fuel violent, transnational extremism in many countries.

In addition to offering our friends and allies help, the United States must accelerate efforts to protect Americans serving and traveling abroad. Al Qaeda bombings of American embassies in Kenya and Tanzania in 1998—which killed over 200 people and injured thousands—marked a new level of destructiveness in its terror campaign. In the World Trade Center and other attacks, Americans lost their lives alongside people from dozens of nations and ethnic and religious backgrounds.

While the State Department continues to conduct its normal diplomatic work, its personnel and those of other U.S. agencies now carry the added burden of serving in the frontline of the war on terrorism. Accordingly, the State Department is expanding its investment in security with nearly \$1.4 billion provided in this budget. Of this amount, \$837 million is for the State Department and USAID to continue to expand the worldwide security upgrade program launched in the wake of the 1998 embassy bombings. The requested funding will construct nine new embassies plus purchase armored vehicles, communications gear and other equipment. Some additional key elements from the President's anti-terrorism agenda are:



New U.S. Embassy in Nairobi, Kenya under construction after al Qaeda bombing.

Jordan

Strategically located along the borders of both Iraq and Syria, Jordan will be provided substantial new resources in 2003 to strengthen its security capacity and enhance its economic potential. The President is requesting \$198 million in Foreign Military Financing (FMF) and \$250 million in Economic Support Funds (ESF), increases of \$123 million and \$100 million respectively over 2002. The money will be used to improve border controls targeting the flow of weapons, including weapons of mass destruction; and to support financial training, trade and investment and to strengthen educational opportunities.

is being provided for counterterrorism engagement programs, training, and equipment to help other countries fight global terror. As part of this commitment, the President seeks \$52 million to establish a Center for Anti-terrorism and Security Training (CAST). Once it is fully operational, the CAST will train 7,500 American and coalition partner law enforcement personnel annually in advanced anti-terrorism and security measures, thereby enhancing security of U.S. interests abroad.

- *Afghanistan assistance:* The United States worked with our allies and the anti-Taliban Afghan groups to establish a broad-based interim government in Afghanistan. The United States remains committed to helping the people of Afghanistan rebuild and enjoy long-term stability. We will continue to provide food and development assistance. At the January pledging conference in Tokyo, the U.S. committed \$296 million to support these efforts. As Secretary of State Colin Powell stated, the United States has "an enormous obligation to not leave the Afghan people in the lurch, to not walk away as has been done in the past."
- *Anti-terrorism assistance:* \$121 million

Andean Counterdrug Initiative

All of the cocaine sold on America's streets comes from South America. The Andean Counterdrug Initiative (ACI) provides assistance to Colombia, Peru, Bolivia, Ecuador, Brazil, Panama, and Venezuela for drug eradication, interdiction, economic development, and development of government institutions. The President's 2003 request for ACI is \$731 million. This assistance boosts the impact of U.S. domestic law enforcement and supports the Andean governments' efforts to destroy local coca crops and processing labs. Since 2000, U.S. assistance has provided 76 helicopters for the Colombian national police and army, giving the Colombians airlift and reach into areas previously inaccessible. In 2001, the Colombian army and police destroyed over 700 cocaine base labs, where the first stage of cocaine processing occurs, and 20 cocaine HCl labs, where the final active ingredient in cocaine is extracted. Data is not yet available to determine the program's effect on overall coca cultivation and flow of cocaine into the United States.

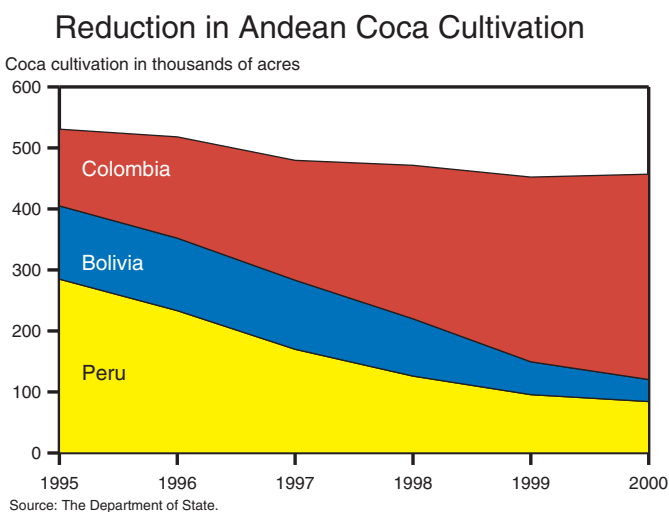
In addition to the State Department's law enforcement programs, USAID has launched alternative crop development and voluntary coca eradication programs with the goal of eliminating about 37,000 hectares (91,000 acres) of illegal crops. USAID also has funded its 18th *casa de justicia*. This program funds community level legal services to Colombia's poorest people. In a country with significant human rights abuses and gaps in the rule of law, legal solutions are urgent everyday requirements.

In 2003, the budget will extend the reach of counter-narcotics brigades in southern Colombia while beginning training of new units to protect the country's economic lifeline, an oil pipeline. In 2001, Colombia was the source of about two percent of U.S. oil imports, creating a mutual interest in protecting this economic asset.

The United States has devoted considerable resources to reducing coca cultivation in the Andes and had achieved modest results by the end of 2000, the last year for which data is available (see accompanying chart). The State Department is expected to define clear benchmarks for evaluating the impact of U.S. assistance and the current strategy. The effectiveness of this strategy will become clearer when the State Department releases its assessment of 2001 coca cultivation in the International Narcotics Control Strategy Report in March 2002.

Congressional Earmarks

A large proportion of foreign assistance funding for programs implemented by the Department of State or USAID are subject to Congressional earmarks, which are either specific requirements in the appropriations bill itself or language in the report that normally accompanies an appropriations bill. The majority of these earmarks set in law or report language the amounts and priorities that the Administration requests. Only a small proportion require the Administration to fund projects that it would otherwise not have implemented. While the number of these decreased somewhat in the 2002 Foreign Operations Appropriations Act, additional reductions in 2003 will be useful.



Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs on an objective to higher priority or more effective programs focused on that objective. The table below rates the performance of some important State Department programs that are either effective or targeted for rapid improvement.

Program	Assessment	Explanation
International Law Enforcement Programs	Unknown	Data does not exist to measure program impact. Program evaluation methodology to be developed.
Humanitarian Demining Program (HDP)	Effective	To help evaluate how well the program is working, the HDP identified outcome-based indicators, such as mines removed, area of land declared mine-free and the percentage reduction in reported civilian landmine casualties. This program also uses performance-based contracting.
Passport Modernization	Effective	State's Bureau of Consular Affairs completely revamped passport technology and systems in a short period of time. Regarding customer service for passport services, the Bureau has scored well in American Customer Satisfaction Index surveys in both 1999 and 2000.
Educational and Cultural Exchange Programs	Moderately Effective	Surveys of changes in attitude and professional decisions made by alumni demonstrate the program's impact. For example, nine independent external surveys of alumni indicate that the Exchange Bureau programs succeed in conveying knowledge (88 percent), building relationships with the United States (76–82 percent), altering the behavior of participants (73 percent), and benefiting the larger community or organization (76 percent). The Bureau's competition of grants, recruiting, tracking, and networking of participants and solicitation of feedback on program effectiveness are worthy of emulation. Despite its overall success, the Bureau needs more detailed performance benchmarks for measurement and stronger monitoring of expenditures by grant recipients.

Program	Assessment	Explanation
Economic Assistance to Russia	Some Moderately Effective, Some Ineffective	<p>Since 1992, the United States has spent over \$2.9 billion on non-security assistance to Russia. The results have been mixed. Progress in building the foundations of an efficient market economy has been slower than anticipated. For much of the 1990's government-to-government technical assistance programs had disappointing results. But when assistance was properly structured, as in the cases of tax and judicial reform as well as local government budgeting, it had important impacts. Also during the 1990's, enterprise funds and some training programs did not perform according to expectations. High school and college student exchange programs have had a positive impact, while shorter-term visitor programs have had less effect. The amount of assistance we have provided could only make a small contribution in dealing with Russia's profound economic problems. Without measurable performance indicators for many programs, judging their effectiveness has been difficult. For example, the impact of small and micro enterprise promotion programs has not yet been demonstrated. A recent interagency review recommended that U.S. assistance focus on areas such as promoting civil society and improving the capacity of small business, while eliminating funding for less effective programs. A comprehensive set of benchmarks for use in management and funding decisions is being developed for the Russia program.</p>

Improving Performance

U.S. international affairs agencies must respond quickly to changes in the global landscape. In the past, the State Department's necessary emphasis on rapid and flexible response to world events reduced the attention the Department has given to critical management problems. Some of these problems are laid out in the President's Management Agenda, in the following sections.

To address these problems, the State Department created a high-level internal President's Management Agenda (PMA) council responsible for implementing all PMA initiatives within State. Also, OMB and the State Department are jointly leading the Administration's efforts to rightsize the U.S. government's presence abroad. It is too early to assess the impact of initiatives on improving the Department's management effectiveness, particularly with respect to information technology and staffing.

Diplomatic Readiness

The State Department has launched a Diplomatic Readiness Initiative to foster a high performing, well trained corps of professionals. This initiative will enable the Department to have the personnel to carry out its mission and to improve professional training and career development opportunities for every Department employee. The Department's Diplomatic Readiness Task Force will continue to implement far-reaching measures to recruit well-rounded professionals possessing the skills required in their career track, thereby reducing the amount of time needed to train new hires in areas such as language, economics, and management. The Task Force will also devise additional performance measurements to evaluate the Department's progress in recruitment, placement, training, career development, and retention.

Rightsizing Overseas Presence

In the spring of 2001, OMB and the State Department attempted to identify the number of U.S. government employees serving abroad, which agencies they represented, their cost, and their purpose. OMB determined there is no comprehensive resource available that can explain how many people serve in embassies and posts overseas, let alone describe what they are doing. This lack of information results in both cost and security problems. There is no basis on which to make rational decisions. With estimates as high as 60,000 employees representing over 30 agencies, with cost estimates per American overseas ranging from \$250,000 to \$550,000 per year, there are major financial implications to maintaining a large U.S. overseas presence. In the wake of the 1998 embassy bombings in Africa and the heightened level of threat after September 11, 2001, there is an urgency to understanding appropriate staffing patterns.

When Funding Arrives Before the Mission is Clear: Kosovo Women's Initiative

In 1999, the State Department provided \$10 million to the United Nations High Commissioner for Refugees (UNHCR) for the Kosovo Women's Initiative to ensure that women's needs were met as refugees returned home. UNHCR failed to effectively target and manage the funds so that resources promptly served the urgent needs of hundreds of thousands of needy families. For example, the Initiative funded sewing and aerobic classes, while family health clinics and shelters lacked resources.

As a result, the Administration has launched a rightsizing initiative with the goal of assuring that the right agencies and right number of people are serving U.S. interests overseas. As a first step, in the fall of 2001, the Administration began to collect data from all government agencies with staff overseas between the years 1995 and 2001. The initial evaluation found that most agencies report information to State with neither a thorough justification of need for each staff position, nor an evaluation of costs per position, per agency, nor where the position fits with current United States foreign policy, agency mission or skill requirements at a given post. Rarely do agencies examine whether vacant positions can be done away with. The State Department must maintain the considerable cost of the infrastructure to support this presence.

Who Knows Who's Where and Why?

Recently, the Administration tried to get a better idea of how many federal employees have been posted abroad since the mid-'90s. It is no surprise that the State Department, the Pentagon, the Peace Corps, and other agencies have staff overseas. But who knew the Interior Department had an average of 17 people posted overseas from 1995 to 2001? Or, furthermore, that NASA had staff in Paris?

In 2002, the Administration will take another step forward to address these shortcomings through an evaluation of the Bureau of European and Eurasian Affairs, which in 2001 included more than 5,000 employees, 49 embassies, 23 consulates and 5 smaller offices. This evaluation will examine the staffing and costs at each post and will help the Department to revise its Mission Performance Planning (MPP) process to apply to all posts and agencies with overseas staffing. The revised MPP will refine performance measures that can be used at all posts and applied across all regions and agencies working overseas. It will also incorporate uniform performance measures for each position and agency at each post. In addition, OMB and the Department of State are developing a surcharge proposal whereby all U.S. government agencies with staff overseas will examine staffing requirements in advance of new construction of an embassy and will pay part of the construction costs of new buildings based on space they will use in embassy buildings.

Strengthening Management

To implement the President's Management Agenda the State Department's Director of the Office of Management Policy is coordinating an internal council to establish performance requirements and provide regular reports to the Under Secretary for Management.

Initiative	2001 Status
<p>Human Capital—State has begun to implement a Diplomatic Readiness initiative to address certain long-standing management problems in the foreign service, such as training. It has placed renewed emphasis on recruitment and human resource management, and has made strides, but significant progress is still necessary. It also must develop a comprehensive workforce plan to match organizational needs with the knowledge, skills, and abilities of its Foreign Service, Civil Service, and Foreign Service National employees. More progress is expected from State on reducing management layers and making administrative processes more efficient.</p>	●
<p>Competitive Sourcing—While State has identified 39 percent of its global workforce as performing activities that are commercial in nature, it has not completed public-private or direct conversion competition for 15 percent of those identified commercial activities. State is developing plans to increase the percentage of commercial positions that will be competed or directly converted to reach the President's goals.</p>	●
<p>Financial Management—State received an unqualified opinion on its 2000 financial statements and submitted them on time. Nonetheless, State's financial systems are not compliant with federal requirements and have received only a qualified assurance statement. State plans to fix these issues through office consolidation and installing a new system that will meet the Federal Financial Management Improvement Act requirements. The new system will be completed by the end of 2003.</p>	●
<p>E-Government—The Department has not completed an enterprise architecture to guide information technology (IT) investments. Moreover, State's central capital planning and investment control process does not routinely scrutinize all IT investments. State intends to complete its enterprise architecture and improve the scope and comprehensiveness of its capital planning process.</p>	●
<p>Budget/Performance Integration—Except for the Embassy Security, Construction, and Maintenance account, State's budget and performance planning functions are not linked. The Bureau of Resource Management should unite these functions under the leadership of the new Chief Financial Officer. Although State has been simplifying bureau performance plans, the 2003 State Performance Plan contains inadequate performance measures and sixteen overly broad goals. State is working with OMB to improve the performance planning process and has made progress since October 2001.</p>	●

INTERNATIONAL ASSISTANCE PROGRAMS

We want our wealthy nation to be a decent, generous and compassionate nation. These are the goals that unite our country. These are the goals that inspire my administration. And these are the goals, when achieved, that will continue America's greatness.

President George W. Bush
May 31, 2001

U.S. Agency for International Development

Andrew Natsios, Administrator

www.usaid.gov 202-712-0000

Number of Employees: 7,756

Number of Posts Abroad: 75

2002 Spending: \$6.5 billion

The U.S. Agency for International Development (USAID) advances U.S. foreign policy through the implementation of development and humanitarian assistance programs to developing and transition countries throughout the world. This includes supporting the Middle East peace process and the transition of the successor states of the former Soviet Union to market economies. USAID gives special attention to post-cold war issues such as globalization and conflict prevention.

The agency uses a variety of means to implement its programs, including “technical assistance” (the transfer of knowledge and expertise), and the delivery of equipment, commodities and urgent humanitarian assistance including food aid. The majority of USAID’s programs are initiated by its overseas missions and implemented by U.S. or overseas private sector firms or non-profit non-governmental organizations (NGOs), such as the Red Cross.

This year, USAID has reoriented its program structure into four “pillars.” The first is a new business model, the Global Development Alliance, to better incorporate the knowledge and resources of the public sector, corporate America, and NGOs into USAID’s development assistance programs. In addition, three programmatic pillars incorporate the spectrum of development activities in which USAID is engaged:

- Economic growth, agriculture and trade;
- Global health, including HIV/AIDS and other infectious diseases; and
- Democracy, conflict prevention, and humanitarian assistance.

The 2003 Budget requests funding for all general USAID development assistance activities, including those aimed at health and population, in one Development Assistance program, rather than funding the health and population assistance in a separate Child Survival program. The 2003 request for this consolidated account is \$2.7 billion. Combining the programs will allow USAID greater flexibility to respond quickly and effectively to changing development and foreign policy priorities.

Overview

The 2003 Budget enhances USAID's ability to target its assistance in ways that best meet foreign policy, development and humanitarian requirements. In 2003, USAID will:

- Increase its already significant efforts to combat the scourge of HIV/AIDS and other infectious diseases in the developing world;
- Support the economic and humanitarian assistance elements of the war on terrorism;
- Strengthen its focus on helping countries develop their agriculture sectors, including providing increased grants to non-governmental organizations to strengthen the "food security" of developing countries;
- Strengthen its focus on helping countries develop productive sectors that will increase trade and investment in order that they might benefit more fully from the global economy;
- Increase resources available to protect vulnerable tropical forests; and
- Continue to provide swift and targeted humanitarian and other assistance that saves lives in overseas disasters, or where possible prevents such disasters from occurring in the first place.

In 2002, USAID demonstrated its ability to address complex disaster situations with its quick and effective provision of food aid and other humanitarian assistance to the Afghan people, helping to avert what might otherwise have been a major humanitarian crisis. The 2003 Budget includes funding for continued recovery and initial reconstruction assistance to Afghanistan.

Feeding Hungry People

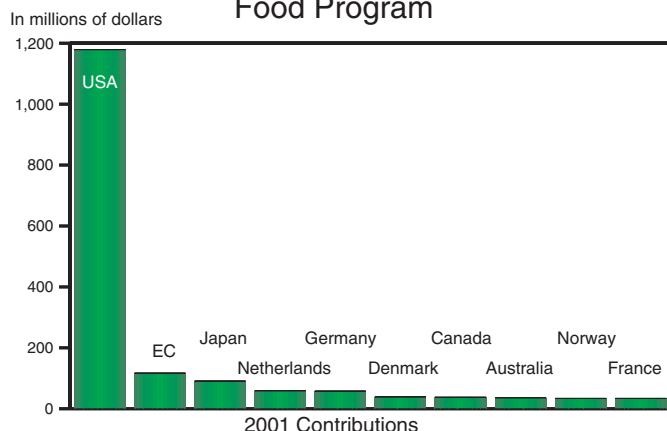
The United Nations' (UN) World Food Programme estimates more than 800 million people in the world, or about 15 percent, suffer from hunger and malnutrition. About 24,000 people die every day of hunger or related causes. The United States consistently provides about 50 percent of food aid worldwide, far more than any other donor. The Administration remains committed to maintaining U.S. leadership in supplying food aid to vulnerable people. Support for food aid is even more vital in this new era of terrorist threats as hunger leads to desperation, and potentially, violence.

Currently, two federal agencies run six programs to provide international food aid, leading to inevitable inefficiencies and overlap of functions. The Administration intends to consolidate programs to improve performance. The Department of Agriculture will continue to furnish government-to-government programs while USAID will take responsibility for all programs run through private voluntary organizations and the World Food Programme. As a result, food aid will be better integrated with the U.S. government's overall assistance programs.

Making Food Aid User Friendly

Private voluntary organizations (PVOs) are eligible for grants of commodities for food security programs in the former Soviet Union under four of the six U.S. food aid programs, run by two agencies. Each program requires a separate application and is governed by different sets of rules and regulations. The Administration's proposed reform of food aid will streamline the bureaucracy so that virtually all food aid grants to PVOs are administered under one agency with a single set of rules and regulations.

Top 10 Donors to the World Food Program



Source: The World Food Programme.

Another reform will be to eliminate the dependence of America's food aid programs on the availability of surplus U.S. commodities. Dependence on surplus commodities means little year to year predictability of supply for hungry populations overseas and the non-profit organizations that serve them. A surplus donation program was virtually non-existent in 1997; however, it rose to a level of \$1.2 billion in total program costs in 2001. In part to reduce reliance on the availability of commodity surpluses, the 2003 Budget will request a 39-percent increase, or \$335 million, in USAID-run food assistance resources that do not depend on surpluses.

The Administration intends to increase resources for direct food distribution programs to the hungry and reduce programs that sell food, to generate revenue for more general development assistance activities. This approach will assure food aid serves our intended target—the truly hungry and needy. Over time, USAID will reduce the proportion of commodities sold in non-emergency programs to a target level of 30 percent as ongoing programs are completed. The Administration also intends to make more Development Assistance program resources available to support food security related development programs of non-governmental organizations. By concentrating food aid on feeding programs, the U.S. government will continue to feed people at similar levels as in recent years.

Fighting HIV/AIDS

As of December 2001, 40 million adults and children worldwide were estimated to be living with Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), with five million new infections and three million deaths occurring during 2001. Sub-Saharan Africa, which has only 11 percent of the world's population and one percent of the world's income, has 70 percent of HIV/AIDS cases and 77 percent of AIDS deaths: these numbers are fueled by the rate of other infectious diseases, such as tuberculosis (TB), the major cause of death in those that are HIV positive. This pandemic has effected every continent and is poised to explode, especially in key countries in Asia.

As we enter the third decade of the AIDS pandemic, our hearts go out to those who have been afflicted with or affected by this deadly disease. We resolve to stand together as a nation and with the world to fight AIDS on all fronts. We resolve to provide the resources necessary to combat HIV/AIDS. And we resolve to ensure that those suffering with HIV/AIDS receive effective care and treatment, compassionate understanding, and encouraging hope.

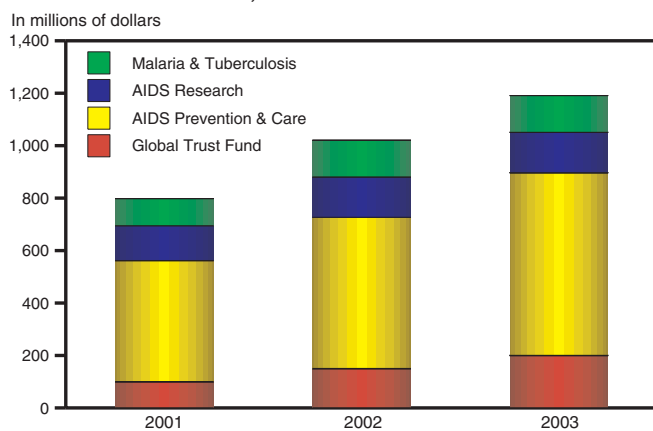
President George W. Bush
World AIDS Day, 2001 Proclamation

AIDS is not merely a health tragedy, but it also is destroying the economic and social fabric of many countries, especially in sub-saharan Africa. AIDS related deaths decimate educators, administrators, health workers, and the general population. The President has made fighting this pandemic and

other key infectious diseases a major foreign policy objective of both U.S. bilateral and multilateral assistance programs.

The 2003 Budget proposes total bilateral and multilateral assistance for HIV/AIDS, TB, and malaria programs in developing countries of nearly \$1.2 billion, up from \$1 billion in 2002. The U.S. commitments in these two years will account for more than a third of estimated international donor funds. USAID is the single largest bilateral donor. The budget provides \$200 million, including \$100 million from the Department of Health and Human Services, to the Global Fund for HIV/AIDS, Malaria and Tuberculosis. The Administration is prepared to increase funding to the Global Fund over the 2002-2005 period if appropriate burden sharing arrangements with other donors are agreed to, and if the fund becomes an effective operation.

Assistance for Global
HIV/AIDS, Malaria & Tuberculosis



Recent HIV/AIDS trends in Uganda, Thailand, and a number of other countries have shown that focused resources to implement comprehensive AIDS programs can be successful in reversing the epidemic. USAID has an approved strategic and focused plan, with emphasis on 23 country/regional programs to fight against the HIV/AIDS pandemic. Four countries (Cambodia, Kenya, Uganda, and Zambia) have been identified for rapid scale-up of their HIV/AIDS program coverage. USAID, with a new Office of HIV/AIDS in recognition of this program's importance, and the Centers for Disease Control and Prevention (CDC) are expanding

these country programs in an effort to shorten the period needed to reach prevention and care goals. By the end of 2003, USAID and CDC plan to meet the following goals in the four rapid scale-up countries identified above:

- Reduce HIV prevalence in young adults by 30 percent;
- Increase care to 321,000 infected people;
- Increase orphans receiving community services to 168,000; and
- Increase HIV-infected pregnant women getting antiretrovirals to 21,000, in order to prevent mother-to-child-transmission.

Status Report on Select Programs

The Administration is reviewing programs throughout the Federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective programs. The table below rates the performance of a few important USAID programs.

Program	Assessment	Explanation
Development Credit Authority (DCA)	Ineffective	DCA is a credit tool for USAID to finance development assistance in addition to or in lieu of grant funding where appropriate. Since the inception of DCA in 1999, USAID has begun 16 credit projects providing over \$35 million. However, the program has obligated only 16 percent of their 2001 credit subsidy funding, due in part to the length of time it has taken to develop effective credit budgeting and credit subsidy calculation mechanisms. Because of the need for continued improvements in these areas, as well as the \$25 million funding pipeline, additional credit subsidy funding is not requested for this program in 2003 but authority to carry forward unused 2002 funding is requested.
Expanded Response to HIV/AIDS	Effective	USAID programs emphasize HIV/AIDS prevention through reproductive health programs to reduce risk behaviors and efforts to prevent mother to child transmission. In the hardest hit countries, USAID programs provide care and support for those infected and to survivors, particularly orphans and other children affected by AIDS. A revised USAID strategy now directs increased funding to selected countries based on magnitude and severity of the disease, and likelihood of success. Impact indicators have been finalized and monitoring systems are being put into place in these priority countries. The 2003 Budget requests a \$115 million increase for USAID's HIV/AIDS programs.
Emergency Central American and Caribbean Hurricane Reconstruction	Ineffective	Hurricane Georges hit the Caribbean in September of 1998 and Hurricane Mitch ravaged Central America in late October and November of 1998. In May of 1999, Congress approved an emergency supplemental package that included \$621 million for disaster recovery for the countries affected by Hurricanes Georges and Mitch. The emergency package was intended to provide timely assistance to the hurricane victims, yet USAID had only expended 41 percent of the funds by December 31, 2000, one and a half years after funds were provided. By the end of 2001, USAID had completed approximately 93 percent of its programs. As testified to Congress by GAO, two factors contributing to the delayed response were USAID's lack of experience in rapidly designing and implementing a large-scale infrastructure program with short-term goals, and the need to coordinate with the 13 other federal agencies that helped to implement the program.

Improving Performance

Despite USAID's best efforts, some programs fail. For example, USAID commissioned an evaluation of school feeding programs in Haiti that showed: "There is no causal connection between school feeding and improved educational performance". In addition, the report found that school feeding programs are among the least cost-effective interventions in education. As a result, in Haiti, USAID's Food for Peace Office will phase out these programs in favor of more effective programs in health, nutrition, and agriculture.

USAID has made progress in developing a systematic approach to performance measurement, although challenges remain. The agency's Annual Performance Plan has been updated to improve the ability to summarize performance. The structure includes agency level indicators of general performance, such as increased economic growth and reduced hunger and poverty; reduced rates of HIV/AIDS and other infectious diseases; increased literacy; free and fair elections; and lower mortality rates in disasters. It is often difficult to demonstrate a direct causal link between USAID programs

and these outcomes, since in most cases, USAID programs are only a small factor promoting development. Assistance from other countries, from the World Bank and other international organizations, as well as the efforts of the developing countries themselves, play important roles in achieving these outcomes. Therefore, in addition to monitoring performance related to these higher level outcomes, USAID missions also track "intermediate results" that are more directly linked to its programs. Examples vary, but can include the number of small businesses receiving USAID-supported loans and how they fared with the loans, the number of new students attending school because of USAID programs, the number of children receiving vaccinations because of USAID funding, or the number of people receiving emergency food relief. However, numerical outputs do not address or assess the quality of the program or how well it functions. USAID needs to improve its ability to use this information for decision-making. Although USAID has used anecdotal program results as a factor in allocating resources, the agency has yet to develop a systematic budget process that fully and transparently bases decisions on performance considerations. USAID will continue working to develop measures of performance to determine the extent to which programs succeed in advancing U.S. foreign policy.

Strengthening Management

USAID's ability to perform optimally has been seriously compromised for years by ineffective and outdated management systems and structural shortcomings. Last year, it began a major effort to strengthen its most critical systems both in Washington and overseas and to restructure its operations. While progress has been made, particularly in financial management and workforce planning, much remains to be done.

Initiative	2001 Status
<p>Human Capital—USAID is undertaking a comprehensive review of its workforce and has submitted a workforce plan. USAID has committed to reducing the ratio of supervisors to employees from 1:4 to 1:5 by the beginning of 2003 and limiting the number of management levels for each bureau. Over the longer term, the agency must confront recruitment issues since significant attrition due to retirement is expected. USAID already has a detailed recruitment plan for the Foreign Service and is working to complete a similar plan for the Civil Service.</p>	●
<p>Competitive Sourcing—No progress has been made on this initiative. USAID has not completed public-private or direct conversion competition on 15 percent of its functions identified as commercial, and it has not submitted an approved competition plan. USAID intends to submit to OMB a competition plan detailing how it will meet the administration's two-year, 15 percent goal.</p>	●
<p>Financial Management—Although a core accounting system is in place in Washington, it has not yet been deployed overseas. Therefore, almost 50 percent of USAID-managed funds are not within the new system. Until its field systems are modernized, USAID will be unable to gain the benefits of modern business practices in accounting, finance, procurement, and e-government. Further, while the first full audit of USAID's financial statement is being conducted for 2001, it is not clear that the Inspector General will be able to render an opinion. USAID will submit and implement a targeted remediation plan for its financial systems. The agency study of business practices will include strategies to accelerate deployment of the core accounting system.</p>	●
<p>E-Government—The business cases for USAID accounting and procurement modernization, as well as its operations and infrastructure upgrades, do not look forward and define how the agency can deploy its new systems worldwide. USAID is undertaking a study to address how it can make more effective use of capital planning, enterprise architecture, and modern business concepts. The 2003 Budget includes a capital investment account to segregate and better manage information technology funding.</p>	●
<p>Budget/Performance Integration—Although USAID's reorganization has placed budget responsibility with the planning bureau, it is not yet clear how the agency will further integrate performance with budget decision-making. While the Agency can point to anecdotal examples of reallocating resources to higher-performing activities within countries or countries within regions, a more comprehensive and consistent process to tie agency-level planning and budgeting to performance needs to be developed. USAID will submit its initial performance plan to OMB; coordinate with the State Department in integrating performance factors into budget formulation; and continue to refine performance indicators to improve usefulness to decision-makers.</p>	●

DEPARTMENT OF THE TREASURY

Department of the Treasury

Paul O'Neill, Secretary

www.ustreas.gov 202-622-1260

Multilateral Development Banks: The World Bank Group, Inter-American Development Bank Group, Asian Development Bank Group, African Development Bank Group, European Bank for Reconstruction and Development, North American Development Bank, Global Environment Facility, and International Fund for Agricultural Development.

Other International Financial Institutions/Mechanism: International Monetary Fund and Exchange Stabilization Fund

Bilateral Programs: International Debt Restructuring and Treasury Technical Assistance

2002 Spending: \$1.7 billion

The Treasury Department is responsible for a number of international programs, including U.S. relations with the International Monetary Fund (IMF) and administration of the Exchange Stabilization Fund. Treasury also is responsible for U.S. relations with the World Bank and other Multilateral Development Banks (MDBs), and administers U.S. contributions to these institutions. Treasury negotiates and manages U.S. participation in multilateral debt reduction initiatives, such as the Heavily Indebted Poor Country (HIPC) initiative, and handles funds for the U.S. portion of such initiatives. Finally, Treasury operates a small technical assistance program to help our partners in the war against terrorism fight money laundering and other financial crimes, as well as help finance ministries in developing countries implement fiscal and financial policy reforms.

Improving Multilateral Assistance to the Poorest Countries

Since its establishment in 1944, the World Bank's goal of post-war reconstruction in Europe has broadened significantly. The World Bank and the regional development banks now seek to encourage economic growth and poverty reduction in developing and transition countries, while the specialized financial institutions like the Global Environment Facility (GEF) maintain narrower, specific mandates.

Over the past 25 years, the United States has consistently been the largest donor to the multilateral development banks. While our contributions leverage other donor commitments, it is important to insist that these institutions significantly improve conditions for their principal constituency, the world's poor. As recent World Bank data shows, more people today live in poverty on less than \$2 a day than did so a decade ago.

Clearing U.S. Arrears

Outstanding U.S. arrears to all MDBs now equal \$533 million, \$34 million greater than last year's total of \$499 million. The President's Budget requests \$178 million to help meet U.S. international commitments under a plan to clear all arrears, on a pro-rata basis by institution, over the next three years.

The President's concerns about these institutions' performance have caused a significant change in the Administration's policies. As proposed by the President, the United States is working to negotiate a significant increase in the level of assistance provided to the poorest and least creditworthy countries as grants rather than loans. The United States and other donors are currently discussing replenishments for the International Development Association (IDA), African Development Fund, and GEF. We are pursuing measures to increase the focus of these replenishments on countries with sound policy environments and demonstrated performance, and on operations that raise productivity. At the same time, the United States is emphasizing the need for institutions to develop reliable performance and output indicators.

Recognizing the importance of demonstrating results, the United States is proposing a performance-based financing framework for its contribution to the IDA replenishment. It provides a base-level annual contribution of \$850 million for each of the three years of the replenishment. Additional contributions of \$100 million in the second year and \$200 million in the third year will be made available if IDA meets specific measurable results, for example in the areas of education, health, environment and trade capacity building. The Secretary of the Treasury will use measures of performance to determine the extent to which U.S. participation in multilateral financial institutions is effective.

Conserving the World's Remaining Tropical Forests

Between 1980 and 1995, more than 540 million acres of tropical forests were cut down, a loss with major implications for the world. Tropical forests provide a wide range of benefits, including harboring a major share of the Earth's biological resources, protecting soil and water, replenishing the Earth's atmosphere with fresh air, and providing timber, medicines, food, and jobs.

More than half of the world's plant and animal species lives in tropical forests, making them home to the world's greatest amount of biological diversity.

For these reasons, the Administration is committed to preserving the world's remaining tropical forests. Under the proposal contained in this budget, the United States will be able to better use its resources to achieve this important environmental goal. The Administration's new forestry conservation proposal will improve forestry conservation by providing \$50 million to USAID. Up to \$40 million of this amount may be available for the budget cost of debt reduction that is used for forest conservation under the Tropical Forest Conservation Act (TFCA). The remainder will be used for grants to non-governmental organizations engaged in forestry conservation in order to accelerate support and improve effective implementation of TFCA agreements. The Administration will develop specific criteria to determine which mechanism is most appropriate for each case.

Under TFCA, to date, debt reduction agreements have been concluded with four countries: Bangladesh, Belize, El Salvador, and Thailand. In all, these countries will save over \$60 million in hard currency payments as a result of these agreements to swap external debt for forest conservation.

INTERNATIONAL AFFAIRS AGENCIES

Export Import Bank

Export Import Bank

John E. Robson, Chairman

www.exim.gov 800-565-EXIM

Number of Employees: 420

2002 Spending:

Program: -\$263 million

Administrative: \$62 million

Lending Activity: \$10.4 billion

The 2003 Budget will support an increase in lending levels from an estimated \$10.4 billion in 2002 to \$11.5 billion in 2003 using an appropriation of \$541.4 million in program resources.

The increase in lending levels is achieved with the 2003 Budget request levels because of the use of an entirely new credit risk methodology for all international lending programs that integrate market data with long term market-wide default experience.

The Export-Import Bank is also continuing work on ways to focus its lending on cases where the private sector does not provide financing. Such efforts are particularly important to ensure the Bank does not compete against the private sector, which is becoming increasingly aggressive in providing private export financing. For example, Export-Import Bank will consider higher fees where it does not affect the Bank's competitiveness with other official lenders, as well as applying more stringent tests for whether Bank support is necessary to finance specific transactions.

New Method for International Credit Risk

Until this budget, the U.S. Government (USG) used the premium charged by private sector lenders to other governments as a proxy for the default costs of USG loans to these countries. While this was the best available method, it captured not just default risk, but also profits, opportunity costs, tax effects and other factors not relevant to the budget cost of USG credits. The new method isolates just the default risk portion of the private market premiums. In short, the risk of new USG international credits has not decreased, but budget costs are now based only on this default risk, not on other extraneous factors.

Overseas Private Investment Corporation

Overseas Private Investment Corporation

Peter S. Watson, President

www.opic.gov 202-336-8400

Number of Employees: 202

2002 Spending:

Program: -\$262 million

Administrative: \$39 million

Lending Activity: \$739 million

Insurance Activity: \$2.2 billion

The Overseas Private Investment Corporation (OPIC) offers direct loans, investment guaranties, and political risk insurance to private U.S. companies investing in the developing world. In recent years, OPIC lost sight of its development mission and concentrated too heavily on serving its corporate borrowers. To refocus on its development mandate, OPIC has established a new Office of Investment Policy to evaluate the developmental impact of its activities on the host country. OPIC will continue to measure job creation in host countries and will establish additional indicators of a project's development impact. In addition, OPIC will focus less on large corporations

with alternative means of financing and increase the number of projects sponsored by American small business from the current level of 51 percent to 60 percent in 2003. OPIC also will implement new procedures to direct its activities toward filling important gaps in the private market and not undercut private finance or insurance.

U.S. Trade and Development Agency

U.S. Trade and Development Agency

Thelma J. Askey, Director

www.tda.gov 703-875-4357

Number of Employees: 48

2002 Spending: \$55 million

The U.S. Trade and Development Agency (TDA) facilitates American job creation by connecting U.S. companies with overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and technical assistance, TDA enables American businesses to compete for infrastructure and industrial development projects in middle-income and developing

countries. The President's Budget provides \$45 million for TDA to maintain its current regional portfolio while at the same time taking advantage of new opportunities in areas such as Africa, China, and Russia.

Peace Corps

Peace Corps

Lloyd O. Pierson, Acting Director

www.peacecorps.gov 800-424-8580

Number of Employees: 1,170

Number of Posts Abroad: 69

2002 Spending: \$286 million

In response to a greater interest in volunteerism and to increase America's contribution to the people of the world, the President's Budget requests an increase in 2003 for the Peace Corps. The added funds will open new programs and be targeted to assist host countries and local communities through business development and other economic growth activities.

International Broadcasting

Broadcasting Board of Governors

Marc Nathanson, Chairman

www.ibb.gov/bbg 202-619-2538

Number of Employees: 2,505

Comprised of four broadcasting entities:
Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, and Radio/TV Marti.

2002 Spending: \$560 million

The Broadcasting Board of Governors (BBG) directs all U.S.-funded, non-military international broadcasting (Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, Radio/TV Marti). These broadcasting services provide objective news and information, and explain and provide context for America's policies to foreign publics around the world in their own languages. Through its annual comprehensive review of the effectiveness of its broadcast services, the BBG will continue to reexamine resource allocations, placing special emphasis on prioritizing its language services to reflect the

U.S. Government's public diplomacy goals. The Administration has chosen the BBG's Middle East Broadcasting Initiative, launched in 2002, as a pilot project for performance budgeting. Specifically, the BBG will measure how the 2003 funding provided for this initiative affects listenership rates in the Middle East. The outcome goal for this pilot project is a rise in listenership rates from an anticipated rate of 3.9 million persons in 2002 to 6.7 million in 2003.

Department of State and International Assistance Programs

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
Spending:			
Discretionary Budget Authority:			
Department of State:			
Andean Counterdrug Initiative	—	625	731
Diplomatic and Consular Programs	3,220	3,713	4,019
Embassy Security, Construction, and Maintenance	1,081	1,277	1,308
Other	3,505	3,265	3,176
Subtotal, Department of State	7,806	8,880	9,234
International Assistance Programs:			
Foreign Military Financing	3,568	3,650	4,107
Non-proliferation, Anti-terrorism, Demining, and Related....	311	344	372
Economic Support Fund	2,300	2,214	2,290
<i>USDA International Food Aid (non-add)</i>	(835)	(850)	(1,185)
Development Assistance ¹	2,124	2,474	2,740
Multilateral Development Banks	1,145	1,174	1,437
Peace Corps	267	278	320
Other	2,885	3,005	2,620
Subtotal, International Assistance Programs	12,600	13,139	13,886
Other International Affairs Activities:			
Export-Import Bank	907	767	600
All Other	526	557	590
Subtotal, Other International Affairs Activities	1,433	1,324	1,190
Subtotal, International Affairs Activities adjusted ²	21,839	23,345	24,310
Remove contingent adjustments	-110	-118	-125
Total, Discretionary budget authority	21,729	23,227	24,185
Emergency Response Fund, Budgetary Resources:			
Department of State	49	380	—
International Assistance Programs	5	985	—
Other International Affairs Activities	—	47	—
Total, Emergency Response Fund, Budgetary resources	54	1,412	—
Mandatory Outlays:			
Department of State	392	468	461
International Assistance Programs	-1,688	-1,007	-989
Other International Affairs Activities	-2,461	-782	-332
Total, Mandatory outlays	-3,757	-1,321	-860
Credit activity:			
Direct Loan Disbursements:			
Department of State	1	1	1
International Assistance Programs	665	389	101
Export-Import Bank	1,788	1,997	570
Total, Direct loan disbursements	2,454	2,387	672

Department of State and International Assistance Programs—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Guaranteed Loans:			
International Assistance Programs.....	508	707	706
Export-Import Bank.....	7,504	6,965	8,384
Total, Guaranteed loan disbursements.....	8,012	7,672	9,090

¹ Includes Child Survival and Disease Programs in 2001 and 2002.

² Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.